Annual Report 2017

The Quality Connection

100 years 100 faces 1917–2017

LEONI

Key dates

Balance sheet press conference 2018
20 March 2018, 11:00 hours
Frankfurt am Main

Analyst and investor conference 2018
20 March 2018, 15:00 hours
Frankfurt am Main

Annual Report 2017
20 March 2018

Annual General Meeting 2018
3 May 2018, 10:00 hours
Nuremberg

Quarterly release
1st quarter 2018
16 May 2018

Interim report
1st half 2018
15 August 2018

Quarterly release
1st – 3rd quarter 2018
14 November 2018

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SHAREHOLDERS' LETTER

Dear shareholders,

2017 was a good year for LEONI – after two difficult years, we proved that the Group can generate sustained, profitable growth. We achieved record sales and significantly improved our profit margins. Specifically, consolidated sales were up by 11 percent to € 4.9 billion – and this stemmed mostly from our own resources. Earnings before interest and taxes rose significantly to € 225 million, equating to a 4.6 percent margin as opposed to the previous year's 1.8 percent. We thereby even slightly exceeded our ambitious sales and earnings targets. Net income also increased considerably to € 143.9 million. The Board of Directors and the Supervisory Board will therefore propose at the Annual General Meeting to substantially increase the payout to the shareholders. We thus intend to pay a dividend of € 1.40 per share for 2017, up from € 0.50 per share in the previous year. The price of LEONI's share likewise made a sustained recovery and reached new record highs. This shows that in 2017, our Company's 100th anniversary year, we also regained the capital market's confidence.

The favourable market conditions benefited our growth. Particularly the motor vehicle industry's dynamic demand for automotive cables and wiring systems, but also our business comprising products and services in other industries performed better than we anticipated at the beginning of the year. Along with the sales increase, the factors contributing to the improvement in operating profit were principally the successfully implemented measures to enhance performance in the Wiring Systems Division. Whereas restructuring costs and the fraud case weighed on the Group's result in the 2016 financial year, the proceeds from the sale of our business covering cable harnesses for domestic and electrical appliances exerted a positive effect in the past financial year.

As already stated in last year's annual report, the Board of Directors continued to work hard on clearing up the fraud case, which occurred in August 2016, and took action accordingly. In response, we subjected our risk management, compliance as well as our internal control mechanisms to a further review and audit by an auditing company in the past financial year. We applied numerous measures and implemented mechanisms based on the findings. Alongside clearing up the problems from the past, we are also concerning ourselves especially with the challenges of the future.

Ladies and gentlemen, our markets are about to undergo great transformation. Such current trends as autonomous driving, connectivity and shared mobility will change our lives. We, at LEONI, are firmly convinced that we will benefit from this transformation because our products – optical fibers, cables and cable systems – are playing a crucial role in these developments. We can help to shape a future market and support our customers with intelligent solutions to their new challenges. Based on these megatrends involving mobility and the rising influence of digitalization on our business model, we will reposition LEONI in line with our Group strategy. Our objective is to develop LEONI into a leading provider of intelligent energy and data management solutions. To achieve our vision of "passion for intelligent energy and data solutions", we have established strategic objectives and initial measures together with our senior management. Financial and non-financial guidelines as well as a modern corporate culture based on trust and agility constitute the parameters for LEONI's strategy. The means of implementation is the 'oneLEONI' transformation programme, in which we pool skills and responsibilities Group-wide and drive joint projects forward in division-overarching initiatives. In keeping with our vision, we will in the future support our customers even more as development and system providers – in automotive applications as well as in energy and data management in such other sectors as medical technology, robotics, automation engineering and the infrastructure industry.

We already have much of the know-how needed for this realignment. We will continue to resolutely broaden our skills involving these technologies of the future. One important, initial step was our acquisition in early 2017 of the Switzerland-based software specialist Adaptricity AG, through which we gained skills in the fields of simulation and cloud-based data analysis. In our development work, we are focusing on intelligent products and innovative system solutions for power and data management.
At the same time, we are forging ahead with digitalizing our process and system landscape and shaping our organisation into a more closely integrated Group.

Our customers are already relying on LEONI's expertise in such growth businesses as electromobility. In 2017, we obtained numerous orders from various manufacturers to provide systems and solutions for vehicles with alternative drive technologies. The orders received for high-voltage products totalled about € 1.5 billion. We also won contracts for high-volume, global automotive projects involving conventional wiring systems. Worldwide, our Wiring Systems Division booked orders totalling about € 7 billion in the past year – likewise a record in LEONI's history. Our Wire & Cable Solutions Division also raised its order receipts during the reporting period.

Based on new customer projects, we enlarged our production capacity and significantly increased capital expenditure in 2017. In addition to expanding existing facilities around the globe, we built new plants in Eastern Europe and Central America. Construction of our Factory of the Future in Roth, Germany was furthermore started. We will probably be commissioning this factory for state-of-the-art cable production as well as a competence and development centre for the Wire & Cable Solutions Division's vanguard technologies at the end of 2019.

We are confident about 2018 and anticipate further growth in consolidated sales and another increase in earnings before interest and taxes after adjustment for extraordinary factors. Capital expenditure will likewise rise in 2018 because of impending global plant construction and expansion work as well as investment in our Factory of the Future. The dynamic trend in current and future mobility concepts – particularly involving electromobility and autonomous driving – as well as the increasing digitalization of our products and system solutions for energy and data management provide LEONI with excellent opportunities for further profitable growth.

The great commitment and skills of our more than 86,000 colleagues worldwide were a crucial factor behind this encouraging performance in the past financial year as well as behind LEONI's successful repositioning – for this we would like to express our sincerest thanks. Our thanks also go to our customers and business partners for our successful and trusting collaboration.

Dieter Bellé left the Board of Directors of LEONI AG on 31 January 2018. In more than 17 years as a Board member – initially as Chief Financial Officer and, from 2015, as President & CEO – Dieter Bellé played a crucial part in determining and shaping LEONI's growth. The Board of Directors thanks him for his successful work as well as his always unifying and collegial interaction on the Board. The CEO succession will be concluded in the foreseeable future with the appointment of an external candidate.

We thank you, our esteemed shareholders, for the confidence you have placed in LEONI. We, as the Board of Directors, have made it our aim also for 2018 to achieve a sustained increase in LEONI's enterprise value.

Nuremberg, 23 February 2018

Bruno Fankhauser | Karl Gadesmann | Martin Stüttem

LEONI – The Quality Connection.

The LEONI Group is a global provider of products, solutions and services for energy and data management in the automotive sector and other industries.

The Company employs more than 86,000 people in 31 countries. LEONI develops and manufactures technically sophisticated products for the automotive segment and other industries – ranging from the single-core cable through to the complete wiring system with integrated electronics. The product range also encompasses wires and strands as well as optical fibers, standardised cables, special, hybrid and optical cables as well as completely assembled systems for customers in different industrial markets. LEONI thus also offers products, systems and solutions that meet such trends as autonomous driving, electromobility and digitalization, big data and energy management.

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In this brochure you will find everything of significance about LEONI AG in fiscal 2017 at a glance.

CONTENT

COMPANY INFORMATION

LEONI returned onto a successful track in 2017 – with new record sales, the third best result in the Company's history and share price appreciation of more than 84 percent.

Supervisory Board report

Dear Sir or Madam,

The Supervisory Board of LEONI AG dealt in depth with the situation and performance of the group of companies in fiscal 2017. We diligently and dutifully fulfilled our tasks in accordance with statutory requirements, the provisions of the Company's Articles of Association, the German Corporate Governance Code and our rules of procedure. We advised the Board of Directors in its management of the Company and continuously oversaw its work.

Dr.-Ing. Klaus Probst

The collaboration between the Supervisory Board and the Board of Directors was at all times constructive, open and defined by mutual trust. The Board of Directors informed us regularly, immediately and comprehensively, both in writing and verbally, about all matters pertinent to LEONI. In particular, this included the strategy, planning, operating performance as well as the Group's current situation including its risk situation. The Board of Directors explained any deviation in business performance from the prepared planning in detail and involved the Supervisory Board in decisions of material importance.

We discussed all important matters thoroughly during our meetings of the Supervisory Board. The Board of Directors provided us with comprehensive written reports in this regard prior to these meetings. The Supervisory Board's approval was obtained so far as this was required for certain measures in accordance with the rules of procedure. Key matters subject to approval included the 2017 planning (2017 budget, medium-term planning from 2018 through 2021 and the 2017 investment plan) as well as the 2018 planning (2018 budget, medium-term planning from 2019 through 2022 and the 2018 investment plan). There was furthermore the approval for an M&A project and authorisation for various organisational changes at both the divisional and LEONI AG levels. These decisions were on each occasion preceded by in-depth discussions, which were normally based on a corresponding submission or presentation from the Board of Directors.

The Board of Directors and the Supervisory Board at all times also kept in close touch outside their meetings. The chairmen of both boards consulted regularly, also at short notice and as warranted by events, on any matters requiring agreement. The entire Supervisory Board was informed in detail of the content of these discussions during its next meeting at the latest.

Main topics of discussion by the Supervisory Board

The Supervisory Board held six scheduled and five extraordinary meetings during the 2017 financial year. The Supervisory Board met for regular meetings on 31 January, 22 March, 11 May, 25 July, 25 September and 12 December 2017. Extraordinary meetings were held on 6 February, 14 March, 7 April, 28 April and 23 October 2017; those in February and early April were held by means of telephone conferencing.

The employee representatives held a preliminary discussion prior to each Supervisory Board meeting.

The Supervisory Board was quorate on each occasion. One member excused their absence from one regular meeting. On each occasion of the extraordinary meetings, one member was unable to attend for important reason; two members were excused from one particular meeting. All members of the Board of Directors attended each of the meetings so far as these did not cover topics requiring that they absent themselves. This included deliberations on changes in the membership of the Board of Directors and the Supervisory Board as well as the measures initiated by the Supervisory Board to clear up the fraud case uncovered in August 2016.

The matters discussed during the scheduled meetings regularly included the general business situation of the Group and both divisions, the financial situation based on the income statement and the balance sheet as well as key investments and development in terms of the number of employees. During several of our meetings, we also considered the composition of the Board of Directors.

Continuation of the work begun by the Supervisory Board in 2016 to clear up the fraud case of July/ August 2016, in which a senior employee of a LEONI subsidiary in Romania was induced by sham facts to transfer approx. EUR 40 million to non-Group bank accounts in foreign countries, was a topic in most of the Supervisory Board's meetings in fiscal 2017.

Again in 2017, there was ongoing and constructive discussion on the status of clearing up the case between the Supervisory Board and the Board of Directors as well as their respective consultants. The subject matter discussed was particularly the report on the facts of the fraud case commissioned by the Board of Directors, which the Baker & McKenzie law firm prepared, and the analysis of LEONI AG's financial organisation (CFI) including the Internal Control System (ICS) and the Risk Management System (RMS) likewise commissioned by the Board of Directors and conducted by auditors PricewaterhouseCoopers (PWC). The Supervisory Board had already commissioned the DLA Piper law firm in September 2016 to support it in clearing up the fraud case and examining any possible responsibility on the part of members of the Board of Directors. In April 2017, the Supervisory Board decided to commission its own review of the appropriate structure of CFI, ICS and RMS so far as relevant to clearing up the fraud case to be conducted by the BDO auditing firm.

As Dr Klaus Probst was himself a member of the Board of Directors until 7 May 2015, he did not participate in discussions and voting in connection with clearing up the fraud case and the possible asserting of claims for damages to rule out any conflict interest. There were otherwise no conflicts of interest involving Supervisory Board members in relation to the exercise of their office during the reporting period.

During the reporting period's first meeting on 31 January 2017, the Supervisory Board dealt in depth with the planning for 2017, the medium-term planning for 2018 through 2021 and the investment planning for 2017 alongside the regular agenda items. We approved the Board of Directors' planning following comprehensive discussion. In addition to authorising the planning for 2017 and the medium-term planning for 2018 through 2021, the target agreement for short and medium-term compensation for members of the Board of Directors was also determined. The Supervisory Board deliberated and voted accordingly. The Supervisory Board sought comprehensive information on the projects to digitalize and automate processes at Group level as well as in the two divisions and decided on a change to its rules of procedure, which exclusively involved the provision that the Personnel Committee shall in the future decide on approval of the appointment of managing directors at LEONI Kabel GmbH and LEONI Bordnetz-Systeme GmbH. The findings of the last audit of the Supervisory Board's work, which was generally rated as good by the members, was another focal point of the meeting. The Supervisory Board decided to improve staffing support for preparing, holding and following-up the Supervisory Board meetings and again to commission an external review of the efficiency of its work in 2017. The nomination proposals for Supervisory Board members on the shareholder side at the Annual General Meeting as well as the dividend proposed for the past year were also discussed. The Supervisory Boards furthermore discussed PwC's presentation on the fraud case and their answers to a list of detailed questions, which the Supervisory Board had prepared to analyse the CFI, ICS and RMS areas of LEONI AG.

During the conference call on 6 February 2017, there was a more in-depth discussion of the proposed dividend as well as further consideration of the status on clearing up the fraud case.

During the meeting of the Supervisory Board on 22 March 2017, the focus was on the presentation and adoption of the consolidated financial statements and of the annual financial statements of LEONI AG for fiscal 2016. Both sets of statements were approved without any objection after detailed deliberation. We furthermore covered the agenda for the Annual General Meeting on 11 May 2017 and decided on the Supervisory Board's proposed resolutions at the Annual General Meeting. The Supervisory Board furthermore asked the Board of Directors to provide information on the risk aggregation for the years 2017 through 2021, the strategic human resource planning and staff loyalty as well as the status of the financial organisation. In addition, we dealt with our organisation of risk management and especially the processes applied to identify risks, but also the measures and methods to prevent and avoid risks. With respect to the status of the financial organisation, we considered especially the ongoing organisational, process-related and staffing changes as well as the status of the transformation process.

During the extraordinary meetings and conference calls on 14 March, 7 April and 28 April 2017, the focus was on personnel changes and the pending elections to the Supervisory Board. Specifically, it was a matter of finalising the proposals for the election of the shareholder representatives at the Annual General Meeting on 11 May 2017 and the resignation of Dr Werner Rupp. In its meetings on 14 March and 28 April 2017, the Supervisory Board furthermore continued to clear up the fraud case and decided in its meeting on 28 April 2016 to commission BDO with review of the appropriate structure of the CFI, ICS and RMS areas.

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The Supervisory Board held its constituent meeting after the new elections of the shareholder representatives during the Annual General Meeting on 11 May 2017. In addition to the report on current business performance, the agenda included the election of the Supervisory Board chairman and his deputies as well as the formation of the committees.

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During its meeting on 25 July 2017, the Supervisory Board discussed, among other topics, the target quota for women on the Board of Directors, for which an unchanged 15 percent was set for 30 June 2022. We furthermore authorised an adjustment to the allocation of duties on the Board of Directors. This was due to the transfer of responsibility for the Wiring Systems Division from Mr Dieter Bellé to Mr Martin Stüttem as well as Mr Karl Gadesmann taking charge of the Corporate Investor Relations department, which was previously part of the CEO's remit. Based on an organisational chart for the LEONI Group, we furthermore approved a number of personnel and organisational changes. The Supervisory Board also obtained information on the status of the strategy development process. Clearing up the fraud case was again a focal point of the meeting. The consultants DLA Piper and BDO, who were commissioned by the Supervisory Board, reported on the status of their respective examinations concerning possible directors' liability (DLA Piper) and with respect to the appropriate structure of CFI, ICS and RMS (BDO).

On 25 September 2017, we looked closely at the oneLEONI project, which pools Group-wide skills and responsibility and serves, in division-overarching initiatives, to harmonise and standardise key processes within the LEONI Group. The market and product strategy of the two divisions for the automotive business with the aim of becoming a full-service provider and development partner in energy and data management was also thoroughly discussed. The Board of Directors furthermore reported on the implemented changes to the financial organisation and on the topic of licensing fees. We furthermore considered the future composition of the Board of Directors. In addition, DLA Piper and BDO again reported on the status of their respective investigations and presented their preliminary findings as well as the aspects still to be examined.

During its extraordinary meeting on 23 October 2017, the Supervisory Board again dealt with the future composition of the Board of Directors and, after thorough discussion, accepted the decision by mutual agreement of Mr Bellé to resign from office effective 31 January 2018 as well as to terminate his service contract effective 31 January 2018. The Supervisory Board furthermore considered the requirements profile for the search for a new CEO.

The main focus of the Supervisory Board's meeting of 12 December 2017 was on the planning for fiscal 2018, the medium-term planning for 2019 and the subsequent years as well as the investment planning for 2018. The respective planning prepared by the Board of Directors was approved following comprehensive discussion. The Supervisory Board also addressed an M&A project, corporate co-determination as well as the agenda for the Annual General Meeting on 3 May 2018 and decided on the update to its declaration pertaining to the German Corporate Governance Code pursuant to Section 161 of the German Public Stock Corporation Act (AktG). This is included in the Corporate Governance report and statement on Corporate Governance. We also decided to engage a working group to define a new way for questionnaires, to set up, execute and schedule the efficiency audits of the Supervisory Board's work. The next efficiency audit is to take

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place when the new concept has been adopted. Based on an organisational chart, we furthermore approved staffing and organisational changes in the Wiring Systems Division. We also decided to plan the rotation of the auditors for the 2019 financial year and to start the consequently required selection process now. Finally, we sought information on the outcomes of previous meetings of the Audit Committee, particularly on the compliance status report, as well as of the Strategy Committee, especially on the Group strategy as well as the related vision and mission.

We furthermore had a final discussion on the fraud case with respect to possible responsibility on the part of the Board of Directors. Based on the appraisals by DLA Piper and BDO, it was decided to assert claims for damages for the loss LEONI incurred as well as to commence talks with LEONI AG's D&O insurers. The Supervisory Board also again dealt with the search for a suitable candidate for the position of CEO.

Work of the committees

The Supervisory Board of LEONI AG formed an Audit Committee, a Personnel Committee, a Nomination Committee and a Strategy Committee. These governance bodies prepare the topics to be addressed by the entire Supervisory Board and the resolutions on which the Board is to vote during its meetings. The composition of the committees is described in the section headed Supervisory Board and Board of Directors. The Corporate Governance report provides information on the duties of the committees. Decision-making powers of the Supervisory Board are transferred to the committees to the extent permitted by law. In addition, there is the Arbitration Committee in compliance with Section 27 (3) of Germany's Co-determination Act (MitbestG). The committee chairmen reported regularly on the work of their committees during the Supervisory Board meetings.

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- **The Audit Committee** met five times during the year under report. It dealt in depth with the 2016 financial statements and consolidated financial statements, the management reports as well as the auditor's report and it prepared for nomination of the auditors for the 2017 financial year. Upcoming quarterly reports as well as the half-year report were also thoroughly discussed. Other topics involved oversight of the extent of non-auditing services performed by the auditors and limiting the value of such services, the transfer pricing system within the LEONI Group, further development of risk and compliance management as well as the effectiveness of internal auditing. The committee also discussed the pending rotation of the external auditors for the 2019 financial year and obtained information on amendments to the International Financial Reporting Standards, the financing strategy as well as harmonisation of the LEONI Group's IT processes within the framework of the oneSAP project, whose purpose is to unify the IT landscape and to develop an IT strategy for a viable system architecture that is geared to the Group's business growth.

- **The Personnel Committe** held six meetings, one of which by conference call, in 2017. It dealt primarily with the composition and compensation of the Board of Directors, Mr Bellé's early retirement as well as the requirements profile and candidate search for the new CEO .

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- **The Nomination Committee** held five meetings, one of which by conference call, during the period under report to prepare the nomination of suitable candidates on the shareholder side for the pending election of Supervisory Board members at the 2017 Annual General Meeting. The committee based this on requirements and targets established for this by the Supervisory Board. In particular, specific technical knowledge that is not yet fully represented on the Supervisory Board but is due to be added because of the defined criteria was decisive in the selection of the external candidates.

- **The Strategy Committee** met three times in the past financial year, on all occasions together with the Board of Directors. It dealt in depth with the strategy of the Group and the two divisions, which was reformulated during the year under report against the backdrop especially of digitalization and major trends in the automotive industry. Other focal topics included the Wiring Systems Division's new strategic alignment and the automation of production processes that is required in this regard, the status of digital transformation and the strategic progress made in the Wire & Cable Solutions Division. The oneLEONI and oneSAP projects were also thoroughly discussed.

- Convening of the **Arbitration Committee** pursuant to Section 27 (3) of Germany's Co-determination Act (MitbestG) was not required in 2017.

Corporate Governance and Declaration of Conformity

The Supervisory Board again dealt in detail with Corporate Governance at LEONI, taking the German Corporate Governance Code as its guide, during the year under report. The Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act was updated in December 2017. With one exception, LEONI fulfils all the recommendations of the Code in its current version. Further details can be found in the current version of the Declaration of Conformity. This is included in the Corporate Governance report and statement on Corporate Governance.

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Audit of the annual financial statements

The Annual General Meeting of LEONI AG's shareholders on 11 May 2017 appointed Ernst & Young GmbH auditing company of Stuttgart as auditors for the 2017 financial year. Ernst & Young audited and granted an unqualified certificate for the 2017 financial statements and the management report of LEONI AG as well as the consolidated financial statements and the Group management report. The firm has worked for the LEONI Group since 1987. The auditors responsible pursuant to Section 319a (1) sentence 4 of the German Commercial Code (HGB) were Udo Schuberth (starting with the 2013 financial statements) and Gero Schütz (starting with the 2012 financial statements).

The provisions of the German Commercial Code were applied to prepare the financial statements and the management report of LEONI AG. The consolidated financial statements and the Group management report were drawn up in accordance with the International Financial Reporting Standards (IFRS) as they apply in the European Union, and additionally in accordance with the commercial law provisions of Section 315e (1) of the German Commercial Code (HGB). The audit was conducted in accordance with Section 317 of the German Commercial Code (HGB) while observing the German principles of true and fair annual accounting of the Institute of Public Auditors in Germany, Incorporated Association (IDW). The auditors stated that the management reports described the situation of LEONI AG and of the Group as well as the future risks. The review of the risk management system as part of the audit found that the Board of Directors has taken suitable measures in keeping with those required under Section 91 (2) of the German Stock Corporation Act (AktG) to set up a monitoring system, and that this monitoring system is suited to early detection of developments that might threaten the Company's continued existence.

As part of its review, the Supervisory Board also reviewed the non-financial Group information statement that was to be prepared pursuant to Section 315b of the German Commercial Code (HGB) and found that this statement of LEONI AG fulfils the existing requirements and no objections are to be raised.

The annual financial statements of the Company and of the Group, the management reports (including the non-financial information statement) and the audit reports were available to all members of the Supervisory Board in good time. The Audit Committee pre-examined these documents during its meeting on 13 March 2018 and reported to the Supervisory Board in this regard during the latter’s regular meeting on 15 March 2018. We subsequently discussed the financial statements and reports in depth. The auditing company's representatives took part in both meetings, provided information on the findings of their audits and were available to provide additional information. In particular, the findings of key audit matters for LEONI AG and the Group were presented: (I) recoverability of loans to associated companies and of receivables from associated companies, (II) testing for possible impairment of goodwill as well as intangible assets and property, plant and equipment, (III) recognition and measurement of deferred tax assets as well as (IV) allocation of the price to purchase Wuhan Hengtong Automotive. The audit did not give rise to any objections.

The Supervisory Board approves the findings of the audit of the financial statements. The final result of the audits by the Audit Committee and the Supervisory Board of the annual financial statements and management reports of LEONI AG and the Group did not give rise to any objections. We approved the annual financial statements of LEONI AG and the consolidated financial statements for fiscal 2017 as prepared by the Board of Directors. The financial statements of LEONI AG have thus been duly adopted. The Supervisory Board supports the Board of Directors’ proposal to pay out a dividend of € 1.40 per share for fiscal 2017.

Changes in personnel

On 1 April 2017, Mr Martin Stüttem took office as new member of the Board of Directors with responsibility for the Wiring Systems Division. A graduate engineer with experience of the international automotive supply industry, he was appointed during the meeting on 29 July 2016. His Board of Directors mandate initially expires on 31 December 2020. On 23 October 2017, Mr Dieter Bellé, with the Supervisory Board's understanding, resigned his mandate as member and chairman of the Board of Directors effective 31 January 2018 and left the Board of Directors at the end of January 2018. Mr Dieter Bellé was a member of LEONI AG's Board of Directors since 2000, serving as Chief Financial Officer and Labour Director, and took the Board's chair in 2015. The Supervisory Board thanks him sincerely for his many years of successful work for and his great commitment to the Company. The search for his successor began in October 2017. To find a suitable successor from either the inside or outside, the Supervisory Board defined a corresponding process, drafted a requirements profile and asked a well-known human resource consultancy for support. The search was not yet completed by the end of the year under report. The Supervisory Board has meanwhile decided to fill the CEO position vacant since 1 February 2018 with an outside candidate and to take this recruitment decision in the foreseeable future. Mr Karl Gadesmann will act as spokesperson for the Board of Directors and Labour Director until the future CEO takes office.

Dr Werner Rupp resigned his mandate as Chairman of the Supervisory Board in a letter dated 27 March 2017. His resignation took effect on 3 May 2017. Prof. Dr.-Ing. Klaus Wucherer took over as chairmanship on a temporary basis until the Annual General Meeting. On 11 May 2017, shareholders at the Annual General Meeting newly elected Dr Elisabetta Castiglioni, Mr Wolfgang Dehen and Dr Klaus Probst to the Supervisory Board. Ms Ingrid Hofmann and Prof. Dr.-Ing. Klaus Wucherer did not stand as candidates again. Dr Ulrike Friese-Dormann, Dr Werner Lang and Prof. Dr Christian Rödl were reaffirmed in their offices as shareholders representatives at the Annual General Meeting. For the employee side, the workforce elected Mr Mark Dischner, Mr Karl-Heinz Lach, Mr Richard Paglia, Ms Carmen Schwarz, Mr Franz Spieß and Ms Inge Zellermaier to the Supervisory Board. Ms Gabriele Bauer and Mr Helmut Wirtz did not stand as candidates again.
The Supervisory Board sincerely thanks the departed Supervisory Board members for their consistently constructive collaboration. During its constituent meeting on 11 May 2017, the Supervisory Board elected Dr Klaus Probst as its chairman, Mr Franz Spieß as the first deputy chairman and Dr Werner Lang as the second deputy chairman of the Supervisory Board.

Information on the procedure for electing Dr Klaus Probst and the composition of the Supervisory Board, as already announced in the Federal Gazette, is contained in the section of the notes headed Litigation.

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Thanks to the Board of Directors and staff

The Supervisory Board thanks all members of the Board of Directors as well as staff for their good work in the 2017 financial year. The previous year's major challenges were successfully mastered and the Company was taken back onto a course of profit-oriented growth. We wish the Board of Directors and employees staff every success for this year.

Nuremberg, 15 March 2018

The Supervisory Board

Dr Klaus Probst
Chairman of the Supervisory Board

Supervisory Board and Board of Directors

Supervisory Board

Members of the Supervisory Board	Memberships of other statutory supervisory boards in Germany or of comparable domestic and foreign corporate governance bodies of economic entities
Chairman of the Supervisory Board until 03/05/2017 **Dr Werner Rupp** | 70 | Burgthann former management board chairman of NÜRNBERGER Versicherungsgruppe, retired	Deutsche Bank AG, Munich (member of advisory board in Bavaria)
Chairman of the Supervisory Board from 11/05/2017 **Dr.-Ing. Klaus Probst** | 64 | Heroldsberg former President & CEO of LEONI AG, retired	Grammer AG, Amberg (market-listed, chairman) Zapp AG, Ratingen (not market-listed, ordinary member) Advisory board of Diehl Stiftung & Co. KG, Nuremberg (deputy chairman) Advisory board of Lux-Haus GmbH & Co.KG, Georgensgmünd (ordinary member) Advisory board of Deutsche Bank AG (South Region), Munich (ordinary member) Advisory board of Richard Bergner Holding GmbH & Co. KG, Schwabach (ordinary member)
1st Deputy Chairman of the Supervisory Board Re-elected on 11/05/2017 **Franz Spieß** [1] | 61 | Büchenbach 1st senior authorised signatory of the IG Metall trade union's office in Schwabach	—
2nd Deputy Chairman of the Supervisory Board until 03/05/2017 Chairman of the Supervisory Board from 04/05/2017 to 11/05/2017 **Prof. Dr. -Ing. Dr.-Ing. E.h. Klaus Wucherer** | 73 | Ungelstetten / Winkelhaid Managing Director of Dr. Klaus Wucherer Innovations- und Technologieberatungs-GmbH, Erlangen / Winkelhaid	SAP SE, Walldorf (ordinary member) Heitec AG, Erlangen (deputy chairman) Festo AG & Co. KG, Esslingen (chairman)
until 11/05/2017 **Gabriele Bauer** [1] | 61 | Prichsenstadt Former member of General Works Council of LEONI AG, retired	—
from 11/05/2017 **Dr Elisabetta Castiglioni** | 53 | London Managing Director and CEO at A1 Digital GmbH, Vienna	A1 Telekom Austria AG, Vienna (not market-listed, ordinary member since August 2017) Euskaltel S.A., Derio, Spain (market-listed, ordinary member of the Board of Directors)
from 11/05/2017 **Wolfgang Dehen** | 64 | Donaustauf former CEO of Osram Licht AG, retired	TÜV SÜD AG, Munich (not market-listed, ordinary member)
from 11/05/2017 **Mark Dischner** [1] | 44 | Greding Chairman of the General Works Council of LEONI AG	Sparkasse Mittelfranken-Süd (not market-listed, member of the administrative board)
re-elected on 11/05/2017 **Dr Ulrike Friese-Dormann** | 47 | Munich Lawyer, partner at Milbank, Tweed, Hadley & McCloy LLP, Munich	—
until 11/05/2017 **Josef Häring** [1] | 56 | Grafenwiesen Workforce council chairman	—
until 11/05/2017 **Ingrid Hofmann** | 63 | Hiltpoltstein Managing partner of the I.K. Hofmann GmbH group of companies	—

re-elected on 11/05/2017 **Karl-Heinz Lach** [1] | 59 | Eschweiler Workforce council chairman	—
2nd Deputy Chairman of the Supervisory Board from 11/05/2017 re-elected on 11/05/2017 **Dr Werner Lang** | 50 | Ergersheim Managing Director of the MEKRA Lang group of companies, Ergersheim	MEKRA Lang Otomotiv Yan Sanayi A. S., Ankara, Turkey (not market-listed, chairman) Changchun MEKRA Lang FAWAY Vehicle Mirror Co, Ltd., Changchun, China (not market-listed, ordinary member)
re-elected on 11/05/2017 **Richard Paglia** [1] | 51 | Allersberg Senior Vice President Strategic Purchasing at LEONI Kabel GmbH	—
re-elected on 11/05/2017 **Prof. Dr Christian Rödl** | 48 | Nuremberg Lawyer, tax consultant, managing partner at Rödl & Partner, Nuremberg	Herrenknecht AG, Schwanau (not market-listed, ordinary member) Brose Fahrzeugteile GmbH & Co. KG, Coburg (not market-listed, ordinary advisory board member) UVEX Winter Holding GmbH & Co. KG (not market-listed, member of the board of shareholders)
from 11/05/2017 **Carmen Schwarz** [1] | 43 | Ahaus Collective bargaining secretary at the IG Metall trade union, North Rhine-Westphalia region	—
until 11/05/2017 **Helmut Wirtz** [1] | 67 | Stolberg Former 1st senior authorised signatory of the administrative office in Stolberg of the IG Metall trade union, retired	—
from 11/05/2017 **Inge Zellermaier** [1] | 54 | Allersberg Paramedic / internal mail service	—

[1] Employee representative

Committees of the Supervisory Board	
Arbitration Committee pursuant to Article 27 (3) of Germany's Co-determination Act (MitbestG)	Dr Klaus Probst, Franz Spieß, Dr Werner Lang, Inge Zellermaier
Audit Committee	Prof. Dr Christian Rödl (Chairman), Richard Paglia, Dr Klaus Probst, Franz Spieß
Personnel Committee	Dr Klaus Probst (Chairman), Franz Spieß, Wolfgang Dehen, Mark Dischner
Nomination Committee	Dr Klaus Probst (Chairman), Dr Ulrike Friese-Dormann, Dr Werner Lang
Strategy Committee	Dr Werner Lang (Chairman), Dr Elisabetta Castiglioni, Wolfgang Dehen, Karl-Heinz Lach, Richard Paglia, Dr Klaus Probst, Carmen Schwarz, Inge Zellermaier (Co-Member)

Board of Directors

Dieter Bellé
President & CEO as well as Labour Director (until 31 January 2018); a member of the Board of Directors since 1 October 2000

Dieter Bellé (61) studied business administration and, from 1979, worked in various commercial positions in the Krupp Group, at Felten & Guillaume AG and as managing director of Peguform GmbH. In 2000, he was appointed as LEONI's Chief Financial Officer. In May 2015, he took over as President & CEO and, in October 2016, handed over his duties as CFO to Karl Gadesmann. Effective 31 January 2018, he resigned his office as President & CEO with the Supervisory Board's agreement and left LEONI AG.

Karl Gadesmann
Chief Financial Officer; a member of the Board of Directors since 1 October 2016

Karl Gadesmann (55) studied business administration and started his career as tax consultant, auditor and partner at PricewaterhouseCoopers. From 2008, he took on various management tasks within the finance department of the Volkswagen Group. He subsequently served as CFO for the MAN Group as well as for Dräxlmaier, an automotive component supplier. He has been with LEONI AG as CFO since 2016 and is in charge of most of the Corporate Functions.

Martin Stüttem
is in charge of the Wiring Systems Division; member of the Board of Directors since 1 April 2017

Martin Stüttem (51) graduated in mechanical engineering and, from 1994, held various senior positions at Zeuna Stärker, Arvin Meritor and EMCON Technologies. In 2010, he moved to Faurecia where, after various management roles, he was most recently Vice President, Europe Division. Since 1 April 2017, he has been a member of the Board of Directors of LEONI AG with responsibility for the Wiring Systems Division.

Bruno Fankhauser
is in charge of the Wire & Cable Solutions Division; a member of the Board of Directors since 1 February 2016

Bruno Fankhauser (46) studied business administration and, following commercial positions within the Ascom Group, was appointed Managing Director of Typon Holding AG. In 2001, he joined the Studer Group as Chief Financial Officer, taking over as Chief Executive Officer in 2004. In 2006, he moved to the Management Board of the Wire & Cable Solutions Division of LEONI AG. In 2016, he was appointed to the Board of Directors with responsibility for the Wire & Cable Solutions and the Corporate Marketing department.

LEONI 2017 – Annual review

January

LEONI TURNING 100 – ANNIVERSARY YEAR WITH LOTS OF ACTIVITIES

Under the motto of '100 years – 100 faces', the LEONI Group demonstrated its diversity and showed that tradition and progress go together during its 2017 anniversary year. Throughout the year, festivities, videos, promotional and PR activity as well as interactive schemes for staff brought the Company's history to life: from the wire works established near the gates to Nuremberg in 1917 through to becoming a specialist for intelligent energy and data solutions, which now more than 86,000 employees worldwide and operates more than 90 production facilities.

February

TAKEOVER OF ADAPTRICITY AG

LEONI acquired two-thirds of Zurich-based Adaptricity AG, which specialises in software-based consulting services. With this Swiss start-up business, the Wire & Cable Solutions Division gained additional know-how in the areas of software, simulation and cloud-based data analysis – a key building block for the objective of developing into being an innovative solutions provider.

April

GROUND-BREAKING CEREMONY FOR THE FACTORY OF THE FUTURE

Construction of a new Competence Centre for the Wire & Cable Solutions Division began at our long-established location in Roth, Germany. The Factory of the Future will combine state-of-the-art cable production with a high-tech laboratory and development centre for innovative products and solutions. Among other products, the facility will produce data cables for autonomous driving, high-voltage and charging cables for electric vehicles as well as fiber-optic cables for telecommunication and infrastructure applications.

May

SALE OF THE DOMESTIC AND ELECTRICAL APPLIANCE CABLES BUSINESS

LEONI completed the disposal of its Business Group Electrical Appliance Assemblies, which comprised its business covering cable harnesses for domestic and electrical appliances. The sale supports the Wire & Cable Solutions Division's strategy of developing into a leading provider of energy and data management solutions and focusing on core businesses with potential for profitable growth.

July

EARNINGS FORECAST RAISED

Based on better-than-expected earnings performance in the first half of the year, LEONI lifted its forecast for fiscal 2017 EBIT (earnings before interest and taxes) from previously € 180-200 million to € 190-210 million. The increased forecast was based on operational improvements in the Wiring Systems Division and higher proceeds from the disposal of Business Group Electrical Appliance Assemblies.

August

LEONI AUTOMATES PRODUCTION OF WIRING SYSTEMS FOR AUTONOMOUS DRIVING

To meet the stringent safety requirements imposed on electrical components and systems for autonomous driving, the Wiring Systems Division plans to increasingly automate in both production and throughout its supply chain. Partial cable harnesses and components are already made fully automatically. Such further, innovative systems as collaborating robots are in the piloting phase.

September

WIRING SYSTEMS DIVISION POSITIONS ITSELF AS A SPECIALIST FOR DATA AND ENERGY MANAGEMENT IN VEHICLES

At the International Motor Show (IAA) in Frankfurt, the Wiring Systems Division presented itself as a provider of energy and data management systems in vehicles. With this repositioning, LEONI will offer its customers a wider portfolio of innovative products and services for the automotive megatrends of electromobility, connectivity and autonomous driving. It will also enhance its expertise in the fields of electronics and software.

SECOND FACILITY IN THE UKRAINE OPENED

LEONI opened a new plant in Kolomyia, western Ukraine for cable harnesses and wiring systems, which are supplied mainly to carmakers based in Europe. The plan for this second LEONI facility in the Ukraine is to significantly expand it in the years ahead from its current workforce of about 800 people and roughly 6,500 m^2 of production space.

CAPACITY EXPANSION IN INDIA

LEONI commissioned a new electron-beam acceleration line in Pune, India, enabling the facility to make especially robust, temperature resistant and dimensionally stable high-performance cables. The demand for these special cables comes mainly from customers in the solar and railway industries in India. This expansion of our plant in Pune is an important step towards further internationalisation of our industrial business.

November

SALES AND EBIT FORECAST RAISED

LEONI upped its guidance for the fiscal 2017 again because of the better-than-expected business performance in the first nine months. The new projection was that consolidated sales would rise from € 4.4 billion to about € 4.8 billion (previously € 4.6 billion) and that earnings before interest and taxes would increase from € 78.1 million to approximately € 220 million (previously € 190–210 million).

NEW PLANT IN MEXICO OPENED

In Merida, LEONI opened its third wiring systems facility in Mexico and thereby further increased its capacity in the Americas. The new plant supplies customers in the Americas with cable harnesses for several passenger car models. With a solar power plant and a water recovery system, the facility makes an important contribution to a sustainable, environmentally friendly production site. The workforce of the facility covering an area of approximately 25,000 m^2 is to grow to about 2,600 staff by 2018.

Corporate Governance report and statement on Corporate Governance

Corporate Governance report pursuant to Section 3.10 of the Code

LEONI pursues the objective of responsible and transparent corporate governance based on statutory rules, LEONI AG's Articles of Association, the rules of procedure for the Board of Directors and Supervisory Board, and the German Corporate Governance Code ('Code'), which are considered in all decision-making processes. In compliance with the legal requirements for a German public company, LEONI AG has a dual management system that is characterised by the separation of personnel between the Board of Directors as the executive and corporate business management body and the Supervisory Board as the corporate monitoring body.

Shareholders and Annual General Meeting

Each share in LEONI AG on principle grants one vote. During the Annual General Meeting, all our shareholders were able to exercise their equal voting rights themselves or by their nominated proxies and enter into a dialogue with the members of both the Board of Directors and the Supervisory Board on any agenda items. The invitation to the Annual General Meeting as well as the legally required reports and documents including the annual report are readily accessible for the shareholders on the Company's website together with the agenda in German as well as mostly also English. All other relevant information is published on LEONI's website and sent out upon request. Both the attendance and the voting results are likewise published on the internet after the Annual General Meeting.

To make it easier for shareholders not in attendance to exercise their rights, voting right representatives are available during the Annual General Meeting to cast these votes as instructed. Shareholders are able at any time to authorise and instruct these representatives, who are available to all shareholders in attendance throughout the meeting. Authorisations and instructions could be given to these representatives by electronic means until 11.00 hours on the day of the 2017 Annual General Meeting. There will be a corresponding opportunity during the 2018 Annual General Meeting until the end of the general debate.

Interested parties and shareholders who do not attend the Annual General Meeting can follow the CEO's speech and a presentation shown during this speech on the internet. This presentation will be available on our website www.leoni.com until the next Annual General Meeting.

LEONI website
» www.leoni.com

Leadership and Management by the Board of Directors

The Board of Directors is responsible for leading and managing LEONI AG. It acts in the interests of the Company with the aim of raising its enterprise value on a lasting basis. To do so, the Board develops a suitable strategy, agrees it with the Supervisory Board and ensures its implementation. Its duties also include effective opportunity and risk management as well as controlling and ensuring of compliance (observance of legal requirements and guidelines within the Company) throughout the Group.

The law and rules of procedure, which also stipulate the Board of Directors' obligations concerning provision of information and reporting, govern the collaboration and division of duties among members of the Board. The rules of procedure also contain the departmental responsibilities of the individual Board members, matters that are the responsibility of the whole Board of Directors, the required majority as well as a catalogue of the types of transaction requiring the Supervisory Board's approval. The allocation of duties was updated during the year under report because of the changes on the Board of Directors described below.

During the year under report, the Board of Directors also launched an initiative to further improve corporate governance within the Group. This includes optimisation of decision-making processes and implementation, updating of the rules of procedure for Group companies, revision of the global power-of-attorney guideline and a corresponding scheme for training the managing directors of the companies concerned.

The composition of the Board of Directors changed as follows in 2017: On 1 April 2017, Martin Stüttem took office as member of the Board of Directors with responsibility for the Wiring Systems Division. The Supervisory Board appointed him on 29 July 2016. His Board of Directors mandate initially expires on 31 December 2020. CEO Dieter Bellé was in temporary charge of the Wiring Systems Division until Martin Stüttem took office. On 1 July 2017, furthermore, Karl Gadesmann took responsibility for the Corporate Investor Relations department, which was previously in the charge of CEO Dieter Bellé.

On 23 October 2017, Dieter Bellé, with the Supervisory Board's consent, resigned his mandate as member and chairman of the Board of Directors effective 31 January 2018 and left the Board of Directors at that time. The search for his successor began immediately. To find a suitable successor from either the inside or outside, the Supervisory Board defined a corresponding process, drafted a requirements profile and asked a well-known human resource consultancy for support. The search was not yet completed by the end of the year under report. The Supervisory Board has meanwhile decided to fill the CEO position vacant since 1 February 2018 with an outside candidate and to take this recruitment decision in the foreseeable future. Karl Gadesmann will act as spokesperson for the Board of Directors and as Labour Director until the future CEO takes office.

The Board of Directors thus had the following members in 2017:	
Dieter Bellé, Graduate in business administration, 61	
First appointed:	2000
Appointed until:	31/01/2018
Areas of responsibility:	Chief Executive Officer (CEO) Head of the Corporate Legal, Corporate Compliance, Corporate Strategy, Corporate Communications, Corporate Internal Audit, Corporate Investor Relations (until 30/06/2017) and Corporate Human Resources Management departments; Labour Director; until 31/03/2017 temporary responsibility for the Division Wiring Systems and the Corporate Sustainability department
Bruno Fankhauser, Business economist (licentiatus rerum politicarum), 46	
First appointed:	2016
Appointed until:	31/12/2023[1]
Areas of responsibility:	Head of the Wire & Cable Solutions Division and the Corporate Marketing department
Karl Gadesmann, Graduate in business administration, 55	
First appointed:	2016
Appointed until:	31/12/2019
Areas of responsibility:	Chief Financial Officer (CFO); Head of the Corporate Accounting, Corporate Controlling, Corporate Finance, Corporate Information Management, Corporate Information Security, Corporate Investor Relations (from 01/07/2017), Corporate Process Management, Corporate Risk & Insurance, Corporate Taxes and Quality Management departments; from 01/02/2018 temporarily spokesperson for the Board of Directors and Labour Director[1]
Martin Stüttem, Graduate of engineering, 51	
First appointed:	2017
Appointed until:	31/12/2020
Areas of responsibility:	from 01/04/2017 Head of the Wiring Systems Division and the Corporate Sustainability department

[1] Pursuant to the Supervisory Board's decisions of 30 January 2018;
Information in this regard to be found on the website at www.leoni.com: Press release of 31 January 2018

All the information on the system applicable since 1 January 2015 for compensating members of the Board of Directors is contained in the compensation report.

Work of the Supervisory Board

The Supervisory Board of LEONI AG monitors and advises the Board of Directors in running the Company. Its work is governed by the law, the Articles of Association, the Code and rules of procedure.

In accordance with the German Co-determination Act, the Supervisory Board has an equal number of six members representing employees and six members representing shareholders. Additional information in this regard is to be found in the Supervisory Board Report. Its composition is in line with the latest Code requirements concerning diversity and appropriate participation of women as well as other criteria that ensure qualified monitoring of and advice to the Board of Directors of LEONI AG. The Supervisory Board formulated a competence profile with targets for its composition, which is part of the Board's rules of procedure. It furthermore devised a diversity concept for the composition of the Board of Directors and the Supervisory Board. According to this the members shall successfully perform the duties of a supervisory board member of an industrial group that operates internationally based on their experience, professional expertise, independence, commitment, integrity and personality. Details is this regard are to be found in the Corporate Governance report and statement.

There were new elections to both the employer and employee sides of the Supervisory Board in 2017. As was already the case prior to these elections, LEONI AG's Supervisory Board also now comprises members who fulfil the above-mentioned conditions. The sufficient diversity with respect to different career backgrounds, professional expertise and experience in accordance with the objectives for composition of the Supervisory Board is also assured. More information on the election is to be found in the Supervisory Board report and on the composition of the Supervisory Board in the Corporate Governance report and statement.

All shareholder representatives are independent within the meaning of Sections 5.4.1 and 5.4.2 of the Code. In particular, they are not in any personal or business relationship with LEONI AG, a corporate bodies, a controlling shareholder or an affiliated company, which may provide the basis for a material and not merely temporary conflict of interests. In the opinion of the Supervisory Board, Dr Werner Lang's role as managing director of Lang Verwaltungsgesellschaft mbH, the general partner of MEKRA Lang GmbH & Co. KG, a LEONI AG customer, does not constitute such a conflict of interest. The Supervisory Board members do not exercise directorships or similar positions or advisory tasks for important competitors of the LEONI Group. No member of the Supervisory Board is older than 75 years or has been on the Board for longer than 15 years.

Apart from these general criteria, the following requirements for the entire Board with respect to specific professional expertise are also fulfilled: At least two members have corporate globalisation experience, industrial knowledge in the regions and markets of importance to LEONI as well as expertise in the automotive (supply) industry. At least one independent member of the Supervisory Board furthermore has specialist expertise in the respective areas of accounting and auditing (financial expert) and more profound knowledge in the areas of international company law, compliance, risk management, competition law, the capital market as well as M&A. Altogether, the members of the Supervisory Board are familiar with the sector in which the Company operates. With respect to the proportion of women on the Supervisory Board, we refer to stipulations pursuant to Sections 76(4) and 111(5) of the German Stock Corporation Act (AktG) in the Corporate Governance report and statement.

Corporate Governance report and statement on Corporate Governance
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The members of LEONI AG's Supervisory Board each hold a maximum of three other supervisory board mandates at other companies or on supervisory bodies of companies that impose comparable requirements. Prof. Dr Christian Rödl was a member of three other statutory supervisory boards until 30 April 2017. Two of those memberships terminated on that date, meaning that he has since been a member of just one other statutory supervisory board. He is also a member on two comparable domestic and foreign corporate governance bodies of economic entities, neither of which is stock-listed. A precise overview of the mandates held by all Supervisory Board members is provided in the section headed 'Supervisory Board and Board of Directors' in the Annual Report.

Supervisory Board and Board of Directors
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The Supervisory Board regularly audits the efficiency of its work based on a comprehensive questionnaire. At the end of 2017, the Board decided to appoint a working group to find a new way to set up, execute and schedule these efficiency audits. Information in this respect is also to be found in the Supervisory Board report.

Supervisory Board report
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To increase the efficiency of the Supervisory Board's work, an Audit Committee, Personnel Committee, Nomination Committee, Arbitration Committee and Strategy Committee are established, which, apart from the Arbitration Committee, met regularly during the year under report. The respective committee chairmen report during the Supervisory Board meetings on the work of their committees.

The Audit Committee has four members, one of whom the Supervisory Board appoints as chairman. The Audit Committee's chairman, Prof. Dr Christian Rödl, is independent and not simultaneously the chairman of the Supervisory Board; he has as financial expert professional knowledge in the fields of accounting and auditing. He has not been a member of LEONI AG's Board of Directors in recent years. The Audit Committee's task is to discuss and scrutinise in advance the annual financial statements, the consolidated financial statements, the management report and the Group management report, the report of the Board of Directors on relationships with affiliated companies (dependency report) as well as the Board of Directors' dividend proposal. The Audit Committee furthermore discusses the half-year and any quarterly financial reports with the Board of Directors. It considers matters concerning accounting and compliance, risk management, internal audit and the Internal Control System including testing the effectiveness of the systems and measures that are respectively in place. The Audit Committee prepares the Supervisory Board's proposal to the shareholders at the Annual General Meeting for nomination of the auditors and presents the Supervisory Board with a correspondingly reasoned recommendation. It furthermore verifies the independence of the auditors and obtains the corresponding declaration of independence. It issues the audit mandate to the auditing company and agrees the fees with said auditors. The committee also determines the focal areas of the audit and monitors the auditing.

Alongside the chairman of the Supervisory Board as Committee chairperson, the Personnel Committee comprises his or her first deputy and as well as one Supervisory Board member elected as proposed by each of the Supervisory Board's shareholder and employee representatives. The committee's main task is to advise on the appointment and recall of the members of the Board of Directors, the compensation system for the Board of Directors, the principal elements of the employment contracts of the members of the Board of Directors as well as approving the contracts with Supervisory Board members in accordance with Section 114 of the German Stock Corporation Act (AktG).

The Nomination Committee has two further, shareholder-representative members in addition to the Supervisory Board chairman, who also chairs the committee. It is the committee's task to make recommendations to the Supervisory Board for its proposals to shareholders at the Annual General Meeting of suitable candidates to be elected to the Board on the shareholder side. The judgement on a candidate's suitability is made based on the competence profile prepared by the entire Supervisory Board, the targets concerning the Board's composition with respect to the diversity concept and a questionnaire.

To perform the duties set out in Section 31 (3), sentence 1 of Germany's Co-determination Act (MitbestG), the Supervisory Board has formed an Arbitration Committee pursuant to Section 27 (3) of the Co-determination Act that comprises the Supervisory Board chairman, his deputy as well as one member of the shareholder and one member of the employee side, each elected by a majority of votes of the Supervisory Board members on the employee and shareholder sides.

In addition to the Supervisory Board chairman, the Strategy Committee comprises three members from each of the shareholder representatives and employee representatives. The Supervisory Board elects a committee member to be the committee's chairman. The committee deals in an advisory and preparatory role with the corporate strategy.

The section headed Supervisory Board and Board of Directors in the Annual Report provides information on the composition of the committees.

Supervisory Board and Board of Directors
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The Supervisory Board deems advanced training to be an important element of its work. As far as required, the Company gives the Board's members adequate support in seeking, as is their personal responsibility, the training and further education required to perform their duties. According to the currently applicable Articles of Association, this also includes assumption of commensurate costs.

Further details of the way the Supervisory Board works as well as on the number and principal topics of the committee meetings in 2017 are comprehensively presented in the Supervisory Board report, as are details of the changes in the Board's composition. The compensation report provides information on the breakdown and amount of compensation for Supervisory Board members.

Supervisory Board report
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Collaboration between the Board of Directors and the Supervisory Board

The Board of Directors and the Supervisory Board of LEONI AG collaborated closely and in mutual trust for the benefit of the Company in 2017. The Supervisory Board actively assisted and monitored the Board of Directors in its work. During the Supervisory Board meetings, the Board of Directors and Supervisory Board members discuss all key strategic decisions as well as transactions requiring consent extensively, openly and based on maintaining strict confidentiality. The Board of Directors keeps the Supervisory Board comprehensively informed on a regular and up-to-date basis about all relevant matters as well as the planning, business performance, the risk situation and the compliance measures.

In addition to the Supervisory Board meetings in which the members of the Board of Directors were present, the chairmen of the two boards regularly, also on short notice and as warranted by events, discuss all relevant, currents matters. The Supervisory Board report also contains additional information on the collaboration between the Board of Directors and the Supervisory Board.

D&O insurance with an excess, which for the event of any single claim for damages involves at least 10 percent and a maximum of one and a half times the individual member's fixed annual compensation, was in place for members of the Board of Directors and the Supervisory Board during the year under report.

Compliance

LEONI AG's Compliance Management System is an elementary part of our commitment to entrepreneurial action. The objective is to prevent misconduct, avoid liability risks and to protect the Company's reputation. The Compliance Management System has three mainstays (prevent, detect and react), which in turn comprise a large number of processes, guidelines and measures. Details in this regard are to be found in the Group management report. Again, during the year under report, the Board of Directors dealt with the organisation and further development of all compliance matters and ensured implementation of the necessary measures. It regularly informed the Supervisory Board on the latest status. The latter monitored the corresponding activities. Furthermore, the Audit Committee regularly dealt with the content, organisation and further development of compliance.

Group management report
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Transparency

LEONI AG informs its shareholders, the shareholder associations, financial analysts, the media and the interested public equally, promptly and comprehensively about the Company's performance and significant events, for which the Company makes use of a wide variety of media. All mandatory publications as well as extensive supplementary information are always made available without delay on LEONI's website. The publications, such as ad hoc announcements, media releases, interim and annual reports, are in every case issued in both German and English. LEONI AG always also broadcasts conference calls as well as the annual balance sheet press conference and the analyst conference live on the internet, where audio and video recordings are easily accessible for a limited period. The latest fiscal calendar, which provides information on the dates for all key releases and events, can also be viewed on the website.

Accounting and audit of financial statements

The consolidated financial statements for fiscal 2017 as well as the condensed consolidated interim financial statements in the half-year report and in the quarterly reports of LEONI AG are prepared in accordance with the International Financial Reporting Standards (IFRS). The individual financial statements of LEONI AG are prepared as required by the German Commercial Code (HGB) and the German Stock Corporation Act (AktG) as well as supplementary provisions of the Articles of Association.

On 11 May 2017, the Annual General Meeting appointed accountants Ernst & Young GmbH of Stuttgart as the auditors for the year under report. The nomination was preceded by an examination of independence.

It was furthermore agreed with the auditor that the latter would notify without delay of findings and occurrences material to its duties that arise during execution of the audit. Accordingly, the auditors are obliged to advise the Supervisory Board, or note it in their audit report, if facts are discovered that point to incorrectness in the declaration pursuant to the Code submitted by the Board of Directors and the Supervisory Board. The audit for the 2017 financial year did not give any cause in this regard.

The auditors are given only limited mandate to provide non-audit services. A process was furthermore established during the year under report by means of which non-audit services are itemised and authorised to a limited degree subject to prior approval. The content and extent of provided non-audit services are monitored.

Directors' Dealings and shareholdings

All share transactions carried out by members of the Board of Directors and of the Supervisory Board as well as parties related to them (Directors' Dealings pursuant to Article 19 of the Market Abuse Directive (EU 596/2014)) are published on LEONI's website as soon as LEONI AG is advised to this effect. The following transactions were reported for fiscal 2017:

Date	Notifying party, function	Issuer	Transactions subject to mandatory disclosure	Place of transaction
12/06/2017	Dieter Bellé, member of LEONI AG's Board of Directors	LEONI AG[1]	Purchase of 1,500 no-par-value LEONI shares at a price of € 48.898 per share. Total amount: € 73,347.00	Xetra

[1] WKN 540888, ISIN DE0005408884

Members of the Board of Directors and the Supervisory Board held shares issued by LEONI AG on 31 December 2017. These holdings broke down as follows:

Shareholdings

	No. of shares on 31/12/2017	Percentage of share capital of 32.669 million shares
Supervisory Board members and related parties	76,709	0.23
Board of Directors members and related parties	32,550	0.10
Supervisory Board and Board of Directors, total	109,259	0.33

Statement on Corporate Governance pursuant to Sections 289f and 315d HGB[1]

Declaration by the Management Board and Supervisory Board of LEONI AG on the recommendations of the 'Government Commission on the German Corporate Governance Code' in accordance with Article 161 of the German Companies Act (AktG)

LEONI AG complies with all the recommendations of the German Corporate Governance Code ('Code') in the version of 7 February 2017 as published by the Federal Ministry of Justice in the official part of the Federal Gazette on 24 April 2017 with the exception stated below in section 1. and will comply with all the recommendations of the Code with the exception stated below in section 1. in the future:

1. In accordance with its duties, the Supervisory Board of LEONI AG concerns itself with the appropriateness of the compensation of the Management Board, giving consideration to the periodic developments of the company-internal salary and wage structures, however, without application of the recommendation in section 4.2.2., para. 2, sentence 3 of the Code in a targeted and structured way. It is the conviction of the Supervisory Board that earlier practice and statutory specifications in accordance with Article 87 of the German Companies Act (AktG) suffice for determining the compensation of the Management Board in consideration of normal compensation. Standards of comparison are only beneficial if they are realistic, provide a basis for orientation, and allow sufficient leeway for considerations to be made on a case-by-case basis. It is the opinion of the Supervisory Board that the recommendation in section 4.2.2., para. 2, sentence 3 of the Code does not satisfy these requirements in the case of a company such as LEONI, where the majority of the workforce is employed in non-European countries. A delineation of the upper management and the relevant workforce would, in the opinion of the Supervisory Board, be subject to manipulation and ultimately arbitrary, and would not result in standards of comparison which are more comprehensible. Therefore, the recommendation does not serve as an efficient tool for determining the compensation of the Management Board.

Since issuance of the last declaration of conformity on 8 December 2016, LEONI AG has complied with all the recommendations of the Code in the version of 5 May 2015 and in the version of 7 February 2017 since its publication by the Federal Ministry of Justice in the official part of the Federal Gazette on 24 April 2017 with the exceptions stated above in section 1. and stated below in 2.:

2. The members of the Company's Management Board receive a variable remuneration. Prerequisite for the payment of such variable remuneration is the achievement of at least 50% of the planned annual profit during a three-year period. In particular due to the appointments of three new members of the Management Board, the service agreements applicable until 8 December 2016 stipulated different three-year periods for every single member of the Management Board which would have ended in 2017, 2018 or 2019, respectively. On 8 December 2016, the Supervisory Board agreed to terminate the current three-year periods consensually and to start a new, uniform three-year period for all members of the Management Board comprising the years 2017 up to 2019. The members of the Management Board

[1] The statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code (HGB) is part of the Group management report. According to Section 317 (2) sentence 6 of the German Commercial Code (HGB) the auditors are not required to include disclosures pursuant to Sections 289f (2) and (5) as well as Section 315d HGB in their audit; in that respect the audit is required only to determine whether these disclosures have been made.

have not received any remuneration out of the medium term component for the elapsed period of the now prematurely terminated three-year period. In one case where a member of the Management Board received advance payments in accordance with the stipulations of his service contract, such advance payments were to be repaid. At the beginning of the financial year 2017, the planned annual profit targets for the individual years of the three-year period were newly determined.

This could represent a change of the performance targets and the comparison parameters pursuant to section 4.2.3., para. 2, sentence 8 of the Code. Thus, the Company would not have complied with this recommendation due to the adjustment.

From the Supervisory Board's point of view, the new beginning of the three-year period was required to harmonize the medium-term performance targets and to achieve a uniform target determination for all members of the Management Board, as until now, very different planned annual profit targets were applicable for the various three-year periods. Further, for some members of the Management Board, the agreed planned annual profit targets, in connection with the failure of achieving the planned annual profit targets in the financial years 2015 and 2016, seemed to render the achievement of the medium-term component targets for the three-year period impossible. This has demonstrated that the variable remuneration results in the desired decrease of the remuneration in case of low company results. However, if the targets are unachievable, the medium-term component will lose its incentivising effect. As a consequence, the remuneration system would no longer have provided for sufficient long-term incentives.

Nuremberg, 12 December 2017
LEONI AG

For the Board of Directors

Dieter Bellé

For the Supervisory Board

Dr.-Ing. Klaus Probst

Franz Spieß

Suggestions of the Code

LEONI AG voluntarily complies with the non-obligatory suggestions of the Code except for Section 2.3.2, which states that a voting rights representative should also be contactable during the Annual General Meeting. Voting right representatives are contactable only for the shareholders present at the Annual General

Meeting and their proxies. Shareholders not attending were able to send instructions to their voting rights representatives via the shareholders' portal on the day of the 2017 Annual General Meeting, but only until 11:00 hours. This time limit served to ensure that the instructions are faithfully followed when voting takes place. There will be a corresponding opportunity during the 2018 Annual General Meeting until the end of the general debate.

Deviating from section 4.2.3 (2), final sentence of the Code, which was newly included in 2017, the remuneration system for the members of LEONI AG's Board of Directors stipulates that the Board members shall receive annual instalments of the multi-year bonus on the compensation for members of the Board of Directors equalling 50% of the annual amount. Paid instalments must be repaid at the end of the relevant three-year period if a corresponding multi-year bonus is not achieved. Further information on the system applicable since 1 January 2015 for compensating members of the Board of Directors is contained in the compensation report.

Other Corporate Governance practices

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LEONI's Corporate Governance was and is aligned to recognised external standards and various of our own sets of rules in addition to the legal requirements and the Code throughout the reporting period. These include the UN Global Compact and the Diversity Charter as well as such internal guidelines as the LEONI Social Charter, the LEONI Code of Conduct (after it came into force in November 2017) and the occupational health and safety as well as environmental protection policy for the LEONI Group, which can be viewed on LEONI AG's website.

Description of the way the Board of Directors and Supervisory Board work as well as the composition and procedures of the Supervisory Board's committees

Corporate Governance report and statement on Corporate Governance
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LEONI website
›› www.leoni.com

The composition of the Supervisory Board's committees is to be found in the section of the Annual Report headed Supervisory Board and Board of Directors. Further information on the tasks and procedures of the Board of Directors and Supervisory Board as well as the latter's committees are contained in the Corporate Governance report under the headings 'Leadership and Management by the Board of Directors' as well as 'Work of the Supervisory Board'. Information on the duties and procedures of the Board of Directors and the Supervisory Board as well as their composition and that of the Supervisory Board's committees can also be accessed on LEONI AG's website.

Diversity

LEONI regards diversity as a key success factor for the Company's future viability.

The diversity concept for the composition of the Board of Directors considers the following aspects:

- gender diversity
- diversity in terms of cultural origins, religion and ethnic background

- variety of career backgrounds, experience and mindset
- balanced age structure within framework parameters for standard retirement age (70th year)
- equal consideration of external and internal candidates in recruitment selection

Applied diversity is a strategic success factor. Different career and educational backgrounds facilitate the fulfilment of duties and obligations in accordance with statutory requirements, the provisions of the Company's Articles of Association and rules of procedure. The Company's increasing internationalisation requires leadership of diversely composed teams. Without this capability and experience it would be impossible to take appropriate account of cultural backgrounds within the Group. A balanced age structure ensures regular regeneration, and simultaneously that knowledge as well as career and life experience are maintained for as long as possible in the Company's interest. Gender diversity is, in turn, the resolute continuation of the initiatives launched by the Board of Directors to raise the proportion of women in management positions.

Implementation of this concept is ensured principally by involving the Supervisory Board in the strategic, financial and current situation of the Company as well as its organisation, as is stipulated by statutory requirements, the provisions of the Company's Articles of Association and rules of procedure. Allocation of duties, appointment and succession planning for the Board of Directors are part of the Supervisory Board's responsibility. The Board of Directors reports regularly during Supervisory Board's meetings on diversity as well as the development and potential of managers within the Group. The aforementioned criteria are furthermore considered in the decisions of the Personnel Committee and the Supervisory Board when it comes to recruiting internal or external candidates for positions on the Board of Directors.

Martin Stüttem was appointed as a member of the Board of Directors effective 1 April 2017. In the opinion of the Supervisory Board, he contributes to diversity on the Board of Directors with his background and career. Information on him and all other members of the Board of Directors can be viewed in their resumes, which are available on the Company's website.

The diversity concept for the composition of the Supervisory Board (and its committees) considers the following criteria:
- gender diversity
- diversity in terms of cultural origins, religion and ethnic background
- variety of career backgrounds, experience and mindset
- balanced age structure within framework parameters for standard retirement age (75th year) at the time of election as well as maximum duration of membership (15 years)

In addition to the statutory gender ratio (Section 96 (2) of the German Stock Corporation Act (AktG)), the Supervisory Board has set itself further targets for its composition. For the members on the shareholder side, these include sector and specific professional expertise as well as international experience and independence. Election of the employee representatives in accordance with Germany's Co-determination Act also contributes to the diversity of career backgrounds.

The aim is to have a sufficient diversity on the Supervisory Board that is keeping with being able to successfully master tasks in an international setting. In the view of the Supervisory Board, this also provides a role model for the Company as a whole. Considering consistency and regeneration with respect to (impending) appointments furthermore contributes to sustainability and fresh impetus.

Statutory requirements, the Company's rules of procedure and Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) underpin the realisation of these objectives. The Nomination committee also contributes in this regard with its work on the appointment of shareholder representatives, as do regular efficiency audits. The Supervisory Board believes there is currently no need for action concerning diversity. Information on the members of the Supervisory Board can be viewed in their resumes, which are available on the Company's website.

The diversity concept for the composition of the Board of Directors and the Supervisory Board is to be reviewed in the upcoming reporting year. This is related to the changing requirements, but also the associated momentum and importance, which underlie this subject.

Diversity was a key aspect during the year under report for other reasons, too. It was established as a strategic guideline for the whole Group as part of the strategy process. This has made diversity more prominent and placed emphasis on LEONI's aim not only to have appropriate participation of women in management, but also for greater internationalisation. More information in this regard is contained in the Group management report.

Group management report
» page 39

Stipulations pursuant to Sections 76(4) and 111(5) of the German Stock Corporation Act (AktG)
Section 111 (5) of the German Stock Corporation Act (AktG) provides that the supervisory board of a listed stock corporation must set target quotas for the proportion of women on the Board of Directors. Pursuant to Section 76 (4) of the German Stock Corporation Act (AktG), the Board of Directors must furthermore set target quotas for women on the two management levels below the Board of Directors. According to Section 96 (2) of the German Stock Corporation Act (AktG), LEONI's Supervisory Board must furthermore have a quota of at least 30 percent women and men each.

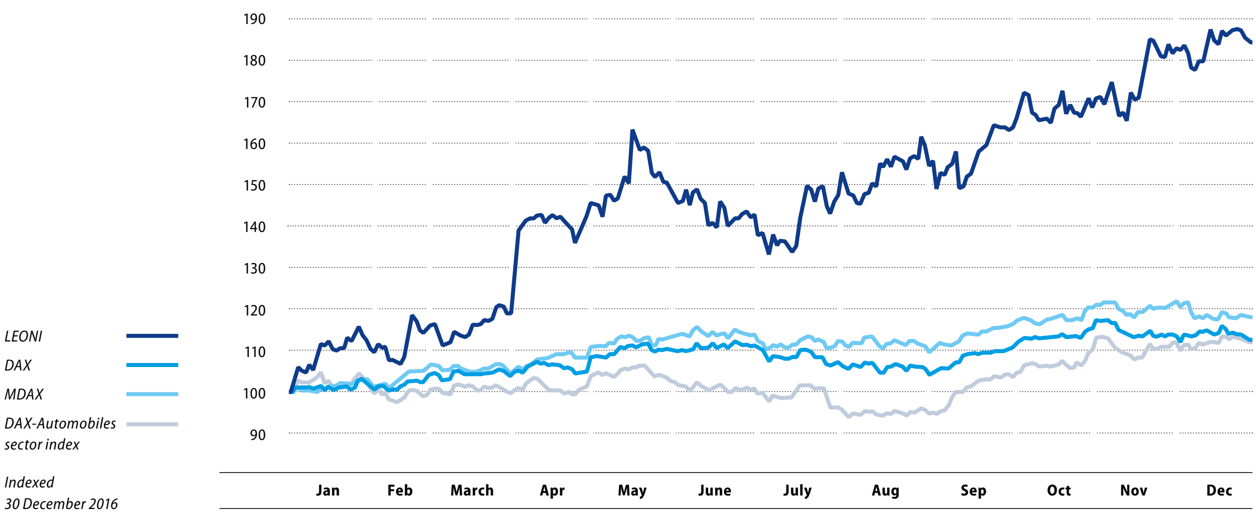
With respect to the proportion of women and men on the Supervisory Board, both the Board's employee and shareholder representatives decided in principle that they fulfil this quota separately, consequently also dissenting from overall fulfilment for the elections to the Supervisory Board at the Annual General Meeting on 11 May 2017. The requirement for these elections therefore was that the shareholder and employee sides must each and separately be occupied by at least 30 percent women and men. Following the new elections, the mandatory quota is fulfilled on both the shareholder and employee sides of the Supervisory Board as both sides have two female members.

In setting its target quotas for the Board of Directors and the two management levels below the Board of Directors, LEONI AG has, as a technically oriented company, considered sector-specific circumstances as well as the current proportion of women in the workforce. The Supervisory Board had targeted a quota for the Board of Directors of 15 percent to be reached by 30 June 2017. Given the reassessment for the next five years required at this time, this target was confirmed for 30 June 2022. As was already the case prior to the update, this target quota is currently not met because the Board of Directors had four men and no women as members during the year under report. There were no new appointments to the Board of Directors in 2017.

For the next two management levels below the Board of Directors, the Board of Directors had set target quotas of 8 percent for the first management level and of 14 percent for the second level to be met by 30 June 2017. Given the new targets as updated in mid-2017, the target quotas for both levels have now been raised to at least 15 percent by 30 June 2022. In the past financial year, there was no staffing change on the first management level below the Board of Directors. There was one new appointment on the second level, for which a female manager was recruited. There are currently no women at the first management level, while the proportion on the second level is 12 percent. The targeted quotas are consequently not met.

The LEONI share

Share price performance 2017



Overview of key LEONI share data

First listed on	1 January 1923
Ticker symbol	LEO
ISIN	DE0005408884
WKN	DE540888
Class of shares	Ordinary bearer shares with no par value
Market segment	Prime Standard
Indices	MDAX
Share capital	€ 32,669,000
Number of shares	32,669,000

Multi-year overview of key LEONI share figures

		2017	2016[4]	2015	2014	2013
Number of shares at yearend	in millions	32.669	32.669	32.669	32.669	32.669
Earnings per share	€ / share	4.44	0.33	2.36	3.51	3.23
Equity per share	€ / share	31.33	28.07	30.50	28.09	25.33
Dividend per share	€ / share	1.40[1]	0.50	1.00	1.20	1.00
Total payout	€ million	45.7[1]	16.3	32.7	39.2	32.7
Payout ratio	%	32[1]	142	42	34	31
High for the year[2]	€ / share	63.40	36.39	62.81	60.66	55.08
Low for the year[2]	€ / share	34.95	23.45	32.10	39.02	28.97
Yearend closing price[2]	€ / share	62.39	33.85	36.45	49.40	54.33
Price/earnings ratio[3]		14.1	102.6	15.1	14.1	16.8
Dividend yield[3]	%	2.2[1]	1.5	2.7	2.4	1.8
Market capitalisation on 31 Dec	€ million	2,038	1,106	1,191	1,614	1,775
Average daily trading volume	no. of shares	208,997	257,733	281,773	247,842	226,364

[1] Subject to approval by shareholders at the Annual General Meeting
[2] Xetra closing price of the day
[3] Based on the yearend closing price
[4] Prior-year figures adjusted

Markets on a global uptrend

The world's equity markets had a good year in 2017. Favourable economic data and the expansionary monetary policy of many central banks underpinned the positive sentiment on the major marketplaces. For instance, despite the absence of any reforms by the US government, the Dow Jones and NASDAQ Composite indices made gains of approximately 25 and 28 percent, respectively. Technology shares were in particular demand. The Asian marketplaces also benefited from the favourable parameters coming from the USA: the Japanese Nikkei index rose by about 18 percent and Hong Kong's Hang Seng index was up by as much as around 34 percent. In Latin America, too, shares made strong gains in 2017. The uptrend on the European markets was somewhat more subdued. The Euro Stoxx 50 nevertheless registered growth of about 6 percent, and Britain's FTSE 100 ended the year with an increase of nearly 8 percent despite the Brexit risks.

German automotive shares recover

The German DAX market barometer closed 2017 trading with a gain of 12.5 percent, while the MDAX appreciated by more than 18 percent. German automotive shares also contributed: the DAX Automobiles sector index closed the year 12 percent up on the previous one. The sub-index for the automotive component suppliers even rose by nearly 27 percent.

LEONI share hits a new high

LEONI's share regained investors' confidence in 2017 and significantly outperformed the overall market. Starting from its low € 34.95 at the beginning of January, the share climbed - apart from a brief setback following the dividend payout - steadily throughout the year. The high of € 63.40, which was a new record level, was reached on 22 December. At the end of 2017, LEONI's share was priced at € 62.39, which equates to appreciation of more than 84 percent versus the end of the previous year.

The market capitalisation of the approximately 32.7 million LEONI shares on 31 December 2017 was virtually double that of a year earlier, having risen from about € 1,106 million in the previous year to approximately € 2,038 million.

Trading in LEONI shares

During the year under report, about 53.1 million LEONI shares changed hands on the Frankfurt Stock Exchange and in the XETRA electronic system, as opposed to 65.7 million in the previous year. An average of 208,997 shares changed hands on each trading day (previous year: 257,733). The total trading volume was approximately € 2,597 million in 2017 (previous year: € 2,000 million). This put LEONI 30th in Deutsche Börse's MDAX ranking of market turnover, up from 35th in the previous year.

Shareholder structure and voting rights announcements

The breakdown of our shareholders changed insignificantly in 2017. The roughly 32.7 million shares continued to be in free float. About two thirds of the shares were still held by institutional investors, while private investors owned one third. A roughly 60-percent majority of LEONI shares were held in Germany. The remainder was evenly distributed across the rest of Europe, where it is concentrated in the United Kingdom, as well as the United States.

According to the voting rights announcements received in the previous year pursuant to Section 21 (1) of the German Securities Trading (WpHG), the following institutional investors had holdings subject to additional mandatory notification: Deutsche Bank AG and Union Investment Privatfonds GmbH (both Germany): more than 5 percent, State of Norway and Schroders Group (United Kingdom): more than 3 percent. All voting rights announcements received during the 2017 financial year as well as earlier disclosures can be viewed on our website.

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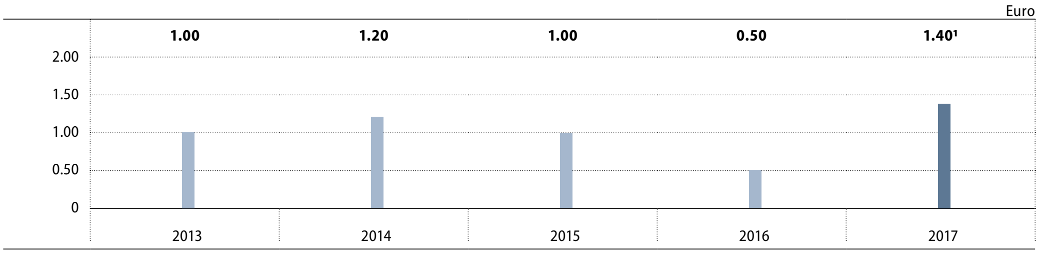
Larger dividend planned

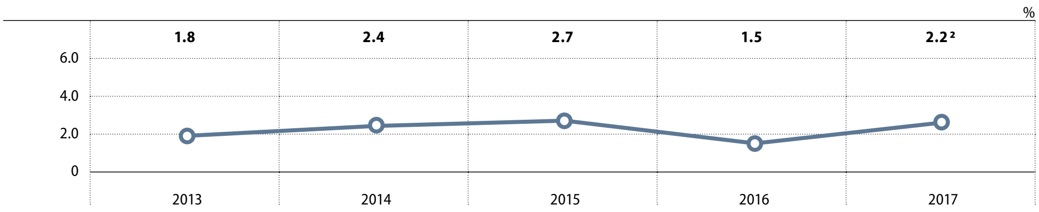
The Board of Directors and the Supervisory Board will propose at the Annual General Meeting on 3 May 2018 to raise the dividend for the past financial year to € 1.40 per share (previous year: € 0.50). This would equate to a total payout of € 45.7 million (previous year: € 16.3 million), or 32 percent of consolidated net income. The payout would thus be in line with the dividend policy of LEONI AG, which provides for approximately one third of consolidated net income to be paid out to shareholders to give them a commensurate return.

Dividend



¹ Subject to approval by shareholders at the Annual General Meeting

Dividend yield [1]



¹ Based on yearend closing price
² Subject to approval by shareholders at the Annual General Meeting

Ratings of the LEONI share

In 2017, a total of 19 (previous year: 20) banks and investment firms regularly monitored and rated LEONI (as at the beginning of January 2018). The majority of these investment specialists judged our share favourably: seven financial analysts rated the LEONI share as either a 'buy' or 'outperform'. In addition, there were eight hold recommendations or 'neutral' ratings. Only four investment professionals advised to sell.

Analyst coverage (as at 8 January 2018)

Bankhaus Lampe	Kepler Cheuvreux
Berenberg	Landesbank Baden-Württemberg
Commerzbank	MainFirst
Deutsche Bank	Macquarie
DZ Bank	Metzler
Equinet	Nord LB
HSBC	Oddo Seydler
Hauck & Aufhäuser	UBS
Independent Research	Warburg Research
J.P. Morgan	

Intensive investor relations work

In keeping with good Corporate Governance, LEONI considers transparency and close communication with shareholders and stakeholders to be imperative. We advise our shareholders, analysts and other financial market players, the media as well as the interested public equally, thoroughly and promptly on the Company's current and projected performance.

LEONI gives high priority to one-on-one dialogue with the aforementioned target groups, which is why the Board of Directors regularly participates in investor conferences and presentations. Again in 2017, the LEONI Group's performance, strategy and prospects were presented at the annual analyst and investor conference we host each year to present our annual report. We furthermore participated in six investor conferences with international attendance in Europe as well as the United States and hosted 18 roadshow days in Europe. In addition, members of the Board of Directors met for one-on-one dialogue with analysts, investors and media representatives.

We released all share-relevant information without delay by means of ad-hoc announcements during the year under report. In addition, there were other publications, especially annual and interim reports well as media releases. A separate conference call for analysts and business journalists was held on each occasion for the release of LEONI's quarterly figures. Our annual balance sheet press conference took place at the end of March and was, just like the analyst and investor events as well as the conferences calls, broadcast live and in full on the internet.

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Our website provides more extensive data and background information on our Company and LEONI's share. This includes basic information as well as current analyst recommendations and the applicable fiscal calendar. Presentations given during the balance sheet press conference and the Annual General Meeting as well as conference calls can also be viewed for a limited period.

GROUP MANAGEMENT REPORT

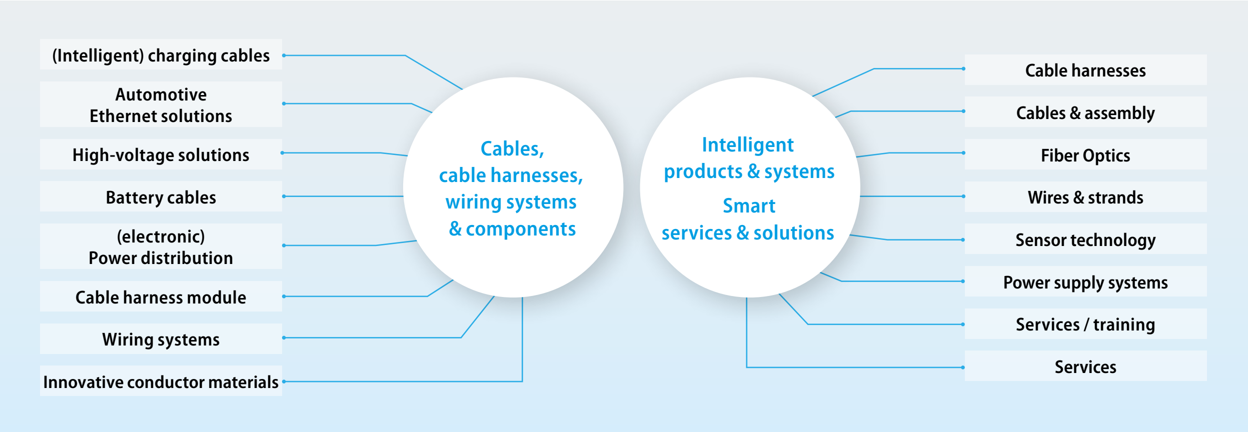
LEONI realigned its strategy in 2017 against the backdrop of digitalization and such automotive megatrends as autonomous driving and electromobility. The aim is to become a leading provider of intelligent energy and data management solutions.

Principles of the Group

Business model

LEONI is a leading provider of cables and cable systems for the automotive sector and other industries. Our portfolio comprises wires and optical fibers, cables and cable systems as well as related components, connectors and services. On these foundations, we already offer our customers smart energy and data management solutions for vehicles and industrial applications.

Product and services range



LEONI's business is organised by two divisions (or segments):

The **Wiring Systems Division** is one of the world's largest providers of complete wiring systems and customised cable harnesses for the motor vehicle industry. Its products and services comprise development and production of sophisticated cable harnesses through to integrated wiring systems, high-voltage wiring systems for hybrid and electric vehicles, energy distribution components and special connectors. As systems providers, we cover the entire spectrum from design through to series production as well as complementary services. We intend to position ourselves even more clearly as a provider of solutions for data and energy management in vehicles. The objective of this repositioning is to provide our customers with innovative products and services for the automotive megatrends of electromobility, connectivity and autonomous driving. We are also reinforcing our expertise in the fields of electronics and software to enhance our position as a systems supplier.

The **Wire & Cable Solutions Division** is a leading manufacturer of wire and cable systems that, as part of its strategic transformation, is gradually developing into a provider of secure and intelligent energy transmission and data management system solutions. Its range of products and services encompasses wires, strands and optical fibers, standardised cables, special cables and fully assembled systems as well as related services for customers in the automotive, capital goods, medical technology, telecommunications, energy and infrastructure industries. The focus is on technologically sophisticated products as well as customer-specific applications for niche markets. Within the strategic realignment described above, the portfolio is continually being expanded to include intelligent cables and cable systems, software solutions as well as smart services to take advantage of the opportunities for LEONI arising from digitalization and other global megatrends.

Strategy
» page 44 et seq.

Global megatrends
» page 47 et seq.

Principal facilities and changes in the scope of consolidation

The LEONI Group comprises LEONI AG and the two divisions with corresponding subsidiaries. At the end of 2017, LEONI was, with 72 subsidiaries (previous year: 80) and 94 production facilities (previous year: 93) in 31 countries (previous year: 32), located in Asia, the Americas and EMEA (Europe, Middle East and Africa). The Wiring Systems Division had two domestic and 30 foreign companies, eight of which were located in Asia, six in the Americas and 16 in the EMEA region. The Wire & Cable Solutions Division accounted for 13 domestic and 23 foreign companies, of which four in Asia and seven in the Americas as well as twelve in the EMEA region. Furthermore, four subsidiaries operate in the EMEA region for both divisions. In addition, there is LEONI AG as the holding company.

In the first quarter of 2017, LEONI acquired two-thirds of the equity in Adaptricity AG, based in Zurich (Switzerland), which specialises in software-based consulting services, in its Wire & Cable Solutions Division. In the second quarter, the Company disposed of subsidiaries comprising Business Group Electrical Appliance Assemblies based in Europe and Asia, details of which are contained in the segment report and in the notes. There was otherwise no significant change in the scope of consolidation during the year under report.

Reports by division / Segment report
» page 54 et seq.

Notes
» page 142 et seq.

Organisational structure

LEONI AG acts as the holding and management company, performing overarching tasks for the LEONI Group with its corporate functions. The structure of the two divisions is guided by their respective customer groups and markets, subdivided into business groups and business units. In the **Wiring Systems Division**, a Sales Board consisting of nine business units (BUs) with global operations looks directly after the customers in Europe, Asia and the Americas and simultaneously coordinates the placing of orders with the plants, which are responsible for quality and cost efficiency while adhering to set standards. In addition, there are two, BU-overarching Tech Centers, which provide our business units with innovative products and services involving electromobility and components. The Sales Board is therefore also the interface for these products, which means that our customers have only one contact partner for the high-voltage and conventional wiring systems businesses. This organisational adjustment supports our strategy of positioning LEONI as a solutions provider. Additionally, there are Central Functions for the senior management level and the supporting functions. The worldwide production network of the Wiring Systems Division comprises production facilities in numerous countries, above all in China, Mexico, North Africa and Eastern Europe. The locations are chosen strictly based on cost benefit and logistical requirements, and are situated as near to our customers as possible.

The organisational structure of the **Wire & Cable Solutions Division** follows its core, strategic markets, which, alongside the automotive sector, include industrial automation, robotics, medical technology, energy and data infrastructure projects as well as transport and renewable energies. These target groups are cultivated by business groups (BGs): BG Automotive Cable Solutions for the automotive industry and by BG Industrial Solutions for the industrial business. In addition, there is BG Conductors & Copper Solutions (wires and strands) with a wide portfolio of wires, high-flex copper strands and braided copper tapes for applications in both industry and the automotive sector. Among other markets, the trailblazing electromobility segment is providing this BG with increasing growth potential in connection with high-voltage solutions as well as battery technology.

The operating business of the Wire & Cable Solutions Division is handled by a total of 16 business units. There are furthermore commercial and technical/operational support functions as well as a Digital Solutions Group, which drives the digital transformation and the division's development towards becoming a solutions provider. The state-of-the-art WCS production facilities are located in 14 countries in western and eastern Europe, the Americas as well as Asia. They are located not only in strategically favourable proximity to our customers, but also in key growth regions of the core markets being cultivated.

Customers and markets

The LEONI Group's customers principally include motor vehicle manufacturers and their suppliers. This customer group provided about 82 percent of LEONI's total sales in 2017 (previous year: 79 percent). With sales to the five largest customers we generated a business volume of approx. € 1.9 billion during the period under report (previous year: € 1,7 billion), which equated to 38 percent of consolidated sales (previous year: 38 percent).

The **Wiring Systems Division** supplies the leading carmakers worldwide, from the small to compact and mid-range car brackets and up to models in the premium and luxury segments. In addition, the commercial vehicle industry is of major importance to us. There are furthermore manufacturers of agricultural and special as well as leisure vehicles. Our components, cable harnesses and wiring systems are created in conjunction with the design and development of a new vehicle in close collaboration with the respective customer. Based on our extensive, wiring system-specific know-how in the areas of development, production and distribution as well as our high quality and reliability, we maintain close, trusting relationships with our customers.

The customer base of the **Wire & Cable Solutions Division** comprises nearly all the wiring system manufacturers that operate worldwide and many other automotive component suppliers as well as internationally leading providers from a wide variety of capital goods industries, in particular the medical and communications technoloy, the infrastructure sector, robotics, railway engineering as well as in the renewable energy and major industrial project markets. We maintain long-standing and close relationships with our customers and are in faithful contact with them, especially via our sales and development departments. Increasingly, we also include among our customers OEMs in a wide range of different industrial sectors that operate globally and are very interested in working with us as a solutions provider in a partner-like relationship.

In regional terms, the European, American and Asian markets are of greatest significance to LEONI. Europe – including the Middle East and Africa (EMEA) – is LEONI's most important market with a share unchanged from the previous year of some 69 percent of sales. The Americas accounted for approximately 15 percent (previous year: 16 percent) and Asia for about 16 percent (previous year: 15 percent).

Competitive situation and advantages

The **Wiring Systems Division** is Europe's leading producer of cable harnesses and wiring systems. We rank 4th worldwide, according to calculations by the Automotive Wiring Harness Market. Our most significant competitors are Aptiv, Sumitomo and Yazaki. Alongside our good, internationally competitive position also in the electromobility sector and in the alternative drivetrain business, our lasting success is based on great power of innovation and a high real net output ratio, comprehensive logistics and system expertise as well as development centres spread worldwide with proximity to the customer. Another particular strength involves our global production network with standardised processes as well as the fact that a high proportion of our production is at locations with favourable wage costs. Our very broad international positioning as well as the large number of vehicle manufacturers and brands supplied not only diminish the exposure to regional market cycles, but also enable us to take advantage of global growth opportunities.

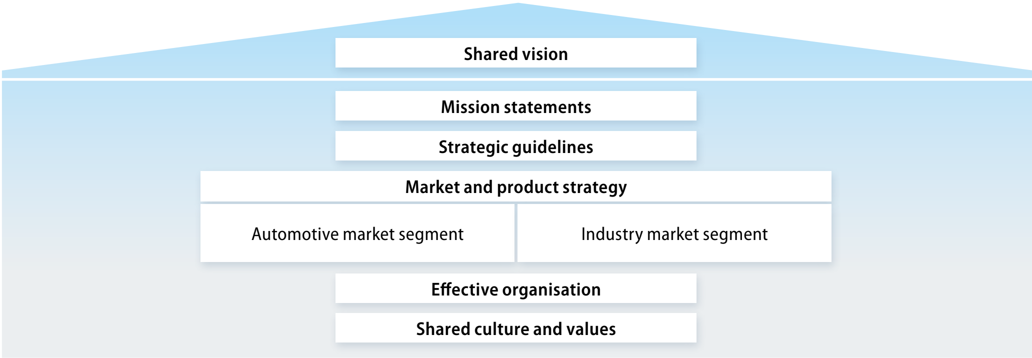
The **Wire & Cable Solutions Division**, which is a leading cables business in Europe, is the technology and market leader in many of its target areas. In some product segments, such as data and special cables for the car industry and cable systems for robotic engineering, we regard ourselves as global market leaders. We also command leading positions in the market for cables for particular industrial applications; for example, in mechanical engineering, measurement and control technology as well as medical technology. Our good competitive position is principally based on a vertically strongly integrated value chain, core skills developed over decades such as a broad understanding of raw materials and know-how concerning input materials, engineering and applications as well as command of technologically sophisticated manufacturing processes. Our increasingly international presence and stronger positioning as a provider of intelligent and secure energy transmission and data management system solutions give us additional competitive advantages.

Strategy

Global megatrends
» page 47 et seq.

LEONI realigned its strategy in 2017 to be able to take even better advantage of the opportunities arising from the economically and technologically dynamic setting as well as the global megatrends. The Company thus devised a Group-wide strategy including a vision, mission statements, strategic guidelines as well as market and product strategies harmonised for both divisions. Forming the basis for this are an effective, evolved organisation and LEONI-specific values, which were redefined.

LEONI Group Strategy



Vision, mission statements and strategic guidelines

The shared **vision** of 'passion for intelligent energy and data solutions' encapsulates the overarching goal of the Group and of its two divisions of becoming a leading provider of intelligent energy and data management solutions. 'Passion' stands for full commitment and fervour with respect to the upcoming tasks. 'Intelligent' expresses that LEONI's products offer the customer added value thanks to additional, smart properties. 'Energy and data' are the two areas in which LEONI operates with great expertise - the transmission of energy and data. 'Solutions' highlight the trend of increasingly supporting our customers as a solutions provider.

Both divisions as well as the Corporate Functions have formulated their task to achieve this vision in **mission statements** and defined this as a new self-image.

Setting the framework for our new strategy are various **financial and non-financial guidelines**: The key non-financial guidelines include the satisfaction of our customers, the commitment of our employees, the diversity in our workforce as well as progress in our transformation towards becoming a leading provider of intelligent energy and data management solutions. These factors are in the future to be measured and continuously improved consistently across the Group.

Market and product strategy

In what is the most important market for us, the **automotive sector**, we shall position ourselves even more strongly as a solutions provider with great understanding of a vehicle's overall system. Given the mounting requirements in terms of energy efficiency, data communication and security in the vehicle, we are also resolutely continuing to enhance our expertise in these technological fields. In the case of wiring for electro-mobility, we are aiming for a leading position by supplying cable harnesses for all voltage levels, intelligent distribution systems and charging cables.

The **Wiring Systems Division**, with its tailor-made wiring systems and cable harnesses, operates mainly in the **automotive segment**, which accounts for most of the division's sales. Its strategy is, within the parameters of a consistently profitable business model, to outpace the market's growth. As a provider of vehicle data and energy management solutions, the WSD offers its customers an extended portfolio of innovative products and services for the automotive trends of electromobility, connectivity and autonomous driving. In so doing, we are increasingly functioning as concept development partners and systems suppliers, and we are enhancing our expertise in the areas of electronics and software. We are forging ahead with digitalization of our processes. The mounting safety requirements imposed on electrical components and systems for autonomous driving are calling for automated production to play an important role in this respect.

The **Wire & Cable Solutions Division**'s objective in the **automotive market segment** is to bolster its leading position in standard and special automotive cables as well as charging cables for electric cars and to enhance as well as upgrade this with new digitalization and solution offerings. The focus is on stepped-up, joint development work with customers, the use of innovative technologies to generate crucial added value on the product side as well as intelligent cable solutions with integrated sensors, electronics and software, among other things for charging infrastructure and high-voltage solutions.

The **Wire & Cable Solutions Division**'s strategy in the **industrial market segment** is aimed at becoming a leading provider of solutions for the energy and data megatrends by way of digital, functional simulation, system integration and creating learning systems. We are investing in corresponding expertise and technologies and are gradually expanding our range of products and services in the direction of intelligent solutions. To generate more added value for our customers, we also intend to establish new business models in the areas of intelligent cable solutions and smart services. Further objectives include a sharper focus on growth markets by means of resolute portfolio management as well as better use of our global presence to address OEM customers that operate worldwide. We also want to continuously improve our operational excellence.

Effective organisation and shared values

Our **oneLEONI** programme supports the LEONI Group's strategic realignment. This strategic approach stands for transforming the group of companies into a more integrated one with the medium-term aim of raising competitiveness and economic strength. The programme targets improved collaboration between the holding company and the two divisions, higher service quality as well as ensuring compliance.

Successful implementation of our strategy will be based on the shared **values** towards which we are working: a culture of high performance, agility, customer focus and confidence.

Financial situation
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Details of the Group-wide financing strategy are contained in the section on the financial situation.

Global megatrends

With this new Group strategy, we will achieve a better starting position for exploiting the opportunities arising from the global megatrends. The trends of greatest importance to LEONI and the consequent growth potential are described below. These long-term and overarching change processes are often of universal significance and have a time horizon of several decades. Global megatrends are interdependent, and in this complex interplay they also influence the automotive industry and other industrial sectors as LEONI's core markets. Information on the innovations that LEONI is developing in these areas is contained in the section headed Research & Development.

Research & Development
» page 82 et seq.

DIGITALIZATION The most important trend that we are currently observing is digitalization. It impacts on virtually all walks of life and also entails major changes in LEONI's markets. Generally speaking, it entails growing volumes of power and data transmission, which harbours enormous potential for LEONI. This is because many areas of application will require ever more and also intelligent cable solutions, i.e. cables that can monitor their own functionality and are able to identify possible interference in good time. Among other areas, we see opportunities in autonomous driving, electromobility, smart grids, Industry 4.0, the Internet of Things, intelligent building services and networked medical technology.

MOBILITY Because our activities focus on cables and cable systems for the motor vehicle industry, the increase in mobility, which in turn is influenced by increasing digitalization, globalisation and urbanisation as well as growing environmental awareness and scarce resources, is of particular importance for LEONI. Here in particular the opportunities that present themselves to us lie in digitalization: Intelligent connectivity of the vehicle and the trend towards autonomous driving will, for example, lead to increasing demand for fail-safe wiring system architectures and high-quality special cables that ensure the reliable and fast transmission of growing data volumes between sensors, control units and vehicle components. Another important future market where LEONI already has a strong presence involves electromobility products. We are furthermore benefiting from the trend towards weight reduction. Here LEONI has for many years been working in the areas of alternative conductor materials, miniaturisation and intelligent wiring system architecture and will steadily optimise its product range further.

DATA MANAGEMENT / BIG DATA Reliable and intelligent distribution of data as well as analysing and processing growing data volumes play an increasingly important role in many of LEONI's markets. This presents us with opportunities in several areas: On the one hand, we have both copper and fiber optic-based cable and cable system solutions to equip modern data centres. On the other hand, we will be able with our newly acquired software and simulation know-how to offer our customers cloud-based data analyses ourselves in the future.

ENERGY MANAGEMENT Mounting demand for energy presents our society with major challenges with respect to both generation and also reliable supply. For example, LEONI provides complete wiring for power stations and the associated energy distribution grids. We will furthermore be able, thanks to our newly acquired software and simulation know-how, to deploy proprietary software that generates time series-based simulations, for instance to optimise electric power distribution grids with SmartGrid technologies.

INDUSTRIALISATION & AUTOMATION The most important trend in this area is digital interlinking of production by means of state-of-the-art IT and communication technology (Industry 4.0). For this LEONI is developing industrial Ethernet solutions among other products, while also expanding its offering to include such services as the planning of WiFi networks, real-time data monitoring and remote diagnostics. Our data cables and robotics dresspacks are already making a major contribution to the digitalization of our customers' production processes. LEONI's production itself is increasingly following this trend. Furthermore, in close collaboration with our customers, we are constantly looking into using innovative technologies, such as generative production methods, the combination of extrusion and injection moulding as well as new production processes in the wiring systems segment to make our products and processes more efficient.

ENVIRONMENTAL AWARENESS & SHORTAGE OF RESOURCES Increasing ecological responsibility and the fact that commodities are limited not only change the demands placed on mobility solutions, they also result in a growing need for alternative energy generation. This provides expansion opportunities for LEONI with extremely lightweight or miniaturised vehicle components, energy-efficient wiring system architectures and products for cars with alternative drive technology. The solar industry and high-voltage direct current transmission also provide the Company with opportunities.

URBANISATION The increasing urbanisation not only poses new challenges in terms of mobility, but also creates a need for intelligent infrastructure and building systems. One of the ways in which LEONI is responding to this need is through high-performance cable solutions for office buildings – for example, with Power over Ethernet products allowing network-enabled devices to be supplied with power via the Ethernet cable. The increasing connectivity between motor vehicles and external information and control systems also provides opportunities for LEONI.

GLOBALISATION The improved access to new sales markets on all continents generally creates major growth opportunities for LEONI. Additional positive stimuli are provided by a standardised product range that is adapted to meet local requirements and parameters (keyword "glocalisation"). We are also increasing our commitment to frugal innovations, that is, the search for new, simple and low-cost products that provide an equivalent functional solution especially for the emerging markets. But globalisation also changes the structures and requirements of our customers, for example through an increased number of globally standardised vehicle platforms or the merger of carmakers to form larger groups or conglomerates.

DEMOGRAPHIC CHANGE The changing age structure in highly developed societies, in particular, places high demands on the entire healthcare system and the producers of medical technology devices. LEONI can benefit from this trend with innovative, specially coated cables and with the development of solutions in related technologies, for example patient positioning. Ambient assisted living – in other words, systems that help people with disabilities or the aged to live an autonomous life – also provides opportunities. Driver assistance systems that are controlled using high-quality wiring systems with high data transmission performance also play an important role in this regard.

Corporate Governance (statements pursuant to Sections 289f and 315d of the German Commercial Code (HGB))

LEONI's corporate governance is geared to the principles of the German Corporate Governance Code. The Board of Directors is responsible for **corporate governance**. Its work is monitored by the Supervisory Board. The Board of Directors determines Group strategy and, together with those in charge of the divisions and the individual business units, measures suited to strategy implementation. Further information is contained in the section on corporate governance. The statement on Corporate Governance pursuant to Sections 289f and 315d of the German Commercial Code (HGB) was also made available on the Company's website. Details of the compensation for members of the Board of Directors and Supervisory Boards are presented in the compensation report.

Corporate Governance
›› page 20 et seq.

Statement on Corporate Governance
›› www.leoni.com/de/investor-relations/corporate-governance

Compensation report
›› page 118 et seq.

Governance of the operating business

The **operating business is governed** by the key figures of sales, earnings before interest and taxes (EBIT) and capital employed as well as free cash flow. We measure the respective target attainment by the benchmarks of Return on Sales (EBIT margin), Return on Capital Employed (ROCE) and Free Cash Flow (FCF). Specific information on performance in terms of these indicators in the past financial year is contained in the section headed Overview of LEONI's performance. The targets for the 2018 financial year are presented in the forecast.

LEONI's performance
›› page 62 et seq.

Forecast
›› page 111 et seq.

As part of our strategic realignment, we also established four **non-financial guidelines** in 2017 to which we also intend to gear our corporate governance in the future: customer satisfaction, employee commitment, workforce diversity as well as progress in our transformation towards becoming a leading provider of intelligent energy and data management solutions. Targets and uniform measurement methods to assess action in keeping with these non-financial guidelines are to be worked out this year.

Strategy
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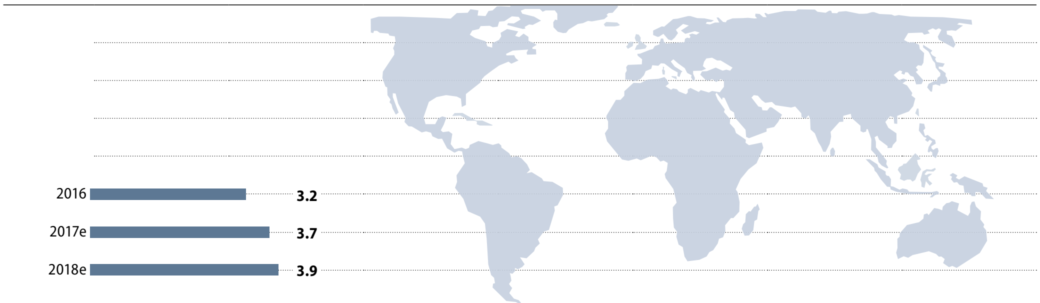
Business and underlying conditions

Macroeconomic setting

The global economy generated stronger momentum in 2017 than initially assumed. The International Monetary Fund (IMF) revised its forecasts of global gross domestic product (GDP) upward several times during the year. The estimate for global economic output was once more raised slightly at the beginning of January 2018: the IMF now believes that the global economy grew by 3.7 percent in 2017 and thus much more strongly than in the previous year, when the growth rate was 3.2 percent. Both industrial output and global trade as well as investment activity gained considerable momentum during the past year.

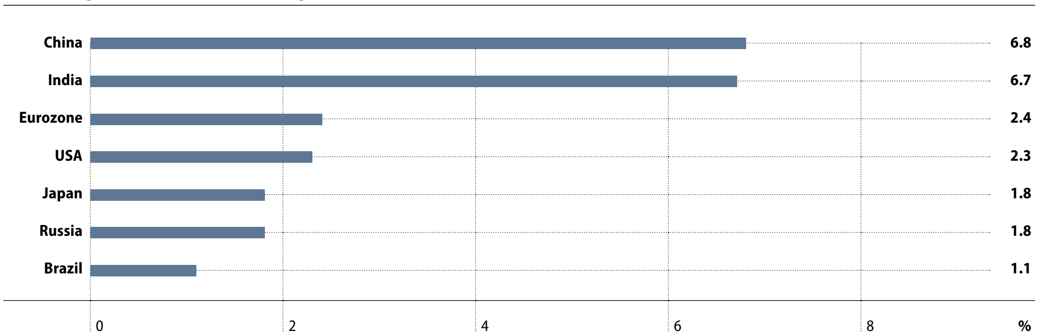
The more favourable trajectory of the global economy was broadly based. Particularly the industrialised countries, but also the developing and emerging countries, generated stronger-than-expected gains. Among the industrialised countries, whose gross domestic product (GDP) was probably up by 2.3 percent in 2017 (previous year: 1.7 percent), the IMF says especially Germany, Japan, South Korea and the United States exceeded its most recent forecast issued in the autumn of 2017. GDP in the eurozone is estimated to have grown by 2.4 percent, while the figure for the United States is 2.3 percent. Yet the key impetus once again came from the developing and emerging countries, whose economy is likely to have expanded by 4.7 percent in 2017 (previous year: 4.4 percent). China and India, with 6.8 percent and 6.7 percent respective gains, set the pace. Also reflected is the recovery in Brazil and Russia, which once again posted positive growth rates after the end of their recession phases.

Economic growth 2016 to 2018 %



Source: IMF

Economic growth 2017 in selected regions



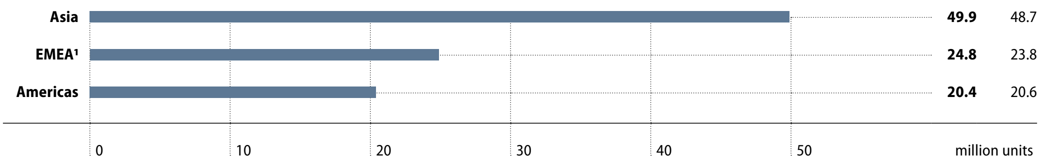
Source: IMF (estimate)

Business by sector

2017 was generally a good year for the international **automotive industry**, according to the German Association of the Automotive Industry (VDA). The passenger car market is estimated to have grown by about 2 percent to 84.6 million units. Slightly rising sales figures were recorded in China and Europe, two of the three largest market regions, whereas the US market contracted marginally. By contrast, the growth of new vehicle registrations in Brazil, India, Japan and Russia was very dynamic.

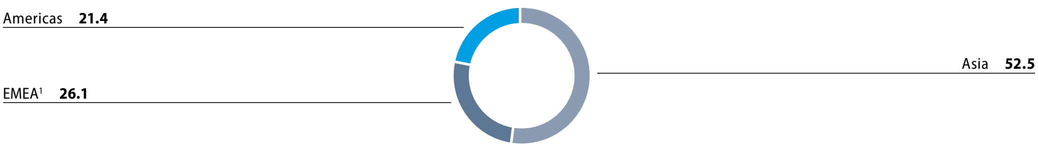
The IHS Automotive market research institute estimates that output of passenger cars and light commercial vehicles was up by some 2 percent to about 95 million units in 2017. More vehicles rolled off the line particularly in the EMEA region, but also in Asia, whereas output in the Americas was down marginally. Unlike in the previous year, slightly more cars and slightly fewer light commercial vehicles were produced. Worldwide, there was a significant increase by more than one quarter in all regions in the output of vehicles with alternative drive technologies.

Production of cars and light commercial vehicles (LCVs) by regions — **2017e** 2016



¹ Europe, Middle East, Africa — *Source: IHS Automotive*

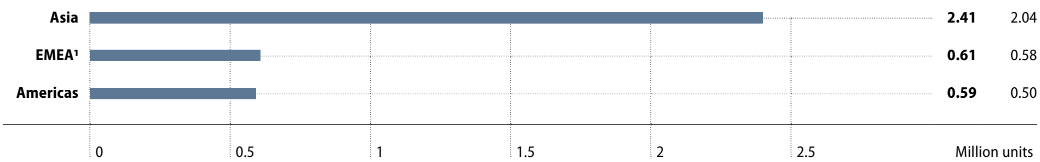
Production of cars and light commercial vehicles (LCVs) by regions in % — **2017e**



¹ Europe, Middle East, Africa — *Source: IHS Automotive*

The growth in global output of **heavy commercial vehicles** was unexpectedly dynamic: IHS Automotive puts the worldwide increase at nearly 16 percent, the reason being double-digit growth rates in Asia and the Americas. Yet there was also considerable growth in the EMEA region.

Heavy commercial vehicles production by regions — **2017e** 2016



¹ Europe, Middle East, Africa — *Source: IHS Automotive*

The global **electrical goods market** is likely to have grown by about 4 percent in 2017. Based on estimates of the German Electrical and Electronic Manufacturers' Association (ZVEI), there were particularly strong increases in Asia, but the markets in the Americas and Europe also enlarged. Among the segments of importance to LEONI, electromedicine stood out with a likely growth rate of 6 percent. The automation, energy generation, communications technology and IT segments should have made moderate gains. German electrical engineering and electronics companies increased their output by nearly 5 percent on a price-adjusted basis against this backdrop and even boosted their sales by more than 7 percent in the past year.

The German Engineering Federation (VDMA) believes the global **mechanical engineering sector**'s sales rose by a price-adjusted 6 percent in 2017. The sector would thus have performed considerably more dynamically than anticipated at the beginning of the year. Especially the flourishing demand for machinery in China spurred business not only in the country itself, but also in other, major machinery-manufacturing nations. The sector registered sales increases particularly in Japan, the United States and Europe. Germany's machinery and plant manufacturers increased their sales by about 3 percent in the past year.

The European IT Observatory (EITO) estimates that the sales of the **information and communications technology sector** (ICT) rose by more than 3 percent globally in 2017. The software and IT services segments were the biggest growth drivers – an expression of the progressing digitalization. The rise was more pronounced in information technology than in the telecommunications segment. Internationally, the IT markets in India and China made the unabatedly fastest gains at rates of 9 and 8.5 percent, respectively. The world's largest market, the United States, registered 3 percent growth. There was an increase of just under 2 percent in Europe. The German IT market is likely to have expanded by about 2 percent.

Other factors

The macroeconomic and sector-specific conditions play a key role with respect to LEONI's business performance, as do a range of other factors:

The **prices of commodities**, especially of copper, exert an appreciable influence on our sales. We largely pass on the fluctuations in the copper price to our customers through contractual agreements, albeit usually with a time lag. A change in the price of copper will therefore normally result initially in a corresponding effect on LEONI's sales without notable impact on earnings. On the balance sheet, there may – depending on the price of copper – be write-downs on inventory or provisions to cover contingent losses on partial quantities of inventory. The same applies to the raw material of silver, which is used primarily in the refining of wire products. By contrast, the trend in energy prices does not have any major group-wide impact on LEONI.

Procurement
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Personnel costs are another major influencing factor in the countries in which we produce. They are considered in decisions on choices of location, as are reliable legal and political conditions as well as favourable transport options.

We keep a very close eye on the **political situation** in the countries of importance to us; countries where we produce and sell. The risk and opportunity report contains corresponding information.

Risk and opportunity report
» page 95 et seq.

Alongside the respective national legislation of the countries in which we have a presence, the **legal factors** that are of importance for LEONI also include international laws. The stricter CO_2 emission limits, for example, exert indirect influence as they increase demand from the automotive industry for cables, cable harnesses and wiring systems that are particularly lightweight or lend themselves to alternative drive technologies. This results in the increasing use of sensors and control units, which in turn leads to an additional need for wiring.

Exchange-rate fluctuation can have an impact on sales, which we reduce through appropriate hedging transactions. If exchange-rate parities change substantially, however, they might nevertheless have an effect on results.

Notes
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Reports by division / Segment report

Wiring Systems Division

Strategically important projects in 2017

In 2017, the Wiring Systems Division strategically realigned itself as a provider of vehicle data and energy management solutions, stepped up its activity in the electromobility growth segment and expanded capacity worldwide. The most important, corresponding projects are presented below. Information on significant organisational changes and development projects can be found in the sections headed business model and organisational structure and research & development.

Business model
›› page 41 et seq.

Organisational structure
›› page 42 et seq.

Research & Development
›› page 82 et seq.

New data and energy management skills

As a provider of vehicle data and energy management solutions, we will offer our customers an extended portfolio of innovative products and services covering the automotive megatrends of electromobility, connectivity and autonomous driving. During the year under report, we therefore began to enhance our expertise in electronics and software as well as to further digitalize our processes.

Automated production

Given the mounting safety requirements imposed on electrical components and systems especially for autonomous driving, we are deploying automated solutions in production and throughout the supply chain. In 2017, we already produced partial cable harnesses and components fully automatically. Such further solutions as collaborating robots were in the piloting phase.

Strong presence in the electromobility segment

In 2017, we massively enhanced our good position in the fast-growing market for hybrid and electric vehicles and won several new contracts, which encompass both high-voltage (HV) cable harnesses and conventional wiring systems for vehicles with alternative drive technology. Our customer base in the electromobility segment comprises all the well-known premium and mass-market brands. Based on collaboration between its two divisions as well as via strategic partnerships, LEONI offers solutions for electric and hybrid cars ranging from the charging cable through to the high-voltage wiring system. As a systems supplier, we are continuously broadening our range of HV products, for example in the area of HV splices, and offer our customers scalable and tailor-made solutions for present-day and future HV wiring system architectures.

Record order receipts and dynamic e-mobility business
›› page 57

Second plant in the Ukraine opened

After just ten months' construction time, we started production at our new Ukrainian plant in Kolomyia in August 2017. At this second location in the west of the country, we operate a facility covering about 6,500 m^2 to produce cable harnesses and wiring systems, which are mostly supplied to carmakers based in Europe. About 800 people worked there at the end of 2017. The facility is to expand significantly by 2020 to approximately 5,000 employees and space of about 25,000 m^2.

Capacity expansion in Mexico

In November 2017, we opened a new plant for wiring systems in Merida, Mexico, which further strengthens our position on the American motor vehicle market. This third WSD facility in Mexico will, once running at full capacity, employ about 2,600 people on a production space of approx. 25,000 m^2. From there, we supply wiring systems and cable harnesses to the American plants of motor vehicle manufacturers that are based in Asia and the USA.

Performance in 2017

Key figures Wiring Systems

		2017	2016[1]	Change in %
External sales	€ million	3,061.5	2,689.7	13.8
EBIT[1]	€ million	116.6	35.7	> 100.0
Adjusted EBIT[2]	€ million	127.3	76.2	67.1
Return on Sales	%	3.8	1.3	—
Capital expenditure	€ million	163.9	135.4	21.0
Employees (as at 31 December)	Number	77,909	69,283	12.5

1 Prior-year figures adjusted
2 Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives

Sales up 14 percent to € 3.1 billion

The Wiring Systems Division's external sales rose by nearly 14 percent, or € 371.8 million, to € 3,061.5 million in 2017. We generated much of this growth from our own resources. Wuhan Hengtong Automotive, in which we hold a majority stake and which has been included in the scope of consolidation since November 2016, contributed € 20.0 million (previous year: € 6.1 million). The increased price of copper had an effect of € 38.3 million.

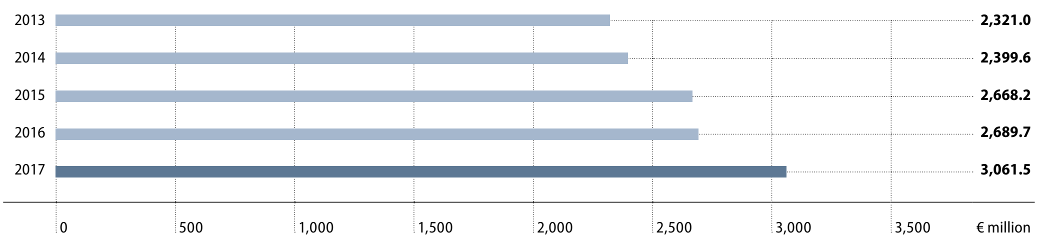
Wiring systems and cable harnesses for the international automotive industry continued to be the mainstay of sales. The business is broadly based, ranging from premium vehicles through to the compact and small-car categories. During the reporting period, there was strong growth especially in our shipments to European manufacturers in China. We also recorded significant increases involving cable harnesses for the international commercial vehicle industry as well as electrical and electronic components. The uptrend in sales of high-voltage products for electric and hybrid vehicles was especially dynamic, having risen from € 24.9 million to € 44.0 million.

By region, the amount of business in the EMEA (Europe, Middle East and Africa) region increased from € 2,089.9 million to € 2,337.7 million, while it was up from € 274.3 million to € 400.4 million in Asia. In the Americas, the sales of € 323.4 million were down slightly from the previous year's figure of € 325.5 million due to adverse currency effects.

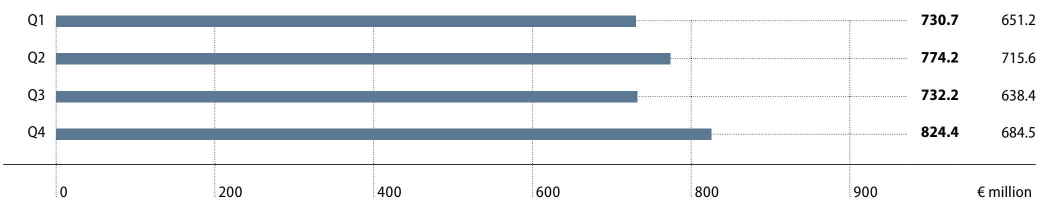
Wiring Systems sales development 2017

	€ million	in %
2016 sales	**2,689.7**	
Organic growth	351.4	13.1
Effects of changes in the scope of consolidation	20.0	0.7
Currency translation effects	(38.0)	(1.4)
Copper price effects	38.3	1.4
2017 sales	**3,061.5**	+13.8

Wiring Systems external sales



Wiring Systems external sales by quarter



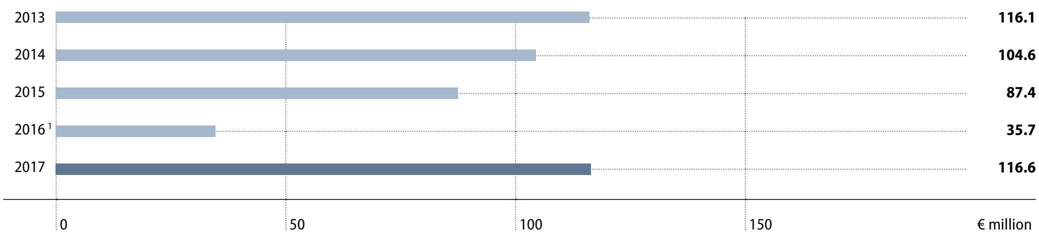
Many new start-ups at facilities around the globe

In 2017, we started mass production for new customer projects at numerous facilities in the Americas, Asia, North Africa and Eastern Europe. These production starts ran on schedule and involved mainly wiring systems and cable harnesses for vehicles of Asian and European carmakers, but also cable harnesses for motorcycles as well as engine wiring and complete systems for trucks, agricultural machinery and buses. In addition, we started making new products in the electromobility segment, including a strategically important high-voltage wiring system project for the cars and SUVs of a European manufacturer, through which we are broadening the scope of our collaboration with this customer considerably.

Strong increase in earnings

The earnings before interest and taxes of the Wiring Systems Division rose from € 35.7 million to € 116.6 million in the period under report. Along with the additional profit contributions from the increased sales, this also reflected the measures applied to boost performance and the benefits of the division's successful restructuring. By contrast, heavy restructuring expenses weighed on the result in 2016.

EBIT Wiring Systems



[1] Prior-year figure adjusted

Adjusted Wiring Systems EBIT[1]

€ million	2017	2016[2]
EBIT	**116.6**	35.7
Gain / loss on deconsolidation	0.0	27.8
Effect of purchase price allocation (PPA)	10.7	13.5
Income from revaluation and deconsolidation	0.0	(0.8)
Adjusted EBIT	**127.3**	76.2

[1] Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives
[2] Prior-year figures adjusted

Record order receipts and dynamic e-mobility business

The Wiring Systems Division booked new orders worth about € 7 billion (previous year: € 3.2 billion) in 2017, which was a record. Large new and follow-on orders from a European premium carmaker operating worldwide, to which we will be supplying wiring systems for various model series in Europe from 2020 and in Asia from 2021, were of special significance. We also received important orders for the American car industry and the international component supply industry.

The uptrend in demand for our high-voltage products for electric and hybrid vehicles was exceptionally dynamic: we gained several new projects from various automotive groups worth a total of about € 1.5 billion (previous year: € 0.4 billion). Among other business, we were commissioned to supply wiring systems and cable harnesses for fully electric premium cars and SUVs as well as all the wiring for two new e-mobility platforms.

At the end of December 2017, the Wiring Systems Division's order backlog covering the entire term of the projects was up by more than 13 percent year on year to € 21.6 billion (previous year: € 19.1 billion). High-voltage cable harnesses for electric and hybrid vehicles accounted for € 2.0 billion of this figure (previous year: € 0.8 billion).

The exact scope and timing of deliveries will be determined by the actual call-forwards of our customers.

Wire & Cable Solutions Division

Strategically important projects in 2017

Business model
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Organisational structure
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Research & Development
›› page 82 et seq.

The Wire & Cable Solutions Division is, as part of its strategic realignment, positioning itself more as systems and development partner for customers in the automotive sector and other industries with global operations. Further objectives include implementing the digital transformation and increasing internationalisation of our business. In this section, we present corresponding projects and the progress made during the year under review. Information on strategically important organisational changes and development projects can be found in the sections headed business model and organisational structure and research & development.

Adaptricity acquisition enhances cloud-based simulation expertise

In February 2017, LEONI took over two-thirds of Zurich-based Adaptricity AG, which specialises in software-based consulting services. We are thereby enhancing our know-how in the areas of software, simulation and cloud-based data analysis – primary building blocks of our strategic development towards being an innovative solutions provider. This Swiss start-up business has given us access to software that generates time series-based simulations. We intend to combine Adaptricity's skills with our international project business and to carry it over to a range of pioneering applications and market segments.

Construction of the Factory of the Future started

The ground-breaking in April 2017 ushered in the construction phase of our Factory of the Future in Roth, Germany. The official foundation-laying ceremony for this modern Center of Expertise of the Wire & Cable Solutions Division took place in June. The new plant will, on the one hand, underpin our core cable production business and, on the other hand, function as a laboratory as well as development centre for innovative products and solutions. Among other products, the facility is to manufacture state-of-the-art data cables for autonomous driving, high voltage and charging cables for vehicles with alternative drive systems as well as fiber optic cables for telecommunications and infrastructure. A total investment of about € 90 million is budgeted for this Center of Expertise. The factory is to be completed by the end of 2018 and the plan is for it to gradually take over ongoing production from the existing plant in the centre of Roth starting in 2019.

Sale of Business Group Electrical Appliance Assemblies

In May 2017, we sold our business comprising cable assembly and cable harnesses for domestic appliances and power tools, which was pooled within Business Group Electrical Appliance Assemblies. The disposal is likewise part of our strategy of becoming a strong solutions-oriented provider and focusing on our core activities with profitable growth potential. The buyer is the BizLink company, a leading provider of connectivity solutions that is listed on the Taiwan stock exchange and based in Fremont, California, whose aim with this deal is to gain a permanent foothold on the European market.

Expansion of facility in India underpins internationalisation

In early September 2017, we commissioned a new electron acceleration line at our facility in Pune, India, which has a total capacity to produce 80,000 km of electron-beam crosslinked cable per year. Through treatment with electron beams we can make high-performance cables that are, among other things, more dimensionally stable when subjected to heat, more resistant to chemicals, solvents and temperature fluctuation as well as tougher and less susceptible to abrasion. In India, we supply these special cables mainly to customers in the dynamic solar and railway industries. We are forging ahead with internationalising our industrial business by having expanded our plant in Pune, in which we invested a total of about € 10 million.

Digital transformation progress

The Wire & Cable Solutions Division's digital transformation made the planned progress during the year under report. The focus was on digitalization of its product range and, in the process, especially on developing intelligent cables, the functionality of which means they can, for example, thanks to their integrated sensor technology, monitor themselves for temperature, resistance to aggressive media or mechanical stress. Having developed initial, important technical solutions, we began to prepare for possible patenting. We also committed to targeted recruitment of new staff to enhance our digitalization expertise. We furthermore made significant progress at the organisational level, among other aspects by making staff more aware of the importance of our digital transformation.

Performance in 2017

Key figures Wire & Cable Solutions

		2017	2016	Change in %
External sales	€ million	1,861.3	1,741.6	6.9
EBIT	€ million	104.6	83.7	25.0
Adjusted EBIT [1]	€ million	80.9	85.0	(4.8)
Return on Sales	%	5.6	4.8	—
Capital expenditure	€ million	107.8	65.3	65.1
Employees (as at 31 December)	Number	8,118	9,458	(14.2)

[1] *Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives*

Sales up 7 percent to € 1.9 billion

The Wire & Cable Solutions Division increased its external sales by almost 7 percent to € 1,861.3 million in the 2017 financial year. This more than offset the sales lost due to the disposal of Business Group Electrical Appliances Assemblies thanks to organic growth in the automotive and industrial business as well as favourable copper price effects. The largest share of this business, i.e. € 1,067.9 million (previous year: € 971.0 million), was generated in the EMEA region. In the Americas, sales were up by over 13 percent to € 426.8 million (previous year: € 377.0 million) and in Asia they were down by approximately 7 percent to € 366.6 million (previous year: € 393.6 million) because of the disposal of BG Electrical Appliance Assemblies.

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Sales development in 2017

Wire & Cable Solutions sales development

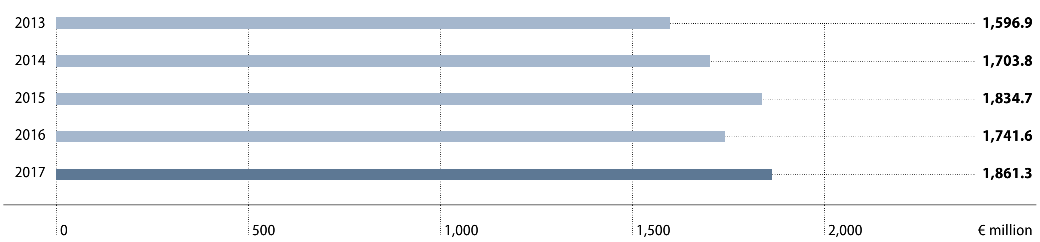
	€ million	in %
2016 sales	**1,741.6**	
Organic growth	88.6	5.1
Effects of changes in the scope of consolidation	(96.9)	(5.6)
Currency translation effects	(23.7)	(1.4)
Copper price effects	151.7	8.7
2017 sales	**1,861.3**	6.9

Our standard and special cables for the automotive industry were in heavy, worldwide demand during the period under report, thanks to which Business Group Automotive Cable Solutions achieved overall sales growth of about 19 percent. This business did especially well in the EMEA region, where we recorded very dynamic demand for our charging cables for electric and plug-in hybrid vehicles based on stepped-up development work in the electromobility segment. Sales of these products over the whole reporting period rose from € 21.3 million to € 22.6 million.

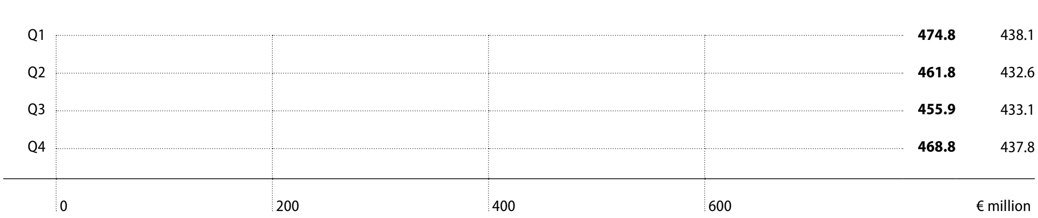
Business Group Industrial Solutions also made a slight gain: in total, the industrial business grew by approximately 6 percent, with above-par growth in Asia and the Americas. Worldwide, we registered consistently strong demand for our cables and solutions for the robotics, fiber optics, automation and drive technology as well as factory automation industries. Sales in the medical technology and datacom sectors likewise performed well. The initially still declining infrastructure cables business stabilised during the year. Only our sales to the petrochemical industry fell short of expectations and of the previous year's level throughout the reporting period.

In BG Conductors & Copper Solutions we recorded vibrant demand in all product segments, thanks to which its sales rose by 16 percent overall.

Wire & Cable Solutions external sales



Wire & Cable Solutions external sales by quarter



Exceptional factor boosts earnings to € 104.6 million

The WCS Division's earnings before interest and taxes showed a strong year-on-year increase by one quarter to € 104.6 million in 2017. What should be taken into consideration in this respect is that the sale of Business Group Electrical Appliance Assemblies resulted in a positive deconsolidation effect of € 24.3 million. On the other hand, the business group contributed € 4.6 million less to operating profit than in the previous year because it was only consolidated pro rata up to the date of disposal. Furthermore, heavy pressure on prices in the solar energy market and the persistently weak petrochemical business affected the earnings situation.

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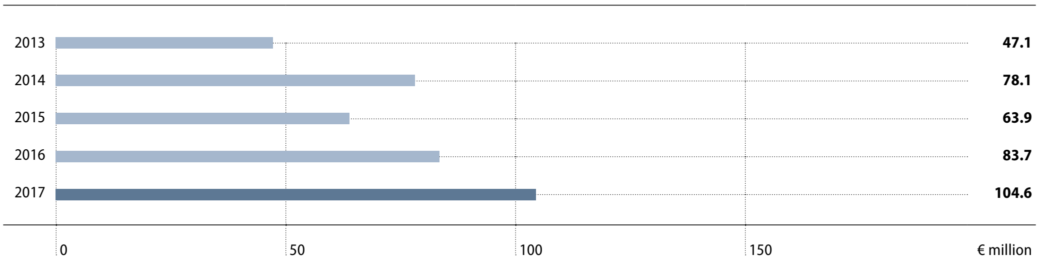
Adjusted for all non-operating factors, EBIT amounted to € 80.7 million (previous year: € 85.0 million).

EBIT Wire & Cable Solutions



Adjusted EBIT[1] Wire & Cable Solutions

€ million	2017	2016
EBIT	**104.6**	**83.7**
Effect of purchase price allocation (PPA)	0.6	1.0
Restructuring expenses / income	0.0	3.6
Gain / loss on deconsolidation	(24.3)	(3.3)
Adjusted EBIT	**80.9**	**85.0**

[1] *Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivative*

Order receipts rise to € 1.9 billion

The Wire & Cable Solutions Division booked new orders worth € 1,883.7 million in 2017, which equated to a year-on-year increase of nearly 8 percent. This also slightly exceeded sales for the reporting period.

Business Group Automotive Cable Solutions accounted for the largest proportion of these order receipts, which involved both standard cables and such special cables as high-speed data cables for driver assistance and infotainment systems as well as charging cables. We also booked significant new orders in many industrial sectors, including data processing and infrastructure.

Business report

Overview of LEONI's performance / General statement on the economic situation and comparison with the forecast

Group key figures

		Actual 2016 figures[1]	Updated forecast for 2017	Actual 2017 figures
Consolidated sales	*€ billion*	4.43	approx. 4.8	4.92
EBIT	*€ million*	79.2	approx. 220	225.3
Capital expenditure	*€ million*	210.8	approx. 250	281.4
Free cash flow	*€ million*	(27.5)	positive	11.1

[1] Prior-year figures adjusted

The LEONI Group performed better than expected in 2017. The demand in the automotive and capital goods industries for our products, systems and services gained considerable momentum during the year, thanks to which **consolidated sales** rose by about 11 percent to € 4.9 billion in 2017. This therefore beat our forecast, which was most recently raised to about € 4.8 billion in November of last year. Both divisions contributed to the growth, most of which was generated organically. The sales of the Wiring Systems Division increased by nearly 14 percent to € 3.1 billion, while they were up by around 7 percent to € 1.9 billion in the Wire & Cable Solutions Division.

Based on this good operating performance especially in the Wiring Systems Division, gross profit on sales improved by more than 12 percent to € 821.4 million. **Consolidated earnings before interest and taxes** (EBIT) rose strongly from € 79.2 million to € 225.3 million and thus also exceeded the projected figure of about € 220 million. This works out to an EBIT margin up from 1.8 percent to 4.6 percent. Alongside the additional sales and successfully implemented restructuring and performance-enhancement measures, the strong growth is also attributable to exceptional factors: there was a boost to income of about € 30 million during the period under report from the sale of BG Electrical Appliance Assemblies and an insurance compensation payout. By contrast, restructuring expenses and a loss due to fraud totalling about € 70 million weighed on the previous year's figure. Also when adjusted for all non-operational effects, consolidated EBIT improved significantly in 2017, i.e. by 29 percent to € 207.3 million. **Consolidated income** after taxes increased from € 11.5 million to € 143.9 million.

Earnings were up in both divisions: In the Wiring Systems Division, EBIT rose to € 116.6 million (previous year: € 35.7 million) and thus more strongly than expected (November forecast: € 110 million). In the Wire & Cable Solutions Division the result increased to € 104.6 million as projected (previous year: € 83.7 million).

This strong 2017 increase in earnings drove a positive trend in all the measured parameters for the **financial and asset situation** of the LEONI Group. Free cash flow improved, due among other factors to the cash provided by the sale of Business Group Electrical Appliance Assemblies, from negative € 27.5 million to € 11.1 million even though capital spending was increased by about one third to € 281.4 million due to our customers' numerous new projects. Net financial liabilities remained, with a figure of € 406.2 million, at roughly the previous year's level of € 403.6 million despite the business expansion. The equity ratio rose from 31.1 percent to 32.7 percent and the return on capital employed was up from 5.1 percent to 14.1 percent.

Group sales and earnings

Consolidated sales rise to € 4.9 billion

Based on the dynamic demand for our automotive cables, cable harnesses and wiring systems for the automotive industry as well as for products, solutions and services for the capital goods industry, consolidated sales rose by more than 11 percent, or € 491.5 million, to € 4,922.8 million in 2017. We generated much of this increase – € 440.0 million – from our own resources. In addition, there was a positive effect from change in the copper price amounting to € 190.0 million. This was offset by adverse effects resulting from changes in exchange rates and in the scope of consolidation. The latter was due mainly to the absence of the business volume of Business Group Electrical Appliance Assemblies, which was sold in May 2017 and was partially compensated by the additional sales from associate company Wuhan Hengtong Automotive that has been included in the scope of consolidation since November 2016.

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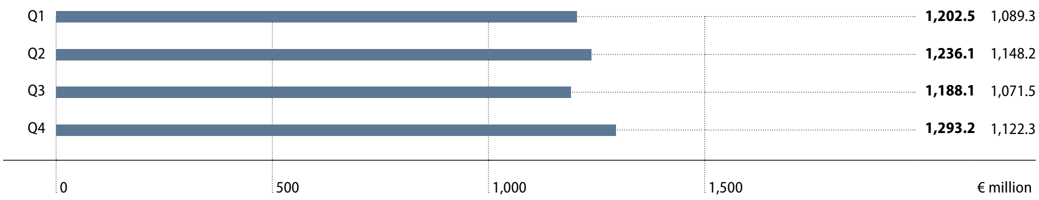
Group sales development 2017

	€ million	in %
2016 sales	**4,431.3**	
Organic growth	440.0	9.9
Effects of changes in the scope of consolidation	(76.8)	(1.8)
Currency translation effects	(61.7)	(1.4)
Copper price effects	190.0	4.3
2017 sales	**4,922.8**	11.1

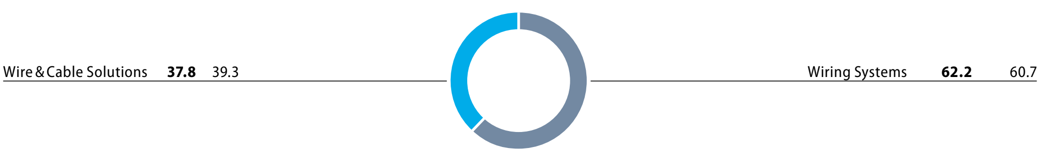
LEONI expanded in all regions during the period under report: We recorded the strongest growth in Asia, where sales were up by nearly 15 percent to € 767.0 million. Our business volume generated in the EMEA economic area increased by over 11 percent to € 3,405.6 million. In the Americas, sales rose by about 7 percent to € 750.3 million. The EMEA area therefore accounted for 69.2 percent of the total volume; Asia for 15.6 percent and the Americas for 15.2 percent.

Consolidated sales

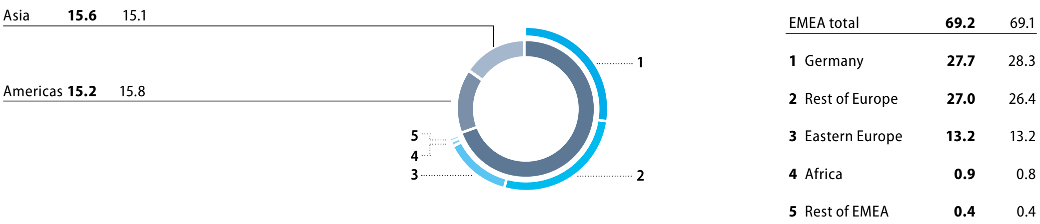
Consolidated sales by quarter — 2017 2016



Consolidated sales by division % — 2017 2016



Consolidated sales by region in % — 2017 2016



Group EBIT up strongly to € 225.3 million
Thanks to the successfully applied measures to enhance performance in the Wiring Systems Division, the LEONI Group's cost of sales increased by slightly less in proportion to the volume of business, namely by just under 11 percent to € 4,101.5 million. Gross profit on sales consequently improved by over 12 percent to € 821.4 million and the **gross margin** widened from 16.5 percent to 16.7 percent.

The selling expenses of € 243.4 million were only slightly above the fiscal-2016 figure of € 239.9 million, whereas general administrative costs rose by about 14 percent to € 273.3 million mainly because of multi-year IT and other Group projects. Research and development costs, which largely depend on the project phases of our customer contracts, were down by approximately 4 percent to € 129.1 million.

Other operating income increased significantly from € 28.0 million to € 45.7 million during the period under report. This included the gain on deconsolidation from the disposal of Business Group Electrical Appliance Assemblies in the amount of € 24.3 million as well as insurance compensation of € 5.0 million related to the fraud case uncovered in 2016. Other operating expenses were down from € 77.4 million to € 18.8 million. In the previous year, the item included charges of € 40.0 million due to the fraud case as well as heavy restructuring costs.

Risk and opportunity report
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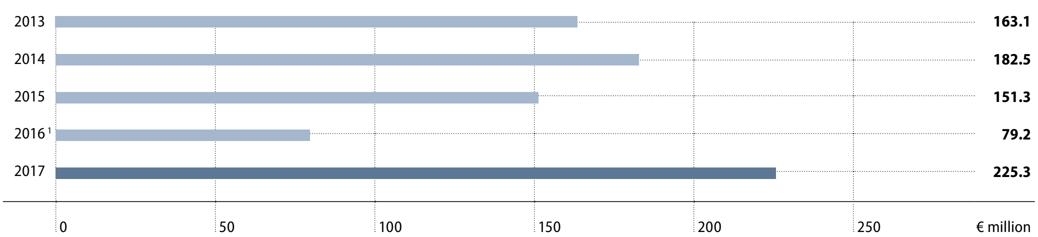
The income from associated companies and joint ventures, which rose strongly from € 12.2 million to € 22.8 million, reflected the good business performance of our joint venture in Langfang, China.

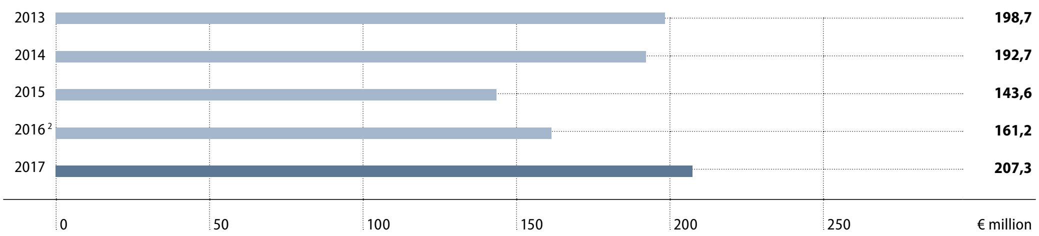
Overall, **consolidated EBIT** increased from € 79.2 million to € 225.3 million in 2017. Adjusted for all non-operational effects, EBIT rose by about 29 percent to € 207.3 million. The outcome after deducting the financial result including the investment result, which, at a loss of € 24.9 million, was virtually the same as the previous year's loss of € 24.4 million, was earnings before taxes (EBT) substantially improved from € 54.8 million to € 200.3 million. Considering the tax rate, which was at a normal level in 2017, the Company reported **consolidated net income** of € 143.9 million for the year under report, up from € 11.5 million in fiscal 2016.

Group EBIT



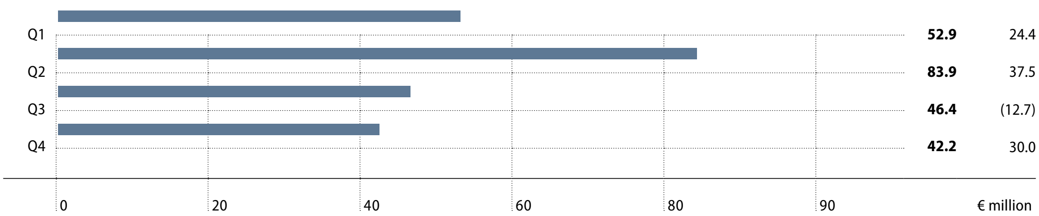
[1] *Prior-year figure adjusted*

Adjusted Group EBIT [1]



[1] *Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives as well as the charges due to the fraud case*
[2] *Prior-year figure adjusted*

Group EBIT by quarter



[1] *Prior-year figure adjusted*

Adjusted Group EBIT [1]

€ million	**2017**	**2016** [2]
EBIT	**225.3**	79.2
Restructuring expenses / income	0	31.4
Effect of purchase price allocation (PPA)	11.3	14.4
Income from revaluation and deconsolidation	(24.3)	(4.1)
Insurance compensation / Charges due to fraud case	(5.0)	40.3
Adjusted EBIT	**207.3**	161.2

[1] *Earnings adjusted for the impact of revaluation as part of allocating the prices of the major acquisitions, restructuring, capital gains on the disposal of businesses and income from business combinations including related derivatives as well as the charges due to the fraud case*
[2] *Prior-year figures adjusted*

Value creation

The LEONI Group generated net added value of € 1,284.0 million in 2017 versus € 1,049.7 million in the previous year. It presents our own output and is calculated based on sales revenues and other operating income less cost of materials, depreciation/amortisation and other advance payments. By far the largest part of the value created, 82 percent, was spent on our staff in the form of personnel costs and social security contributions. Our shareholders received 4 percent and our lenders 2 percent. 8 percent of the value created was retained.

Value creation

€ million	**2017**	**2016** [5]
Accruement		
Sales revenues	4,922.8	4,431.3
Other income	45.7	28.0
Cost of materials	(2,880.6)	(2,554.4)
Depreciation / amortisation	(149.5)	(151.1)
Advance payments	(654.4)	(703.6)
Net value added	**1,284.0**	**1,050.2**
Distribution		
to staff (personnel costs, social security contributions)	1,058.6	971.3
to the Company (retained income) [1]	98.2	(5.3)
to shareholders (dividend) [2]	45.7	16.3
to government (income taxes) [3]	56.4	43.3
to creditors (financial result) [4]	25.1	24.6
Net value added	**1,284.0**	**1,050.2**

[1] *Consolidated net income less dividend*
[2] *Subject to the approval of shareholders at the Annual General Meeting*
[3] *Income taxes only (excl. excise, property and transaction taxes as well as social security contributions)*
[4] *Excl. other investment income*
[5] *Prior-year figures adjusted*

Financial situation

Finance strategy

The LEONI Group attaches importance to a permanently solid, balanced finance structure. The aim is to maintain an equity ratio of at least 35 percent and leverage (ratio of net financial liabilities to EBITDA) below 1 so as to lastingly safeguard the Company's good credit rating by the capital market as well as banks and suppliers. We use the capital market to cover our long-term need for finance. We obtain short-term finance via credit lines from core banks.

Deutsche Bundesbank has rated LEONI as an eligible borrower for more than a decade. No official rating exists because this would, in our view, not create any additional value at present. LEONI's loan agreements do not include any financial covenants.

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Generally speaking, we aim to finance planned business growth from our operating cash flow. Details on capital management are contained in the notes.

Financial and liquidity management

The LEONI Group's **financial management** is handled centrally by the LEONI AG holding company. It ascertains the capital requirement at group level and takes the necessary measures for the entire group of companies. In exceptional cases we have recourse to regional, special finance deals. The key objectives of financial management are safeguarding the Group's liquidity worldwide, optimising finance costs and revenue as well as controlling and minimising currency and interest rate risks. We use a wide range of instruments to keep our exposure to individual markets or types of finance as low as possible. Generally speaking, LEONI pursues long-term collaboration with international banks that is based on mutual trust. Group subsidiaries are financed mostly in their functional currency. The principal financial liabilities in 2017 were denominated in euros, Indian rupees, South Korean won, Russian roubles and US dollars, with liabilities in Russian roubles having been repaid during the financial year.

Among other means, we manage the **liquidity** of the LEONI Group via a cash pooling system with pools in the home countries of the currencies of most importance to the Group. Furthermore, LEONI AG executes the bulk of the payments for the Group.

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To be able to reliably meet all our financial obligations at any time, we use capital market instruments such as bonds and borrower's note loans at the corporate level for the whole Group and obtain credit lines in sufficient amounts.

The **off-balance-sheet instruments** leasing and factoring, which we use to improve liquidity, are also managed at head office. Factoring, in particular, is an important addition to the other instruments for short-term liquidity management thanks to its flexibility in terms of the sales performance and the associated borrowing requirement. At the end of 2017, factoring reduced trade receivables by € 194.1 million (previous year: € 153.1 million). Of the other liabilities, € 35.5 million (previous year: € 45.8 million) was due to the receipt of payment on receivables that were sold within factoring agreements. Moreover, reverse factoring transactions are used for supplier financing in connection with copper procurement. As at 31 December 2017, trade liabilities amounting to € 185.9 million (previous year: € 144.0 million) were transferred to factoring companies in the context of signed reverse factoring agreements. Details on leasing as well as hedging of interest rate and currency risks are contained in the notes.

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Financing structure remains solid

The financing structure of the LEONI Group did not change materially in 2017. As planned, we repaid a borrower's note loan in the amount of € 63 million upon maturity.

The following table provides an overview of the most significant long-term finance existing at the end of 2017:

Finance structure

Long-term finance	Amount *€ million*	Placed *year*	Term *to year*
Borrower's note loan	25.0	2012	matures 2018
Borrower's note loan	48.5	2012	matures 2019
Borrower's note loan	25.0	2013	matures 2020
Borrower's note loan	6.0 87.0 77.5	2015	matures 2020
Borrower's note loan	9.0	2012	matures 2022
Borrower's note loan	21.0 19.0	2015	matures 2022
Borrower's note loan	12.0	2015	matures 2025
EIB loan	100.0	2013	matures 2018

Dividend policy

As a rule, LEONI's strategy provides for a payout of around one-third of consolidated net income to shareholders in order to meet shareholder expectations in the form of an appropriate dividend and to ensure sufficient liquidity is available for the Company's development through profit retention. The Board of Directors and the Supervisory Board will propose to shareholders at the Annual General Meeting to pay out a dividend of € 1.40 per share for 2017 (previous year: € 0.50), which would equate to 31.8 percent of net income or a total payout of € 45.7 million (previous year: € 16.3 million).

Cost of capital and ROCE

The weighted average cost of capital (WACC) for the LEONI Group amounted to 7.59 percent in 2017 (previous year: 6.33 percent). The return on capital employed (ROCE) rose to 14.1 percent (previous year: 5.1 percent).

Calculation of the return on capital employed

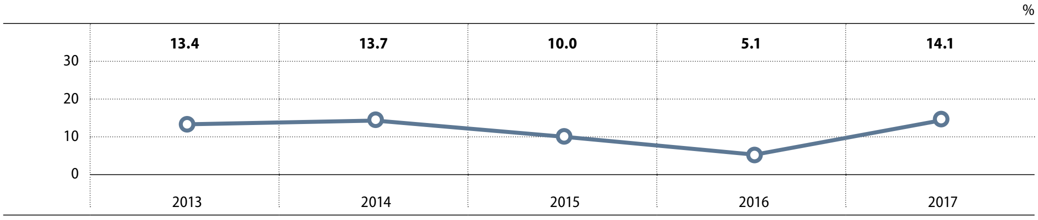
€ million	2017	2016[2]
EBIT	**225.3**	**79.2**
Intangible assets	64.5	70.6
Goodwill	146.7	147.9
Property, plant and equipment	1,052.3	948.9
Inventories	669.5	588.3
Trade receivables	626.4	558.3
Other	381.8	423.5
Total assets	**2,941.2**	**2,737.5**
Trade liabilities	909.4	772.0
Other liabilities and received payments up to 1 year	250.9	239.3
Other	180.3	222.4
Total equity and liabilities	**1,340.6**	**1,233.7**
Capital employed on the reporting date	**1,600.6**	**1,503.8**
Capital employed, annual average[1]	**1,594.7**	**1,541.4**
ROCE	**14.1 %**	**5.1%**

[1] Calculation of the annual average is based on the past five quarterly reporting dates
[2] Prior-year figures adjusted

Calculation of Group WACC

		2017		2016
Risk-free interest		1.25 %		0.9 %
Market risk premium		6.5 %		6.5 %
Beta factor		1.42		1.44
Cost of equity after tax		**10.48 %**		**10.26 %**
Borrowing costs before tax		1.84 %		2.03 %
Tax rate	28.00 %	0.52 %	29.63 %	0.60 %
Borrowing costs after tax		**1.32 %**		**1.43 %**
Equity proportion		68.44 %		55.52 %
Proportion of borrowed funds		31.56 %		44.48 %
Cost of capital after taxes (WACC)		**7.59 %**		**6.33 %**

Return on Capital Employed



Positive free cash flow of € 11.1 million

The cash provided by operating activities in the LEONI Group increased from € 175.4 million to € 244.6 million in 2017. This involved a substantially improved Group result thanks also to exceptional items being offset, because of the business expansion, by a larger amount of funds tied in working, which was attributable particularly to the increased inventories as well as trade receivables.

Asset situation
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LEONI spent cash of € 233.6 million during the period under report and thus more than in fiscal 2016 (€ 202.9 million), which was due to stepped-up capital investment activity. The sale of Business Group Electrical Appliance Assemblies provided cash of € 36.7 million. Free cash flow increased from negative € 27.5 million to positive € 11.1 million.

Capital expenditure
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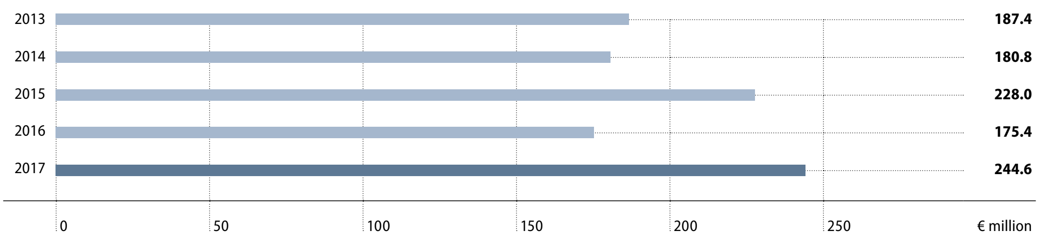
Cash used for financing activity amounted to negative € 35.9 million (previous year: negative € 34.7 million). New short-term loans partially compensated for the cash spent on scheduled repayment of a long-term loan and the dividend payout.

In summary and after taking exchange rate-related changes into account, the LEONI Group's cash and cash equivalents decreased to € 185.1 million at the end of 2017 (previous year: € 208.9 million).

Operating cash flow[1]



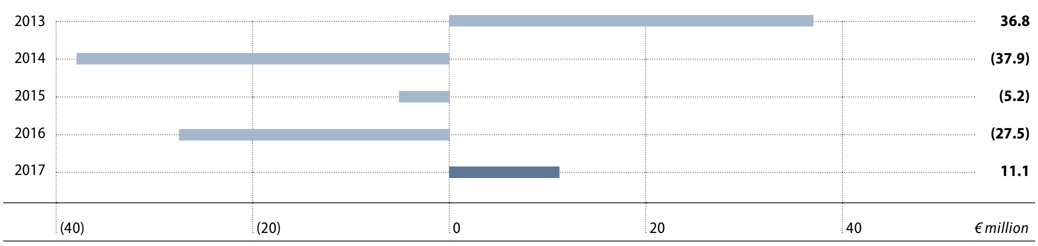
[1] *Changed measurement from 2016*

Consolidated statement of cash flows (abridged version) / **Calculation of free cash flow**

€ million	**2017**	**2016** [1]
Cash flows from operating activities	244.6	175.4
Cash flows from capital investment activities	(233.6)	(202.9)
Free cash flow	**11.1**	**(27.5)**
Cash flows from financing activities	(35.9)	(34.7)
Change in cash and cash equivalents	(24.8)	(62.2)
Cash and cash equivalents on 31 December	185.1	208.9

[1] Prior-year figures adjusted

Free cash flow [1]



[1] Changed measurement from 2016

Capital expenditure raised to € 281.4 million

The LEONI Group's capital investment in property, plant and equipment as well as intangible assets increased by approximately one third to € 281.4 million in 2017. The EMEA region accounted for € 225.9 million of this figure, Asia for € 29.8 million and the Americas for € 25.7 million.

Capital investment in the Wiring Systems Division rose by about 21 percent to € 163.9 million, most of which was spent on worldwide expansion of capacity because of new customer projects. Among other things, we enlarged our facilities in Eastern Europe as well as North Africa and built new plants in Kolomyia, Ukraine; Merida, Mexico and Nis, Serbia. Rebuilding of the divisional headquarters in Kitzingen, Germany was another focal point.

The Wire & Cable Solutions Division invested € 107.8 million and thus about 65 percent more than in the previous year – especially in additional capacity to produce automotive special cables in Eastern Europe as well as select industrial cables. The most significant individual projects included the new factory in Roth, Germany and a new electron-beam acceleration line in India. In Germany, we furthermore invested in glass fiber production.

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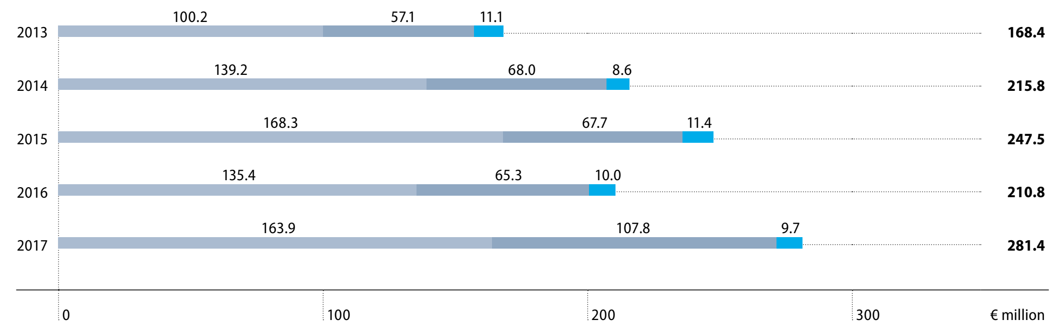
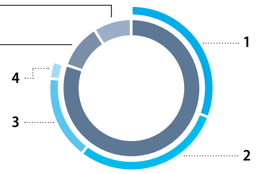
Details of the key projects of the two divisions are contained in the segment report.

The capital expenditure of LEONI AG, which decreased from € 10.0 million to € 9.7 million, involved primarily the IT infrastructure.

Capital expenditure



LEONI Group capital expenditure by region in %



	2017	2016
Americas	**9.1**	9.9
Asia	**10.6**	13.6
EMEA total	**80.3**	76.5
1 Germany	**31.0**	23.6
2 Eastern Europe	**29.3**	36.3
3 Africa	**16.7**	11.8
4 Rest of EMEA	**3.3**	4.8

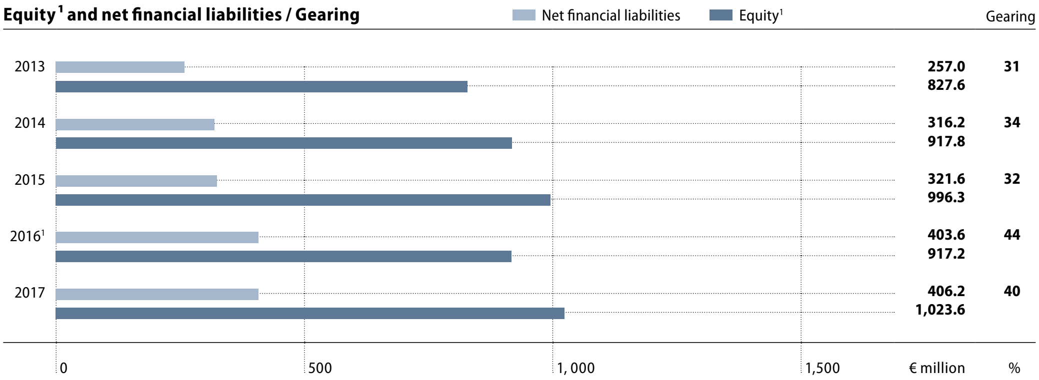
Net financial liabilities virtually unchanged

The net financial liabilities of the LEONI Group remained at roughly the previous year's level with a figure of € 406.2 million (previous year: € 403.6 million) despite the considerable expansion of business, which equates to leverage (net financial liabilities / EBITDA) of 1.1 after 1.8 in fiscal 2016. Gearing (net financial liabilities as a percentage of equity) improved from 44 percent to 40 percent.

Calculation of net financial liabilities

€ million	**2017**	**2016**	**Change**
Cash and cash equivalents	185.1	208.9	(23.8)
Current financial liabilities	(254.4)	(150.3)	(104.1)
Non-current financial liabilities	(336.9)	(462.1)	125.2
Net financial position	(406.2)	(403.6)	(2.6)

Equity[1] and net financial liabilities / Gearing



[1] *Prior-year figures adjusted*

Asset situation

The LEONI Group's balance sheet as at 31 December 2017 was enlarged by nearly 7 percent to € 3,126.3 million. On the asset side, there was an increase in **current assets** by a total of 4 percent to € 1,655.3 million. This reflected the increase in trade receivables by nearly 14 percent to € 664.7 million due above all to the expansion of business. Inventories also accumulated by almost 14 percent to € 669.5 million, which was partly attributable to the higher price of copper. Other assets were up by more than 18 percent to € 124.8 million because of increased value added tax receivables. On the other hand, there was an 11 percent reduction in cash and cash equivalents to € 185.1 million.

Financial situation
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The biggest change in **non-current assets**, which increased by a total of about 8 percent to € 1,471.0 million, was the growth of approximately 11 percent to € 1,052.3 million in property, plant and equipment, which was the result of our extensive capital investment. Thanks to the successful performance of our joint venture in Langfang, China, shares in associates and joint ventures increased from € 24.8 million to € 34.1 million. Receivables from long-term development contracts rose by 13.5 percent to € 60.5 million.

Financial situation
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On the liabilities side, **current liabilities** were up by nearly 15 percent to € 1,476.8 million. Alongside the business volume-induced rise in trade liabilities by approximately 14 percent to € 974.9 million, there was an increase especially in current financial liabilities from € 150.3 million to € 254.4 million. Primarily, this reflected the reclassification of a loan, which is due in the third quarter of 2018, from non-current liabilities. Other current liabilities increased by around one quarter to € 188.6 million because of staff bonuses. On the other hand, provisions were down from € 53.5 million to € 33.4 million following completion of the extensive restructuring measures in the previous year.

The aforementioned reclassification as well as the repayment on maturity of a loan in 2017 took non-current financial liabilities down from € 462.1 million to € 336.9 million. There was furthermore a notable drop in pension provisions, which had to be remeasured due to the changed level of market interest rates, from € 183.1 million to € 170.8 million. Overall, **non-current liabilities** were down by nearly 16 percent to € 625.9 million.

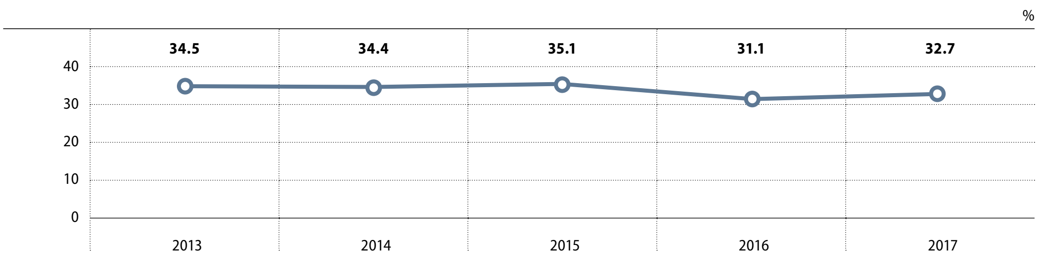
The LEONI Group's equity increased by almost 12 percent year-on-year to € 1,023.6 million in 2017. Adverse foreign currency translation effects, which are reflected in accumulated other comprehensive income down from negative € 51.4 million to negative € 72.2 million, diminished the effect of the earnings increase, which boosted retained earnings by more than 20 percent to € 763.9 million. The equity ratio improved from 31.1 percent to 32.7 percent.

Asset and capital breakdown

€ million	**31/12/2017**	**31/12/2016** [1]
Current assets	1,655.3	1,588.3
Non-current assets	1,471.0	1,358.1
Total assets	**3,126.3**	**2,946.4**
Current liabilities	1,476.8	1,286.0
Non-current liabilities	625.9	743.2
Equity	1,023.6	917.2
Total equity and liabilities	**3,126.3**	**2,946.4**

[1] *Prior-year figures adjusted*

Equity ratio



Off-balance sheet assets

Alongside the assets presented in the consolidated balance sheet, the Group also uses intangible assets, which are not permitted to be entered on the balance sheet because of the applicable accounting requirements. Mainly, these are primary customer and supplier relationships, production know-how, organisation and process-related advantages as well as brand and human capital. Use was furthermore made of leased or rented assets that are not to be entered on the balance sheet because of the chosen contractual structure.

Other indicators (incl. non-financial information statement)

Procurement

We purchase mostly metals, plastics and components to make our products; their procurement is of major significance the LEONI Group's cost of materials. This item's Group-wide total came to € 2,880.6 million in 2017 (previous year: € 2,554.4 million), which works out to a ratio of cost of materials to sales of 58.5 percent (previous year: 57.6 percent).

Cost of copper up considerably

The cost of materials in the Wire & Cable Solutions Division in the period under report amounted to € 1,329.2 million (previous year: € 1,182.6 million), or 64.3 percent of the segment's sales (previous year: 61.8 percent). Copper continued to be the most important raw material with an annual volume of about 150,000 tonnes, which we source from major strategic suppliers. Its price is geared to that quoted on the London Metal Exchange. The copper price fluctuated sharply in 2017: whereas the metal's price initially rose considerably at the beginning of the year, it dropped back significantly in the second quarter to its low of € 500.08 per 100 kg. With a brief interruption, it picked up appreciably again from the mid-year mark, reaching its highest level of € 611.45 per 100 kg at the end of December. On average in 2017, the copper price was up by about 23 percent to € 552.95 per 100 kg. The other metals that round off the portfolio include silver, the price of which was down by an average of approximately 2 percent in the year under report, as well as nickel and tin, the prices of which rose by nearly 6 percent and over 9 percent, respectively.

Development of copper price 2017 (low DEL price) € / 100 kg

Shortage of special insulation materials

Such standard plastics as polyvinyl chloride and polyethylene compounds, the volumes of which were up slightly to above 50,000 tonnes, account for the second-largest proportion of the WCS Division's cost of materials. Due to the economy's good performance and producers' associated high capacity utilisation, we recorded a shortage and an ongoing price rise in some cases of more than 10 percent in this market during the year under report. Our once again stepped-up collaboration with our core suppliers meant we were nevertheless able to ensure supply. In addition, there were such special insulation materials as thermoplastic elastomers, fluoropolymers and polyurethane. In the cases of some of these special insulation materials, the outage due to natural disasters of several plants in the United States as well as the government-mandated switch-off of numerous chemicals plants in China resulted in extreme shortages of many basic materials. Given these shortages and insufficient supply into the market, the prices for some of these basic materials rose by more than 100 percent. Price levels could rise further this year, aggravating the shortages.

High worldwide demand for components

In the Wiring Systems Division, the cost of materials amounted to € 1,761.5 million in the period under report (previous year: € 1,538.1 million), which corresponded to 57.5 percent of the division's sales (previous year: 57.2 percent). Connectors remained the most important group of materials with a 41 percent share of total expenses, followed by cables and conductors with 35 percent and fixings with 10 percent; electronic components accounted for 8 percent and injection moulded parts for a 6 percent share.

The Wiring Systems Division buys cables and conductors for the manufacture of wiring systems mostly from the Wire & Cable Solutions Division, but it also uses outside suppliers. Such components as connectors and fixings continue to be procured largely from third parties, for which LEONI frequently works with suppliers that are stipulated by customers in the automotive industry as part of being awarded the contract. The very heavy demand for components and suppliers' consequently high capacity utilisation resulted in a shortage of connectors during the period under report. We generally respond to such procurement bottlenecks and price increases with intensive, global negotiations with suppliers, new technologies and substitution. We succeeded in making savings by comparing terms internationally within the framework of our worldwide procurement management.

Employees

Workforce grows to 86,340 employees

The LEONI Group’s workforce was enlarged by 7,303 people year on year to 86,340 at the end of 2017, with 7,454 of the newly recruited people involving skilled trades. By far the most of LEONI’s workforce – 81,753 people (previous year: 74,667) or a 94.7 percent proportion (previous year: 94.5 percent) – was employed outside Germany. LEONI had 4,587 employees in Germany (previous year: 4,370). Group-wide, 8.6 percent of staff (previous year: 8.9 percent) worked in high wage countries and 91.4 percent (previous year: 91.1 percent) worked in low-wage countries.

The growth pertained mostly to the Wiring Systems Division, where the number of staff rose by 8,626 people during the reporting period to 77,909 employees. This was due especially to additional wiring system projects for facilities in Morocco, Mexico, Russia and Tunisia as well as the opening of new facilities in Mexico and Ukraine.

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In the Wire & Cable Solutions Division, the number of employees was down significantly in 2017 due to the disposal of Business Group Electrical Appliance Assemblies. On the other hand, there was recruitment particularly in China, Germany, Mexico and Slovakia, mainly to produce special automotive cables. The division’s overall number of employees was down by 1,340 year on year to 8,118 people. The workforce of the LEONI AG holding company grew to 313 people by the end of 2017, up from 296 one year earlier.

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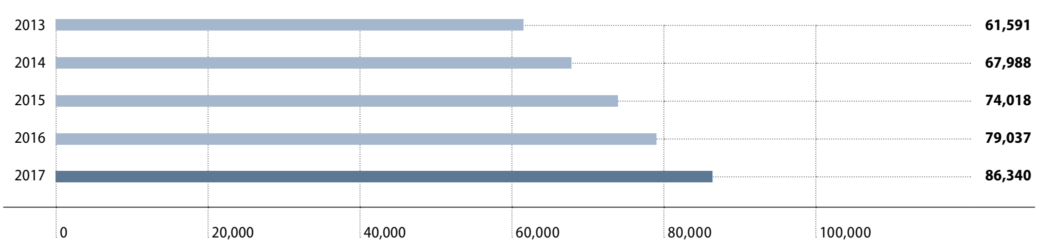
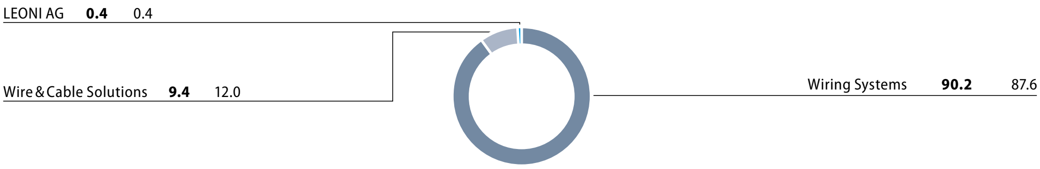
Group-wide, LEONI had 19,312 people on temporary employment contracts at the end of the year (previous year: 13,179), while a further 5,626 people (previous year: 4,322) worked for the Company on contracts with manpower agencies, thereby enabling quick response to fluctuation in demand, among other things.

As in the previous year, LEONI’s workforce in Germany had an average age of 42 years in 2017 and they have been with the Company for twelve years. During the period under report, 52 employees celebrated their 25th anniversary with the Company (previous year: 61). The ratio of people with disabilities was at 3.5 percent (previous year: 3.4 percent). Overall, 420 people (previous year: 348) worked part-time and a further 116 were in partial retirement (previous year: 111).

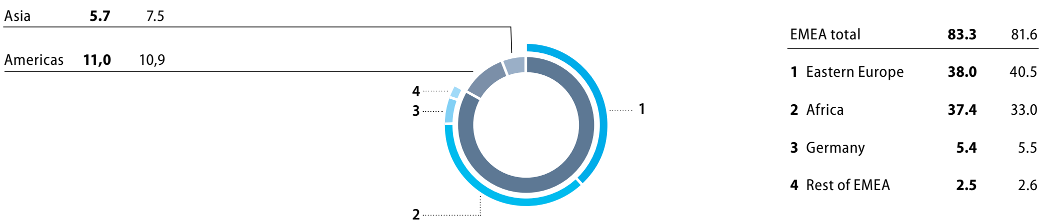
Group employees as of 31 December



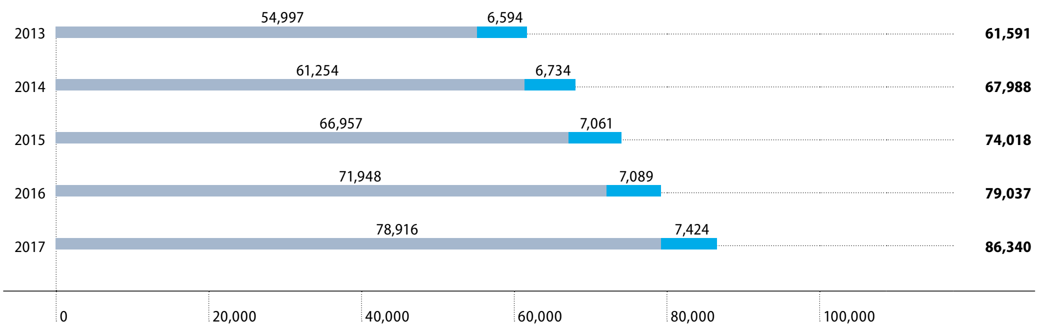
Employees by division in % as of 31 December **2017** 2016



Employees by region in % as of 31 December **2017** 2016



Trend in the number of employees by wage region low wage countries high wage countries as of 31 December



Human resource strategy and organisation

The principal objective of LEONI's human resource strategy is to make sure the Company is positioned as an attractive employer in the future, too, as well as to support realisation of its corporate vision and strategy especially with respect to the ongoing, worldwide growth as well as the digital transformation. The task is, on the one hand, to assist efficient execution of the existing business and, on the other hand, to develop a viable, organisational and cultural setting for innovation and change.

Our strategic human resource programme, oneHR, forms a basis for tapping the success potential of the organisation and its workforce. In HR, we are thereby establishing Group-wide, globally harmonised and standardised core processes, introducing modern, worldwide HR IT systems and realigning the organisation with a clear management and role model of business / service partners, Centers of Expertise (CoE) as well as four regional Shared Service Centers (SSCs). This will lead to greater efficiency of HR processes, improved service quality and a broadened performance portfolio for our staff and managers.

During the year under report, the service portfolio of the SSC Europe in Romania, which opened in 2016, was expanded and Poland was added as a second, important production facility. We also began setting up our SSC Americas in Mexico. In particular, the Shared Service Centers are responsible for personnel administration, organisational management as well as aspects of payroll accounting and time management.

The successful establishment of our global HR Centers of Expertise was another, major milestone on the way to a modern HR organisation. They focus on strategic topics involving 'Attraction & Development' as well as 'Total Rewards', develop and implement new concepts, set global standards and advise management on strategic HR matters. In 2017, we furthermore set up an additional CoE, Organisation & Transformation Management, to adapt the corporate organisation to the strategic challenges and to effectively support the necessary changes within the Company.

With this activity, we are laying the foundations for changing LEONI into a dynamic and adaptive organisation as well as for a corporate culture defined by focus on agility, confidence, customers and performance, and that prepares LEONI for a successful, digital future.

Company suggestion scheme

In order to themselves proactively shape their Company and contribute to its success, our employees again in 2017 played a major part in managing ideas. Worldwide, about 17,000 suggestions for improvement were deemed useful and implemented (previous year: approx. 13,000). This concerned all areas of the Company and ranged from process optimisation to product improvement and through to energy savings.

Flexible working-time models

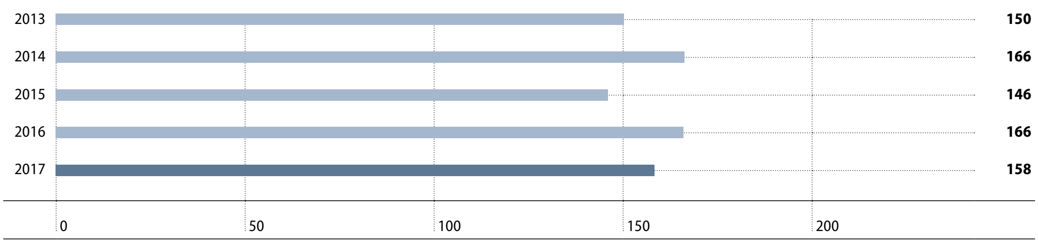
LEONI staff can take advantage of a range of flexible working-time arrangements, like part-time, flexitime and trust-based working, job-sharing and teleworking. Our aim is to enable our employees to achieve a better work-like balance. During the year under report, we made working time more flexible and introduced employee-friendly shift models at various of our facilities.

Training and starting a career

On 31 December 2017, LEONI had 158 young apprentices in Germany learning for a career (previous year: 166). Their training in ten commercial and trade apprenticeship programmes took place in state-of-the-art classrooms and, in some cases, in our own training workshops. The number of trainee managers who are completing a twin-track university course at LEONI remained virtually unchanged at 29 in the year under report (previous year: 30).

LEONI again awarded very good performance at school and in examination results in 2017 to give young people starting on their career additional motivation. Young LEONI employees also received awards from outside the Company.

Number of apprentices in Germany as of 31 December



Our apprenticeships likewise remained at a high level outside Germany. Both the collaboration with the Ministry of Education in Morocco, which provides for the creation of a total 30,000 apprenticeship places together with other wiring system manufacturers, and the specialist training for our next generation in China in a Technical Training Center based on the German model were continued.

By way of the scholarship scheme of our facility in Roth, Germany, we promote and support former apprentices as well as graduates of a twin-track course of study who have performed exceptionally well and have discernible career potential, thereby making a proactive contribution to enhancing a team of qualified and motivated staff with specialist skills. The focal areas are the key technologies for the Company's future success and qualifications that contribute to attaining our strategic corporate targets. Among other skills, these include technician training in the areas of electromobility and electrical engineering as well as bachelor's and master's degree courses in plastics technology and mechanical engineering.

Recruitment of young people and human resource marketing

During the year under report, LEONI again collaborated closely with schools and universities to interest suitable young candidates in the Company.

Alongside about 25 university and corporate networking fairs in Germany, we participated in similar events in numerous other countries where LEONI is represented; for example in Egypt, the United Kingdom, Morocco, Switzerland, Serbia and Tunisia. In Egypt, LEONI also again offered a Summer Internship Program, which enabled students to get to know the Company, and broadened its cooperation with various universities.

Within the framework of the Scholarship Germany programme and a similar scheme for Switzerland, LEONI AG sponsored 20 scholars at five universities in the past year. Numerous students also completed internships, worked as student trainees or wrote their final papers at LEONI. As in the preceding years, we also again supported wide-ranging university initiatives and cooperated with universities in various areas.

To interest young people in training at LEONI, we again hosted an Apprenticeships Evening at our facility in Roth, Germany in 2017. It gave more than 800 youngsters the opportunity to familiarise themselves with LEONI as a possible employer.

To raise perception of LEONI as a global employer of choice, we introduced the TALEO international applicant tracking system as well as our LEONI employer branding plan in more countries. We furthermore stepped up our social media activity in the Americas and Eastern Europe, among other places, to address applicants directly and provide information on job vacancies.

Other employee matters

Additional information on employee matters, especially on labour standards and collaboration with the employee representatives, occupational health and safety, diversity as well as talent management and advanced training is contained in the non-financial information statement.

Non-financial information statement
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Research & Development

R&D objectives

LEONI conducts in-depth research and development (R&D) work. The objective is to develop new products and solutions in order to further enhance our leading competitive position in many markets as well as to develop additional customer groups. In keeping with our Group strategy, we are thus increasingly concentrating on intelligent energy and data management solutions for the motor vehicle sector and other industries.

Strategy
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Organisation

The responsibility for research and development work lies with the two business divisions and their specialist departments. The Wiring Systems Division operates development centres in, among other countries, China, Germany, France, the United Kingdom, Slovakia, South Korea and the United States. The WSD head office department in Kitzingen provides, together with its international network, project-related support for the business units and works on advance development jointly with the customer.

The Wire & Cable Solutions Division has a division-wide, customer-oriented and efficient development network. The operational R&D work is done in the respective business groups. In addition, there are centres of expertise in Germany and Switzerland as well as corporate units devoted to strategic technology and innovation management, advance development, patent management and optimising production. There is furthermore the corporate Digital Solutions Group, which makes a key contribution to driving the WCS Division's digital transformation and further development towards becoming a leading provider of intelligent and secure energy transmission and data management system solutions. Our acquisition in 2017 of a majority holding in Adaptricity AG further enhanced our digital solutions expertise.

Reports by division / Segment report
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There are many fields of close collaboration between the R&D specialists of our two divisions. LEONI can thereby combine a wide variety of know-how for specific tasks, thus achieving synergies at an early stage also in the interests of customers. During the year under report, we stepped up joint advance development work in the two divisions to be able to position ourselves even better as development partners to our customers.

Focal areas of development

The Wiring Systems Division's R&D work in 2017 continued to concentrate on sharpening its image as a systems development partner to the automotive industry. We thus align our work particularly to the trends of electromobility, autonomous driving and the increasing electrification of mechanical consumers in the vehicle as well as to such other focal topics among our customers as communication networks, resource efficiency and multi-voltage wiring systems. As in the preceding years, the focus was on project-related development of customised wiring systems as well as further development of associated system components. Along with optimising weight and installation space to lower the CO_2 emissions of vehicles, the integration of electronics into the wiring system played a similarly increasing role as the new challenges involving data transmission, for instance automotive-suitable integration of such new standards as Ethernet in the vehicle. We also raised our simulation expertise to boost our position as a solutions provider.

The Wire & Cable Solutions Division worked hard on developing intelligent cables and systems. One of the focal areas was cables with integrated sensor technology, which monitor their functionality by such criteria as temperature, resistance to aggressive media as well as mechanical wear and can detect possible interference in good time. Another key area was further development work on Ethernet cables, which are used for fast transmission of large data volumes. We furthermore worked on new kinds of 3D extrusion methods to manufacture cable sections with flexible geometry, which provides our customers with entirely new application opportunities, and we raised our simulation expertise with respect to the temperature resistance of cables for high-voltage charging.

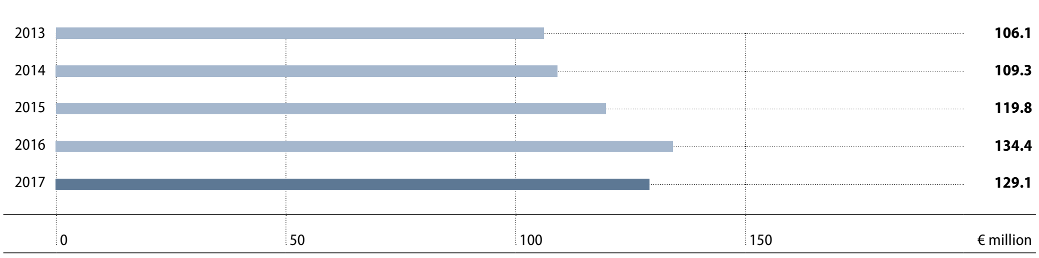
R&D spending of € 129.1 million in 2017

For project phase-related reasons, the LEONI Group's spending on research and development of € 129.1 million in 2017 was down by about 4 percent from the previous year's figure. This works out to 2.6 percent of consolidated sales (previous year: 3.0 percent). Assets furthermore included € 1.0 million in capitalised development costs (previous year: € 1.5 million). The deferred development costs and those capitalised as receivables amounted to € 24.8 million in the financial year (previous year: € 29.5 million).

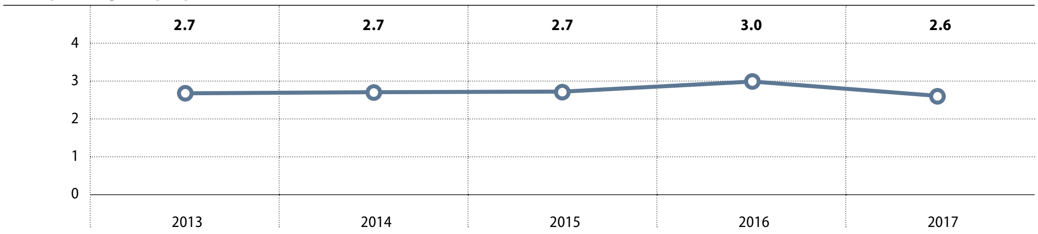
The R&D expenditure of the Wiring Systems Division amounted to € 112.8 million (previous year: € 120.3 million), or 3.7 percent of the division's sales (previous year: 4.5 percent). In the Wire & Cable Solutions Division, the item was up by around 10 percent to € 17.2 million (previous year: € 15.6 million) and thus equated to 0.8 percent to the division's sales (previous year: 0.8 percent).

On 31 December 2017, 1,698 people (previous year: 1,696), or 2.0 percent (previous year: 2.1 percent), of the Group's workforce worked in R&D. Of that total, 420 people (previous year: 447) worked in the Wire & Cable Solutions Division and 1,278 (previous year: 1,249) in the Wiring Systems Division.

R&D spending in the Group



R&D spending as a proportion of consolidated sales



Results of R&D work

In 2017, LEONI again completed several customer-specific development projects and took numerous, innovative products to the marketability stage. The number of registered proprietary rights came to 82 patents and utility models (previous year: 60), of which 18 from the Wiring Systems Division (previous year: 11) and 64 from the Wire & Cable Solutions Division (previous year: 49). Information on key projects of the past year is presented below:

START OF Y POWER SPLITTER PRODUCTION During the year under report, we developed our installation space-optimised power distributor further for additional applications in electric vehicles and started mass production for a customer project. This compact and robust product for wiring of hybrid and electric vehicles provides safe and low-resistance connection of auxiliary units in a high-voltage wiring system. The advantages of LEONI's new solution are less installation space and weight while simultaneously providing high connection security.

INTEGRATED PYROSWITCH WITH NEW FORMS OF INTEGRATION We likewise extended the usage options for our pyroswitch, which, in the event of an accident, can break the circuit in automotive cables within three milliseconds and can be integrated in LEONI fuse boxes. Alongside suitability for both 12 V and 48 V power supply, this involved new forms of application ranging from standalone through to integrated solutions in a hybrid box.

WEIGHT SAVING WITH ALUMINIUM We also made significant progress with aluminium products for vehicle wiring, which make a major contribution to saving weight and costs for our customers. The biggest challenges lie in processing and connecting copper with aluminium while simultaneously using standardised components and methods.

ULTRA-FAST COPPER SOLUTIONS FOR COMPUTER CENTRES We widened our portfolio of products for computer centres with various new solutions in 2017. Among other solutions, we developed copper-based cable systems for broadband data transmission in computer centres at transfer speeds of 400 G. Prototypes of these high-performance cables were showcased at the DesignCon trade fair in Santa Clara, California in early 2018.

INTELLIGENT FIXING KIT FOR ROBOTS We extended our product offering for industrial robotics with LEONI B-Flex. This flexible and anti-slip fixing system involves an easy, quick solution for lightweight robots that does not require any tools. Thanks to its thermoplastic, pliable material, LEONI B-Flex is especially suited for use with robots that collaborate closely with humans.

NEW LIGHTING SOLUTION THANKS TO AMBIENTFIBER At last year's SPS IPC Drives trade fair in Nuremberg, we presented a new 360-degree beam optical fiber. AmbientFiber provides multifaceted, innovative options for ambient lighting for vehicles; for example, for the interior and emergency exits. It is furthermore suited to illuminating charging cables as well as lighting up buildings from the outside and on the inside. Combined with the smallest of sensors, AmbientFiber is furthermore capable of indicating changes in temperature, pressure or humidity.

RAPID PROTOTYPING FOR MEDICAL TECHNOLOGY We presented a new 3D printing method for rapidly and cost-effectively producing prototypes to our customers in the medical technology industry. The overmoulded components, which are made based on acrylic resin with the help of 3D-printed mould inserts, support the manufacturers of medical technology systems in their product development and tests for suitability for mass production. Small-scale, injection-moulded production runs made of PVC are also feasible using this method.

Development projects and collaboration

Both of our divisions again participated jointly with well-known partners on various, in some cases subsidised development projects during the year under report. In the Wiring Systems Division, for example, we continued our collaboration with carmakers and other component suppliers in a programme to promote the 48-volt wiring system technology of the French automotive industry association PFA, Filière Automobile et Mobilités. Among other involvements, the Wire & Cable Solutions Division agreed to participate in the 'PV digital 4.0' project with Bielefeld University of Applied Sciences. The focus of this photovoltaic research project is the use of modern data-mining algorithms for innovative, digital sensor technologies in PV fields to compute highly accurate energy yield predictions. Together with various universities and research institutions we also started the RADAR project: the development of a near-field scanning system to analyse large data volumes and thereby to recognise relevant signals, trends and technologies as well as disruptive changes and new correlations in real time. LEONI is working on the corresponding possibilities for application in the automotive sector.

Some know-how was also acquired with outside institutions and development partners in the context of this collaboration, but generally to an insignificant extent only.

LEONI is a member of such varied initiatives as the 'Automotive Cluster' of Bayern Innovativ, the Bavarian centre for technology transfer, and the 'eNOVA Strategy Board for Electric Mobility' to exchange ideas on the latest technological trends with other companies and the scientific community. We also continued our development partnership with a team participating in the international 'Formula Student' universities design competition.

Non-financial Group information statement (pursuant to Section 315b of the German Commercial Code (HGB))

Corporate sustainability (CS) has especially high priority for LEONI. We understand this to mean both sustained, i.e. long term and profit-oriented, business growth and assumption of social as well as ecological responsibility. The objective is to bring the demands stemming from these three requirements into balance. Hereinafter we report in accordance with Section 315b of the German Commercial Code (HGB) and the corresponding requirements of the German Accounting Standard (DRS) 20 on the principal, non-financial sustainability aspects, which are required for understanding the business performance, results and situation of the LEONI Group as well as the impact of our business activity on these aspects.

As we are currently working on setting up our sustainability management, we have not applied any framework to the reporting on our non-financial information. Our activity concerning sustainability follows the **UN Global Compact**, which we joined in 2011. Beyond the requirements of the Corporate Sustainability Reporting (CSR) Guidelines Implementation Law, we therefore also report annually on the subject of sustainability within our UN Global Compact Communication on Progress. There are furthermore LEONI-specific guidelines that govern our actions with respect to various non-financial aspects. These include our new occupational health & safety as well as environmental protection policy that applies Group-wide as well as our new LEONI Code of Conduct, which also applies globally.

Environmental matters
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The **LEONI Code of Conduct** was formulated in 2017 as the basis for the Company's values. It replaces the LEONI Code of Ethics that has existed since 2007 and also upholds rules under our Social Charter dating back to 2003. The LEONI Code of Conduct describes the nature of responsible and lawful conduct at LEONI, and it builds on the external legal as well as market and customer-specific requirements for correct conduct, which are expected of the Company and all employees. The value of integrity is the anchor point and basis for the Code of Conduct. It forms the foundation of value-based corporate governance and serves as a signpost, a rule of behaviour and as a decision-making aid.

Employee matters
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Inclusion of the Board of Directors

The responsible member of the Board of Directors is kept informed of current developments concerning all relevant, non-financial aspects by regular reports from the heads of division responsible for corporate sustainability and is closely involved in material decisions. Since 2016, there have furthermore been meetings of the Sustainability Steering Committee under the control of the Board of Directors, during which non-financial matters at LEONI are continually processed. It is furthermore the Sustainability Steering Committee's task to determine the Company's strategic sustainability orientation and to take long-term, sustainability-related decisions.

Materiality analysis and summary of the key topics

In 2016, we carried out a materiality analysis to determine the topics suited to judging LEONI's sustainability, taking into consideration both our own business activity and our supply chain. It was based on a benchmark analysis, interviews with external and internal stakeholders as well as evaluation of sustainability questionnaires completed by our customers principally in the automotive industry. The topics thereby specified were further prioritised with respect to the CSR Guidelines Implementation Law by the relevance they have to LEONI's business and what impact our business activity has on these topics. This yielded the following key topics concerning LEONI's non-financial Group information statement: employee matters with the focal points of labour standards, staff training and advancement, diversity, occupational health and safety; environmental matters with the focal points of energy and waste, respecting human rights as well as compliance and combating corruption as well as bribery. These topics were agreed with the responsible member of the Board of Directors and approved by him. The respective topics concerning LEONI are presented in the corresponding sections. We subsequently report on our activity concerning sustainability in the supply chain, like the Modern Slavery Prevention project and dealing with conflict minerals. This management report does not report on social matters because of the lacking correlation with our core business. Our annual Sustainability Report, which is accessible on our website, contains further information on corporate sustainability at LEONI that goes beyond the legal requirements. The 2017 Sustainability Report will be issued in the second quarter of 2018.

Business model and risks

The LEONI Group's business model is comprehensively described in the section headed Principles of the Group.

Material risks arising from non-financial factors are regularly assessed within our Group-wide risk management. In 2017, a risk assessment was additionally made for all material subjects that are reported in line with the CSR Guidelines Implementation Law in this non-financial Group information statement. This examined whether, due to our business activity or in connection with our business relationships, products or services present material risks to these aspects. Based on our latest assessment, there are no highly probable risks with serious consequences to these aspects.

Employee matters

LEONI strives to provide its employees with interesting jobs that involve a high degree of personal responsibility in a motivating, encouraging and constructive environment in order, as an attractive employer, to find skilled and committed employees as well as to retain them within the Company. It is our intention to observe internationally recognised labour standards Group-wide, to meet high standards of occupational health and safety, to increase the diversity in our workforce as well as to promote our employees by way of a systematic talent management system and offering interesting advanced training options. The LEONI Group employed 86,340 people worldwide at the end of 2017 (previous year: 79,037).

A key tool for identifying issues through which we can raise LEONI's appeal as an employer involves staff surveys, which we have conducted worldwide for years and in various forms. In 2017, this tool was standardised and run Company-wide as the new **Voice@LEONI** staff survey. For the first time, all LEONI employees worldwide were invited to answer about 40 questions on staff commitment, work satisfaction and work environment. From 2018, the findings will enable us to identify our strengths as an employer, but also our potential for improvement. A globally orchestrated follow-up process, which comprises comprehensive means of communication as well as tools and training schemes, will facilitate targeted extrapolation of specific change measures at the respective facility as well as overarching measures involving, for example, management training. Again in 2017, there was also outside affirmation of LEONI's attractiveness as an employer: The Top Employers Institute certified LEONI as a 'Top Employer Germany' alongside other companies.

Labour standards

LEONI endeavours worldwide to provide a working environment for all its employees that is free of discrimination in both recruitment and during employment, as well as to ensure the freedom of association and the right to collective bargaining. These principles are embedded in the **LEONI Social Charter**. The Social Charter aims to support employees in gaining qualifications and to adhere at least to the respective national standards with respect to compensation and minimum wages, safety at work and health protection as well as working and holiday times. Observance of the Social Charter is part of the report and discussion during the annual meetings of the European Works Council. The ban on discrimination is also contained in the LEONI Code of Conduct.

To promote awareness of the LEONI Code of Conduct's standards and those of the Social Charter as well their observance, there are annual Control Self Assessments (CSAs, surveys in writing) for managers as well as e-learning schemes for all staff with a PC workstation.

The CSA process was suspended in 2017 to expand it on a system and web basis. A retroactive assessment is scheduled for the first quarter of 2018. The e-Learning Compliance Basics scheme will be implemented within the Learning Management System (LMS), which comes under the Human Resources department's responsibility. The Corporate Compliance department is responsible for the content of the training.

As a matter of principle, all significant personnel measures are applied in close agreement and trusting cooperation between management and the general works council in Germany, the European Works Council as well as with local employee representatives and works councils with which there are respective, formal agreements. This also applied to agreements on such collective bargaining arrangements as the new global talent management.

Staff training and advancement
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In Germany, LEONI staff can take advantage of a range of flexible working-time arrangements, like part-time, flexitime and trust-based working, job-sharing and teleworking. Our aim is to enable our employees to achieve a better work-like balance. During the year under report, we made working time more flexible and introduced employee-friendly shift models at various of our facilities.

Staff training and advancement

Our employees are key to the success and progress of our Company. It is therefore essential to have the right person at the right time in the right place to achieve our global objectives. A principal foundation for this is our new, global talent management called **Success@LEONI**, which we launched in 2017 for a pilot group from Germany, the United States and Canada. Success@LEONI integrates staff assessment and advancement, career as well as succession planning in a transparent process supported by a modern, user-friendly IT tool. A core element of this talent management is the staff performance interview that takes place annually and according to the same principles Group-wide, during which the staff member and manager talk thoroughly about the employee's performance and potential, his or her learning requirements, but also possible advancement and career steps. The outcomes of these talks form the basis for local and global talent conferences in which the succession for key positions is planned as well as talented people are identified and discussed. On the one hand, we intend thereby to ensure that positions which are success-critical to LEONI are always occupied as well as to reduce business risk. On the other hand, we thus enable our employees with the help of a personal plan to set out their individual advancement and prepare their next career steps in a goal-oriented manner. The pilot project will probably be completed around mid-2018. Worldwide roll-out of Success@LEONI is planned for 2018 and 2019.

There was again a varied range of **advanced training opportunities** at LEONI in 2017, especially in-house training in the areas of trade, leadership and management skills, soft skills, project management, IT, languages and physical health. As required, the Company offered additional outside seminars, particularly to acquire specialist and methodology expertise.

Diversity

LEONI regards diversity as a key success factor for the Company's future viability because heterogeneous teams are better able to master complex tasks. Always bearing the topic of diversity in mind also underpins our corporate culture. As part of our strategic planning process, diversity was therefore established as one of our strategic guidelines during the past financial year. Our activity in this regard is aimed particularly at having appropriate participation of women in management and being more international.

Particularly in Germany, there is much activity at LEONI to systematically promote women. For instance, we support women with potential by providing targeted qualifications and with such mentoring as the development programme for female (junior) managers of the Bavarian Industry Association. Women are increasingly considered for staff advancement schemes and management training. We also ask recruitment consulting firms to identify and introduce female candidates. We furthermore endeavour, as part of our recruitment of young people, to familiarise girls with technical careers, for example by hosting Girls' Days at several of our facilities. LEONI also supports a programme of female technology mentors run by the Georg Simon Ohm University of Applied Sciences in Nuremberg. For our facilities in France, we devised a specific action plan to enhance equality of women and men.

In 2017, women held 31 percent (previous year: 28 percent) of the management positions within the LEONI Group. Worldwide, about 54 percent of LEONI's total workforce was female (previous year: 53 percent).

Further internationalisation of management is supported with special mentoring schemes, conferences on staff performance interviews, workshops and intercultural awareness training, which were again expanded during the year under report. The establishment of Shared Service Centers at various locations outside Germany, which take on central functions, will also lead to greater internationalisation of management.

Occupational health and safety

Promoting occupational health and safety as well as adhering to respective standards is a key objective of our revised **SHE (Safety, Health & Environment) policy**, which we updated in 2017, that applies worldwide and has been adopted by the Board of Directors. The specific principles for action that it contains with respect to these matters are:

Environmental matters
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- Socially and ecologically responsible action is a core corporate objective.
- Occupational safety, health and environmental protection are part of any management responsibility.
- Avoiding injury to or illness of our employees by preventive detection of risks and averting of threat.
- Adhering to all legal obligations concerning environmental protection, safety at work and other requirements. The applicable national standards are minimum requirements in this respect.
- Establishing and promoting mutual trust through dialogue will all concerned interest groups.

To ensure the health and safety of our employees, we follow such internationally recognised standards as OHSAS 18001. At the end of 2017, about 10 percent of our facilities Group-wide were certified to this standard. In the Wiring Systems Division, corresponding certification of the headquarters in Kitzingen in 2017 established the preconditions for multi-site OSHAS 18001 certification, which will initially cover 20 percent of the facilities. The certificate will be issued in the first quarter of 2018.

In the year under report, our new, Group-wide SHE management for the first time defined the following division-overarching targets for safety at work, health protection and emergency management for 2018:

- Group-wide recording of accidents at work.
- Group-wide recording of all activity at the facilities concerning health and safety at work.

In 2017, occupational health and safety at LEONI was further improved by numerous individual measures. Among other activities, there were health days at various facilities (e.g. in Kitzingen, Germany), practical first aid exercises (e.g. in Itú-São Paulo, Brazil) and talks on health with experts (e.g. in Durango, Mexico). During the year under report we also defined initial topics that will – as is already the case in the Wiring Systems Division – in the future provide the framework Group-wide for consistent, minimum standards of occupational safety, health and environmental protection. Among other aspects, these standards are to be set for accident reporting, SHE compliance, threat assessment, emergency prevention & emergency response as well as accident management.

We furthermore developed the plan for an Alarm Management System (AMS) is 2017. This would enable us if need be to report serious work or environment-related events that might affect LEONI from either the outside or the inside. Various of the Wiring Systems Division's departments, including Supply Chain Management, Quality Management, SHE and Risk Management, participated in this project. A pilot phase involving eleven WSD facilities starts in March 2018 and will subsequently also be adopted for the WCS facilities.

Environmental matters

LEONI pursues a clear strategy of expansion, which inevitably entails a growing ecological footprint and increasing emissions. At the same time, we recognise our ecological responsibility and regard environmental protection as an important corporate objective. Our environmental management is geared to keeping the impact of all our processes on nature as low as possible. In particular, we endeavour to reduce energy consumption and waste quantities. Environmental protection at LEONI is underpinned by a preventive approach in line with the UN Global Compact. We are running several initiatives to raise staff members' awareness of their responsibility concerning ecological aspects. We furthermore promote staff consciousness of this topic with integrated training sessions on environmental protection at our facilities.

Having established a Group-wide SHE (Safety, Health & Environment) organisation in 2017, we also stipulated a new **safety, health and environment policy** for the entire LEONI Group during the period under report, which can be accessed on our website. It encompasses the SHE guidelines that have existed in both divisions for many years and formulates the following principle:

> With the aim of sustained business growth, we reconcile economic, ecological as well as social requirements and meet this responsibility by observing our Code of Conduct. We offer our customers reliable, high quality and environmentally compatible products, which are made based on observing applicable health and safety regulations. We are committed to environmental and health protection as well as to ongoing improvement of the measures that contribute to enhancing our social and ecological dedication. To do so, we refer to internationally recognised management systems, which are described hereinafter.

The following principles for action concerning environmental protection have been established:
- Ongoing improvement of environmental protection measures.
- Reduction of the environmental impact of our products and processes within the confines of what is economically and technically feasible.
- Efficient use of environmental resources and energy.
- Avoidance of waste comes before waste separation and disposal.
- Adhering to all legal obligations concerning environmental protection, safety at work and other requirements. The applicable national standards are minimum requirements in this respect.

At most of our facilities, we run an environmental management system in line with the internationally recognised ISO 14001 standard to establish suitable foundations on which to realise these targets and to be able to monitor the ecological impact of our activity. At the end of 2017, about 60 percent of our production facilities were ISO 14001 certified. Furthermore, 5 percent of our facilities fulfil the ISO 50001 standard for energy management systems and 6 percent have subjected themselves to the EU's Eco-Management and Audit Scheme (EMAS). In the Wiring Systems Division, the focus in 2017 was on certification of its existing ISO 14001 multi-site system to the new ISO 14001 revision, which was implemented in November. In the WCS Division, two facilities in Mexico were certified to the ISO 14001 and ISO 50001 standards respectively for the first time. In 2018, the Wire & Cable Solutions Division will be aiming for multi-site certification pursuant to the newly revised ISO 14001 standard.

As part of the new, Group-wide SHE management system, the following quantitative environmental protection targets, which are to be met by 2020, were for the first time formulated for all production facilities of the LEONI Group:

- Saving on the energy consumption in absolute terms corresponding to 1.5 percent of the respective production facility's energy consumption in 2016.
- Saving on the waste volume in absolute terms corresponding to 2 percent of the respective production facility's waste volume in 2016.

Each of the plants may define and realise a suitable project to meet these requirements, thus taking account of the differing alignments and infrastructure-related peculiarities of the two division's individual production facilities. The degree of target attainment will be measured internally from 2018.

In the Wire & Cable Solutions Division, savings based on improved lighting were a focal area during the period under report: Using efficient lamps, in some cases adjusted to a changed machinery layout, at several facilities in Germany and Poland raised illumination while simultaneously saving energy. There were furthermore positive effects from having fitted energy meters at the production machinery of our facility in Hungary, based on which we can raise transparency, identify unnecessary energy consumers and avoid peak load. We also operate photovoltaic equipment or cogeneration units at various of our facilities in Germany, Italy and Mexico.

The Wiring Systems Division in 2017 concentrated on factory design-based measures to save energy as well as the use of renewable energy – especially in its ongoing new construction projects. At the new WSD facility in Serbia, for instance, we installed collectors for warm water treatment, while at our new WSD facility in Mexico we are currently finalising implementation for the internationally recognised BREEAM sustainability assessment method for master-planning projects.

As for waste management, there are clear guidelines in both divisions that initially aim to avoid waste. To the extent that this is not possible, recycling has clear priority over disposal at LEONI. We will introduce facility-specific measures starting in 2018.

Respect of human rights

The LEONI Group supports and respects the protection of internationally recognised human rights. In August 2017, LEONI issued a Statement on the Avoidance of Slavery and Human Trafficking. In a statement on the UK Modern Slavery Act, which LEONI unreservedly supports, we declare explicitly that we do not tolerate any violations of human rights and will unmistakably sanction any violations. To prevent modern slavery and human trafficking in our business activity, we oblige our entire management, all staff members and our supply chain to act accordingly.

Sustainability in the supply chain
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In September 2017, we presented the Modern Slavery Prevention project to establish a system appropriate to preventing violations of human rights, especially of forced and compulsory labour, within LEONI and throughout the supply chain. In 2018, a plan in this respect is to be prepared in collaboration with the Compliance, Purchasing, Personnel and SHE departments.

Compliance and combating corruption as well as bribery

LEONI commits all its employees to responsible and honest conduct. Our intention is to observe all laws and to ensure that there are no instances of corruption. Our employees must act in accordance with the corporate rules and the statutory provisions. In particular, LEONI will take decisive action against all forms of corruption. The LEONI Code of Conduct contains corresponding rules.

LEONI has a systematic compliance management system to ensure and control responsible, rule-compliant conduct. The revision of the corresponding structures begun in 2016 was completed during the period under report. Alongside the Corporate Compliance department at the Group parent company level, we have appointed regional compliance officers in Germany / Switzerland, the Americas and Asia. In addition, we nominated compliance coordinators in the individual subsidiaries, locations or countries where LEONI operates, who complete the global network and support the compliance officers, the Corporate Compliance organisation as well as the local management that is responsible for compliance in its subsidiary to implement the measures. More information on compliance management is contained in the section headed Compliance Management System in the risk and opportunity report.

Risk and opportunity report
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The Compliance Management System contains various guidelines on prevention of corruption, which are acted upon by means of established processes and procedures as well as explained to relevant staff in risk-exposed areas by means of e-learning and classroom instruction.

The Compliance Basic training module, which covers the subject of corruption among others, is obligatory for all staff members with PC access. All managers on the highest tiers and other relevant groups of staff (e.g. purchasing and sales) must furthermore take a special e-learning course on anti-corruption. The course was updated in 2016 and about 5,600 employees have since then completed it. To date, 90 percent of the identified, relevant staff have therefore been trained. These online training sessions must be completed regularly at intervals of two to three years.

Indications of possible infringements of internal anti-corruption guidelines or of laws are resolved and – so far as the indication is confirmed - penalised. The reporting on material corruption cases is presented in the section headed Compliance risks due to corruption in the risk and opportunity report.

Risk and opportunity report
» page 95 et seq.

Sustainability in the supply chain

LEONI also requires its suppliers to conduct themselves in a sustainable way. In particular, this applies to respect of human rights. LEONI's general terms and conditions oblige all suppliers to observe our Social Charter or the principles of the UN Global Compact.

In the Wiring Systems Division, observance of the principles of the UN Global Compact and of the Social Charter is checked using a supplier self-audit. Suppliers are approved only if they accept either the UN Global Compact Guiding Principles or the Social Charter. Serious and repeated breaches of the principles stipulated therein entitle LEONI to terminate the business relationship immediately. No instances were reported in 2017. In the WCS Division, these aspects are considered in the assessment, but so far do not constitute a criterion to disqualify a supplier from approval. The review of the supplier questionnaire on sustainability matters for both divisions will be started in 2018.

LEONI furthermore endeavours to prevent the use of conflict minerals, which are mined with disregard for human rights, and requires suppliers not to supply any components with raw materials from DR Congo or its neighbouring states. This is set out in a Group-wide guideline on conflict minerals, which is operationally applied in the two divisions. Since 2014, we have voluntarily informed interested customers using a standardised template pursuant to the U.S. Dodd-Frank Wall Street and Consumer Protection Act on the extent to which our products contain such conflict minerals as gold, tantalum, tin or tungsten that stem from mines or smelting works in certain African countries. We also ask our suppliers annually to furnish the necessary information in this connection. We thereby facilitate the traceability of these substances as well as the transparency of the supply chain and support our customers in fulfilling their corresponding requirements.

In 2018, furthermore, we will execute a project to detect and avoid violation of human rights with a focus on forced and compulsory labour in the supply chain.

Respect of human rights
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Risk and opportunity report

Risk policy

As a company with an international outlook and operating accordingly, LEONI is confronted with risks and opportunities. Risks and opportunities are promptly recognised, identified, analysed and assessed using a systematic approach that follows the three-lines-of-defence model. Risks and opportunities are defined as possible deviation from the planned result. Our objective is to deliberately accept risks only when the associated opportunities can simultaneously make an appropriate contribution to enterprise value and any possible threat to continued existence can be ruled out with a probability bordering on certainty.

Risk Management System

LEONI has a multi-stage risk management system that is rounded off with other, supporting control systems. This Group-wide system encompasses the Chief Risk & Internal Control Officer (CRIO) and three area Business Risk Officers (BROs) reporting directly to the CRIO as well as Controlling and the managers involved in the operations of all relevant business areas. Risk aggregation by means of Monte Carlo simulation is applied for early identification of developments that might threaten the Company's continued existence (cf. Section 91(2) of the German Stock Corporation Act (AktG)). The CRIO unit that reports directly to the Board of Directors is in charge of monitoring and coordinating the risk management process at the corporate level. It also determines and describes the Group's overall risk situation.

Risk management is integrated in the existing planning, controlling as well as information systems and covers all companies in the LEONI Group worldwide. Among other things together with the internal control and the compliance management system, which have likewise been set up worldwide, it forms the 2nd line of defence. Alongside risk management in the narrower sense, which is the result of legal requirements, the Company furthermore has a system that goes beyond the minimum standards under German law for monitoring risks, which also evaluates material information from all management systems with respect to opportunities as well as risks and makes it transparent (risk management in the wider sense).

Opportunity management
Opportunity management at LEONI is a firm component of the risk management process and the GRC software used. Not only the risks (threats), but also the opportunities are systematically identified as deviations from the planned outcome. The opportunity reporting is performed in line with monthly risk reporting and with the help of the GRC software down to the business group / unit level. Process improvement for the opportunity management system occurs via the risk management system.

Risk identification and assessment
Our risk analysis involves promptly and systematically identifying risks and opportunities as well as analysing and assessing the significant risks and opportunities with respect to the probability of occurrence and quantitative effects.

Risk management workshops to identify and assess risk are held at least once a year for the holding company and the divisions. They consider the findings of the prior risk interviews with the operational management of each business group / business unit and significant central functions. This activity is accompanied by monthly risk assessments for material risks and opportunities as well as by the Corporate Risk Committee, which meets quarterly.

The risk management workshops take stock of the risks and opportunities of the divisions and of the Group and update this if need be; they run a training session and estimate the likely range of market fluctuation (e.g. sales, capital, procurement and human resource market fluctuation) for the aggregate statement. Expert panels on identified risk and opportunity developments additionally meet on a top-down basis from the CRIO and BROs with the operational managers. Discussions on risk are regularly held with management of the local subsidiaries concerning process-related risks and opportunities.

The responsibility for managing risk and realising opportunity always remains with respective operational management as the risk owner. Risk management as an independent business partner supports the division's operational management and controlling in this process of identifying and quantifying possible effects on income and compensating measures.

Various probability distribution forecasts that appear appropriate in view of the respective circumstances are used for quantitative description of the material risks and opportunities. Apart from a description of risks and opportunities by probability of occurrence and potential loss, use is made accordingly of, for example, triangular distribution and normal distribution (specific to market fluctuation).

An aggregation of the risks by means of Monte Carlo simulation is made for early identification of developments that might threaten the Company's continued existence and to determine the overall risk. The risk aggregation includes the respective net risks, meaning the risks based on consideration of the risk mitigation measures applied; it determines the extent of LEONI's overall risk.

The Monte Carlo simulation involves once a year allocating the effects of the Company's most significant individual risks on an aggregated basis to the corresponding items of the forecast income statement and balance sheet. Several tens of thousands possible risk-related future scenarios are run in independent simulations. The entirety of all the simulation runs provides a representative sample of all possible risk scenarios within the Group with respect to the probability of overindebtedness and illiquidity.

Risk reporting and monitoring

By way of the quarterly risk reporting, an assessment of the risk situation based on the medium and high net risks (in line with the risk matrix in the section headed Opportunity and risk situation) is made and discussed with the Board of Directors. This information as well as the most significant risks are presented to the Supervisory Board on an annual basis. The risk report will furthermore be updated if there is any material change in the Company's risk profile.

Risk reporting is carried out once a month up to the corporate level with the help of SAP's GRC (governance, risk and compliance) risk management module that is linked with our ERM (enterprise resource management) and controlling system.

The summarised quarterly risk reports are discussed quarterly during a meeting of the Board of Directors. The Board of Directors is furthermore given supplementary risk analyses on key commercial decisions (e.g. acquisitions, significant customer projects or important investments). The quarterly risk report for the respective fourth quarter provides information on the risk workshops held and the risk aggregation made.

in addition to the ongoing reporting, ad-hoc announcement of risks above € 5 million via the GRC system is required as a matter of principle.

Process improvement
On the Corporate Risk Management Committee, the business risk officers exchange information, under the chairmanship of the CRIO, with the principal risk field managers of the holding company and the two divisions. The agenda items include process improvement and ensuring the effectiveness of the risk management system. The effectiveness of the risk management system is reviewed once a year by the Audit Committee and as well as regularly by the Internal Audit department and / or external auditors. The risk early-warning system is also assessed as part of the annual audit.

The externally commissioned audit of the appropriateness of select subsections of the risk management system pursuant to IDW PS 981, which was started in 2017, will be finished in the first half of 2018 and completed with the effectiveness check scheduled for the 2019 financial year.

Summary of the material improvements in 2017:
- All process-related risks and opportunities included in the SAP GRC risk management module, improved transparency established, requirements under the recognised IATF 16949 and ISO 9001:2015 standards fulfilled;
- Insurance more closely interlinked with risk management;
- Risk aggregation also expanded to key customer projects;
- Ongoing enhancement of risk management know-how in more than 80 on-site training sessions;
- Involvement of subsidiaries and key customer projects;
- Risk-bearing capacity plan pursuant to IDW PS 981 prepared and applied;
- Workshops especially also on potential threat of extreme risks (with low probability of occurrence).

Internal Control System

As already outlined under risk management, a company's senior executive is responsible as operating management for the design and functioning of the internal control system – as the 1st line of defence. The Internal Control System (ICS) as a Corporate Function, which is the 2nd line of defence, is another subsection for which the CRIO is responsible. This subsection of the ICS is responsible for the strategic direction and growth based on systematic and global, organisational rules; it advises the operational management of the legal entities based on expert knowledge and helps in monitoring the operating effectiveness of the internal control system on all levels of the company. The SAP GRC Process Control module presents the ICS uniformly and facilitates various kinds of reporting in real time.

Among other things together with the risk and compliance management system, the ICS' task is to establish a control system through systematic and organisational rules that
- ensures reliable and efficient processes;
- safeguards the Company with all its assets for shareholders and stakeholders and
- considers rules in a manner compliant with the law.

LEONI's Internal Control System comprises the principles, procedures and measures introduced by management to ensure the effectiveness and profitability of the business activity, the correctness and reliability of both internal and external accounting as well as the adherence to the legal requirements material to the Company. This is to be achieved through the interaction of manual through to automated controls if possible of a preventive nature or, if not otherwise efficiently possible, of an exposing nature. Control activity by a wide variety of internal and external offices is intended to ensure that the ICS is, through permanent monitoring and testing, continuously developed further in a risk-oriented manner and that identified weaknesses are addressed structurally and in good time. At LEONI, this is done with the help of SAP's GRC software, which is available worldwide.

Together with risk management, the Internal Control System likewise supports identification of procedural, inherent risks through to uncovering of weaknesses and avoiding fraud.

The principles underlying the ICS are the four-eyes principle as a minimum requirement or, so far as possible and stipulated, the separation of functions principle with the authority of a person / function clearly defined, the transparency principle and, in keeping with the spirit of German data protection, data economy with respect to information necessitated by a function.

In so doing, LEONI pursues a strategy of executing control processes entirely and not to limit them just to accounting-related controls and / or risks; strategic / market, operating and compliance controls are also incorporated alongside the accounting-related controls. The Corporate Internal Control Committee carries out audits of all control matters and processes involving the ICS with respect to being up to date, complete and effective. This committee comprises the persons responsible for control at the respective head offices and the Control Level Managers.

Accounting process

With respect to the Group accounting process, the following structures and processes have been implemented in the Group: The Board of Directors bears overall responsibility for the internal control and risk management system with respect to the accounting process in the Group. All business segments and units are bound by a firmly defined management and reporting organisation. The principles, the operational and organisational structure as well as the processes of the accounting-related internal control and risk management system are laid down in an internal guideline that is updated at regular intervals to include the latest external and in-house developments. With respect to the accounting process, we deem such features of the internal control and risk management system to be significant that could materially influence the accounting and overall information provided in the financial statements and consolidated financial statements including the management report and the group management report. In particular, this involves the following elements:

- identification of key areas of risk and control of relevance to the accounting process;
- monitoring controls for supervising the accounting process and their findings at the level of the Board of Directors and of the strategic business areas;
- preventive control measures in financial management and accounting as well as in operating performance-related business processes, the principal information for preparing the financial statements and consolidated financial statements including the management report and the group management report, including function separation and predefined approval processes in relevant units;
- measures that ensure proper IT-supported processing of accounting-related facts and data;
- measures for monitoring the accounting-related internal control and risk management system.

Reporting

Formal reporting is done quarterly on the Corporate Internal Control Committee and via the quarterly risk report to the entire Board of Directors. The assessments submitted by operating management form the basis of the reporting. Time-independent individual reporting is furthermore also possible at any time by means of the system support facility.

Process improvement

The Audit Committee examines the internal control system's effectiveness once a year. This may involve the auditors presenting weaknesses in the internal control systems found during the annual audit. Furthermore, the Internal Audit department (as a 3rd line of defence) checks on a random basis whether the internal controls are being carried out and are appropriate. The external audit of the appropriateness of select subsections of the internal control system pursuant to IDW PS 982 is scheduled to start in the second half of 2018 and is to finish with the effectiveness check in the 2019 financial year.

Summary of the material improvements in 2017:

- The guideline for the Internal Control System developed further and adopted;
- SAP's GRC Process Control module implemented for the Internal Control System;
- risk control templates transferred into SAP GRC;
- key controls for Treasury, Human Resources as well as the Financial Statement Closing Process specified and control execution at the implementation level coordinated.

Compliance Management System

LEONI has a comprehensive compliance management system to ensure and check responsible, rule-compliant conduct. The responsible head of the Corporate Compliance department (Chief Compliance Officer) reports directly to the President & CEO of LEONI AG and has reporting lines to the Chairman of the Supervisory Board as well as the Chairman of the Supervisory Board's Audit Committee.

Restructuring of the Corporate Compliance department was completed in 2017. Alongside the Corporate Compliance department at the Group parent company level, we appointed regional compliance officers in Germany / Switzerland, the Americas and Asia. In addition, we nominated compliance coordinators in the individual subsidiaries, locations or countries where LEONI operates, who complete the global network and support the Corporate Compliance organisation as well as the local management that is responsible for compliance in its subsidiary to implement the measures.

LEONI's Compliance Management System (CMS) breaks down into the three areas of prevent, detect and react, which involves the following:

Compliance Management System

Prevent	Detect	React
Rules / requirements: guidelines, procedures, processes	Regular risk assessment	Whistleblowing management
Training: e-Learning, workshops, classroom instructions	Compliance Reviews / Compliance Audits	Special investigations
Advice: helpdesk / support	Whistleblower system	Sanctions / consequences
	Compliance due diligence	Process improvements
Communication, reporting		
Risk analysis		

PREVENT: Measures to avoid infringement of law comprise particularly the introduction of specific guidelines, rules and processes, conducting of tailored e-learning and classroom instruction as well as providing the business groups and units with specialist advice on compliance.

DETECT: Management Self Assessments and Compliance Reviews, among other measures, will be carried out regularly to detect any increased compliance risks or possible infringements at an early stage. As a key element of early detection, we have also implemented a comprehensive process for due diligence reviews of business partners and business activities.

REACT: Indications of misconduct will initially be assessed and, if required, will be resolved in the context of either internal or external investigations. The reaction to infringements of compliance comprises, among other action, resolute sanctioning of misconduct as well as improving the processes to ensure rule-compliant conduct.

The CMS is the basis for ensuring LEONI's **compliance objectives**, which are:

- Observing the legal standards and rules of the LEONI Group
- Protecting the Company against financial and non-financial loss
- Protecting the corporate bodies and staff against penalties and liability
- Establishing transparency across communication, whistleblowing systems and reporting
- Setting up an effective (risk-minimising) and efficient compliance management system that conforms to international standards
- Zero tolerance concerning non-observance of the compliance objectives

The Compliance Management System is continually improved and developed based on these fundamental aims, which blend with the Group's strategy and objectives.

Measures and process improvements

Further measures to reduce compliance risks were applied in 2017. The introduction of a new LEONI Code of Conduct was a major project aimed at improving awareness of compliance. The LEONI Code of Conduct is a key element for effective compliance management as well as the basis for a shared understanding of values and the consequent conduct of LEONI and all its employees. Having embedded a lasting culture of integrity and compliance in our corporate values makes clear that LEONI expects all managers and staff to observe the compliance rules as well as that indications of possible infringements are followed up; that any infringements found are immediately remedied and, if necessary, resolutely and appropriately sanctioned.

For the purpose of early detection of any misconduct, LEONI introduced a Group-wide, digital whistleblower system (LEONI Integrity Platform) in 2017, which gives both staff members and external parties the means to report possible infringements of compliance. If need be, any undesirable developments can thereby be promptly counteracted. More information on the LEONI Code of Conduct and the Integrity Platform is to be found on LEONI's website.

LEONI-Website
›› www.leoni.com

Another focal area of compliance-related measures involved the running of targeted and target group-oriented training courses on the compliance guidelines and processes; in classroom sessions, managers and staff who work in risk-relevant areas were instructed and educated on the tasks and objectives of the CMS as well as the correct conduct as expected by Group and company management. In 2017, the Board of Directors commissioned re-certification of the revised CMS in accordance with the IDW 980 auditing standard. The audit was started in December 2017 and covers the concept, appropriateness and implementation as well as the effectiveness of the CMS with respect to the core areas of anti-corruption and competition law. The audit for both subsections is to be completed by mid-2019.

As part of the agenda to continually improve the CMS, work will continue in 2018 on interlinking the governance, risk and compliance functions as well as integrating compliance measures and controls in existing business processes.

Opportunity and risk situation

The opportunity and risk situation reports on the material opportunities and risks, which are rated as medium or high risk according to the matrix below. The matrix also illustrates the breakdown (number) of the described risks:

	Loss potential (net risk)		
Probability of occurrence	< 10 million Euro	10 to 100 million Euro	> 100 million Euro
> 50 %			
> 10 % up to 50 %		Project and performance risks Impairment Cyclical fluctuation Pressure to cut prices Copper price fluctuation Exchange rates	
up to 10 %		Compliance risks Risk of bad debt losses Loss of a customer Product liability / recall Fluctuation in personnel costs	Break in the supply chain to a customer

grey = low risk; light blue = medium risk; dark blue = high risk

Hereinafter we present the principal risk categories of summarised, similar individual risks without rating their significance.

Strategic and market-related

Location / country risks

The LEONI Group's policy on choice of location is geared closely to the requirements of our customers, which LEONI follows into foreign markets. The pressure on prices and costs compels us towards disproportionately large increases in production capacity located in low-wage countries. This means that customers in many instances must be supplied across several national boundaries. There are also political risks in some countries, for example in North Africa, Mexico, Turkey, South Korea and the Ukraine. Unstable political conditions could at any time result in unrest and also strikes at our production facilities in those locations, or in closed seaports and airports. The option of temporary supply from production facilities in other, non-affected countries is severely limited because of the customised products in the Wiring Systems Division. Just-in-time and just-in-sequence delivery as well as the single-source principle of some customers extend the reach of this risk further. Relocation is possible only with a corresponding lead time necessitated by setting up the required production capacity and recruitment. That is why we offer our customers the option of supply from two facilities in different countries. In many cases, however, our customers have decided for economic reasons to continue to share the risk of 100 percent supply from one country. A break in the supply chain to the customer, due for example to unrest, cybercrime or natural disasters, could result in a supply bottleneck persisting several weeks. Owing to the size it has attained, LEONI operates a considerable number of production facilities worldwide, which have backup capacity as is prudent and accepted by the carmakers. Furthermore, preventive measures have been applied at all production facilities and are documented in a global emergency plan. These range from a round-the-clock guard service to extensive fire protection systems. Furthermore, no LEONI facility is located in an area known to be under serious threat of earthquakes, flooding or other natural disasters.

Risks and opportunities due to the economic cycle / Brexit
Customers in the automotive industry and among its suppliers account for the bulk of LEONI’s consolidated sales. The current business performance of this sector therefore has great influence on LEONI’s business volume and earnings. LEONI has accordingly prepared for any cyclical slump in sales by making its cost structure even more flexible.

The United Kingdom's exit from the EU could exert a negative effect on local sales figures. We are monitoring the ongoing exit negotiations closely. As things stand, however, we believe that Brexit will not have any material impact on LEONI due, among other factors, to our relatively small business volume in the United Kingdom.

Generally speaking, LEONI has the opportunity to generate more sales than expected in the markets it targets by outperforming the overall market and correspondingly rising demand. This applies especially to the Americas and Asia. Should, for example, the automotive markets in these countries grow more strongly, LEONI could benefit via both direct shipments to these regions and indirectly by supplying product for cars exported from Europe.

Risks due to pressure to cut prices
LEONI supplies its products to markets that are characterised by fierce competition. The trend that continues to prevail in the automotive industry towards sharing development costs with suppliers and unexpectedly substantial, but necessary price concessions therefore constitute a risk.

Risks due to copper price fluctuation
LEONI uses copper as a key input material in both of its business divisions. The global market price of this raw material, which is subject to significant fluctuation, therefore exerts a major influence on the cost of materials in the Group, which is why this is regarded as a separate risk. If the price of copper rises for a protracted period, the lag in passing this cost on to our customers can exert an adverse earnings effect on the reporting date. Any substantial drop in demand could, if there is a simultaneous dip in the price of copper, lead to us having to sell at lower prices some of our copper inventory bought forward at higher prices. This would likewise exert an adverse effect on earnings. We purchase copper forward only with a corresponding hedged item to safeguard the invoicing plan agreed with our customers. If the price has fallen sharply up to the reporting date, copper inventories may be exposed to the risk of devaluation. A shortage of copper stocks could lead to supply bottlenecks and higher copper prices. LEONI prefers long-term and direct supply relationships with copper suppliers to avoid supply bottlenecks.

Risks and opportunities due to fluctuation in the cost of materials (excluding copper)
Rising demand could lead to increases in the costs of our most important raw materials. This can result in demands for higher prices and therefore in increased procurement costs for the corresponding components, and can furthermore also entail supply bottlenecks in the event of shortages. International competition among our suppliers has hitherto enabled us to largely avoid any increases in the cost of materials. Contact systems, which consist of plastic casings and metal contacts, are made mostly with tools stemming from a single source due either to customer requirements or economic considerations. A more favourable trend in commodity prices would benefit LEONI’s cost-of-materials ratio and therefore its margins.

Risks and opportunities due to digitalization

Digitalization (Internet of Things, Industry 4.0) entails risks that could lead to new competitors or substitution of existing solutions. Yet new trends in technology and society simultaneously present LEONI with good growth opportunities – especially the progressing digitalization in all walks of life and therefore also in many of LEONI's customer sectors. In general, all the other global trends important to LEONI – of mobility, energy and data management, urbanisation, environmental awareness and shortage of resources, demographic change, globalisation as well as industrialisation and automation – also present the Company with additional expansion opportunities in many areas. For instance, the growing interest among motorists in hybrid and electric drive systems as well as electrical and electronic innovations in vehicles can exert a positive effect on our future performance. The section on the Group strategy contains more information on the strategic opportunities stemming from global megatrends.

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Operational

Risks due to new customer projects

Apart from the project-overarching risks, such as the location / country risks and fluctuation in personnel costs, there are also project-specific cost risks. These can, due to special measures to safeguard our customers' production starts during the ramp-up phase or, for example, miscalculation, impact on the whole term of a project. Failure to ensure that the many annual production starts are on schedule and according to the requirements of our customers could have serious consequences for future business.

Risks due information technology

Running a company like LEONI that operates on a global scale is only possible with the help of sophisticated IT systems. Constant readiness to supply goods and services – especially to the automotive industry that frequently calls for either just-in-time or just-in-sequence delivery – also depends on availability of the IT systems and their data at all times. Serious disruption such as system outages, attacks on our networks, loss or corrupting of data could result in a break in the supply chain to the customer. LEONI therefore constantly works at optimising its IT system, in terms of both concept and operation. One example of this is having a second, backup computer centre as an emergency system. The threats to our information security are furthermore mounting because of the globally increasing professionalism of computer crime. Like other, major international companies, we are exposed to vigorous cyber-attacks by experienced adversaries who are supported by organised crime and countries that conduct industrial espionage. An Information Security and Data Protection Officer who reports directly to the Board of Directors demonstrates the very high priority given to security of our information systems and networks, as well as to safeguarding the confidentiality, availability and dependability of our data. To minimise these risks, we apply a range of measures including staff training as well as monitoring our networks and information systems by means, for example, of firewalls and virus scanners. A cyber security insurance policy covers the residual risk.

Risks due to product liability / recall

LEONI's output is used primarily for technically sophisticated products and equipment with high safety standards. A failure could have far-reaching consequences ranging from downtime costs to contractual penalties and through to personal injury claims. We minimise the associated product liability risks by taking effective measures as part of process safety and quality management. All plants are ISO 9001 certified and some, depending on the customer group they supply, have such additional certification as IATF 16949 (automotive industry), EN/AS 9100 (aerospace) and ISO 13485 (medical technology). There is also insurance cover for operating, product and environmental liability as well as for product recalls. Product liability cases and recalls are reported without delay, by means of a Red Alert Process that has been set up, to all concerned units so as to ensure a structured emergency management system.

Risks due to loss of a customer

The loss of one or several major customers we supply could temporarily result in losses of earnings / contributions to profit and additional capacity adjustment costs. We have reduced our exposure to a small number of major customers in the Wiring Systems Division with a broader, international customer base. The lengthy contract periods, which usually cover the lifespan of a particular vehicle model range, as well as having established very close and stable customer-supplier relationships, for instance by way of comprehensive development work and outstanding service in terms of delivery, mean that there would normally be early notice of losing a customer and would allow for consequent measures to be applied in good time.

Risks due to fluctuation in personnel costs

The growing shortage of skilled people in Germany, changes in the availability of personnel and the resulting rise in wage and salary costs at labour-intensive production locations in Eastern Europe, North Africa and Asia present human resource management with particular challenges. In addition, there is the large extent of production in countries with low wage levels. Surges can occur in this respect due to minimum wage hikes. Effort has been stepped up to increase staff advancement – for example with internal programmes to provide employees with further qualifications and aimed at integration as well as offering a wide range of social benefits – to maintain the ability to recruit and retain staff by being an attractive employer.

Operational opportunities

The LEONI Group's operating strengths include its leading position in the most important markets across Europe, our global footprint in terms of distribution, development and production as well as our broad, international customer base. These factors enable us to benefit globally from favourable market trends. LEONI also focuses sharply on core products and markets, has a consistently high level of expertise along the entire value chain and covers an extensive portfolio of technology. Finally, the collaboration between our two business divisions in the context of a complementary value chain creates synergies that provide LEONI with opportunity not only to reduce costs, but also to expand. The forecast contains more information in the specific opportunities of the two divisions.

Forecast
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Financial

Risks due to receivables / liquidity
The loss of receivables from a major customer presents a risk. As a precaution, all customers with whom the LEONI Group intends to conclude business on a credit basis are subject to credit screening. Regular analysis of receivables and the structure of the receivables facilitates ongoing monitoring of the risk. For selected customers true sale factoring serves as a further tool to reduce the risk of default.

To back its plans for growth LEONI uses, alongside the existing, long-term borrower's note loans, ample short and long-term loan commitments from banks, mainly in the form of conventional lines of credit. In addition, stringent cash pooling is used to safeguard liquidity. The most important cash flows in the Group are managed and handled by LEONI AG at head office. If, in the event of a crisis for example, the in-house rating of our core banks for LEONI were to drop below investment grade, this would probably mean increased cost on any required loans, which might not be provided in the desired amount. The Group monitors its current liquidity situation on a daily basis. Monthly, currency-specific, rolling liquidity planning for respective periods of 12 months is used to manage future liquidity requirement. The planning takes into consideration the terms of the finance and the financial assets (e.g. receivables, other financial assets) as well as the expected cash flows from business activity.

Risks due to impairment
LEONI subjects assets and goodwill to impairment testing based on the IFRS accounting rules. An increase in the discount rate and/or worsening of earning prospects will cause the risk of impairment to rise.

Risks and opportunities due to acquisitions
Risks stemming from planned acquisitions are systemically identified and quantified as part of the respective due diligence examination of the acquisition target. Risk management studies the implications of these risks for the Company's overall risk in advance of any decision to acquire. Any acquisition simultaneously entails opportunities to be realised.

Risks and opportunities due to interest rates
A change in the risk premium on the capital-market interest rate can raise refinancing costs.

Risks due to pension obligations
The phase of low interest rates could also impact on LEONI's pension funds by causing an increased outflow of funds to reduce any shortfall as prescribed by local regulations.

Risks and opportunities due to exchange rates

We conduct business mainly in euros or in the local currency of the respective country. However, we are increasingly faced with currency risks due to the globalisation of the markets. In the Group's holding company, LEONI AG, the Corporate Finance department is responsible for foreign exchange in collaboration with a currency committee and reports these to corporate risk management. Hedging transactions are executed in line with the existing underlying transactions or the planned transactions. Selection of the hedging instrument to be used is based on regular, in-depth analysis of the underlying transaction to be hedged. The objective is to limit the impact of exchange rate variation on net income. Apart from the actual hedging transactions, we primarily take advantage of the option of netting foreign currency items within the Group to hedge our operating business activity. As a further currency-hedging measure, as a matter of principle we finance our foreign subsidiaries in their respective functional currencies by way of refinancing in the corresponding currency. Economic currency risks furthermore stem from the effects on the price competitiveness of individual facilities (plants) as a consequence of changes in the exchange rate.

Fluctuating exchange rates can, for amounts not hedged with forward contracts, result in a positive effect.

Further details on these financial risks are contained in the Notes.

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Compliance

Risks due to compliance infringements

In principle, compliance infringements could entail substantial fines, loss of reputation and claims for damages. Depending on the country, imprisonment of managers and involved staff is also possible. LEONI minimises such risks due to infringements of law and guidelines with an effective compliance management system.

Risks due to corruption

As previously reported, internal compliance-related investigations in 2015 gave rise to the suspicion of illegal conduct in connection with at least one agent who was commissioned by a LEONI Group company belonging to the WCS Division. The matter concerns unexplained commission payments on transactions particularly with Asian customers. LEONI proactively reported this suspicion to the German authorities in 2016 and continued in 2016 and 2017 to resolve the matter in close collaboration with the investigating authorities. At the beginning of 2017, the authorities launched several investigation proceedings against former and current senior managers and staff. Both the internal investigations to resolve these matters and the external investigations were largely completed by the end of 2017.

LEONI reached an agreement in a settlement with the tax authorities on the underlying matter and the tax deductibility of commission payments. The outcome and tax back-payments are fully recognised in the 2017 financial statements.

The investigation proceedings against eight former and current staff and the managing director of a LEONI Group subsidiary were still ongoing at the end of 2017; LEONI expects the proceedings to be completed in 2018.

There are no proceedings against LEONI AG or the concerned Group subsidiaries in connection with this matter.

Risks due to competition law

As reported, several civil proceedings in the form of class action lawsuits have been initiated against LEONI and other wiring systems manufacturers due to alleged breaches of competition law in the United States and Canada since October 2011. LEONI was able to conclude all these proceedings in the 2016 and 2017 financial years without any acceptance of liability by way of settlement agreements. In the United States, there are now just a few proceedings pending involving individual claimants, which, from today's perspective, are likely to have far less impact than the hitherto concluded proceedings. LEONI therefore expects to be able to conclude these outstanding proceedings as well in the near future.

In November 2015, the Brazilian competition authority initiated proceedings against a LEONI company as well as other wiring system manufacturers, presumably in connection with the cartel proceedings before the European Commission that were already concluded in 2013. The authority is investigating alleged breaches of Brazilian competition law. LEONI is cooperating with the responsible authorities; the possibility of a fine payment is not ruled out. Corresponding provision was made in the 2017 financial statements.

Risks due to (fake CEO) fraud

As reported, LEONI fell victim in August 2016 to fraudulent acts involving the use of falsified documents and identities as well as the use of electronic communication channels. As a consequence, a total of approx. € 40 million was transferred from the Company to accounts outside Germany. LEONI recognised the full amount in its fiscal 2016 financial statements.

The Board of Directors continued during the year under report to push and monitor work on clearing up the fraud case at various levels. This included the ongoing efforts to recover the stolen funds as well as cooperation with national and international investigating authorities to bring the perpetrators to justice. It was likewise important to the Board of Directors to continue initiatives intended to derive measures and processes from the fraud case to effectively reduce future risks due to such a matter or similar ones. With this stipulation, the Board of Directors not only once again raised IT security and ensured lasting awareness among staff, management and departments. It furthermore initiated external review or auditing of various functions that are rated as especially sensitive or pertinent to the control and management of risks. In some areas the Board also required managers to be replaced. Also during the year under report, the Board of Directors dealt thoroughly with the fraud case from the aspect of possible responsibility, i.e. with the question whether and, if so, where and by whom there may have been breaches of duty that enabled fraudsters to manipulate a LEONI employee to the extent that a large amount of money could be transferred to unknown accounts outside Germany. In this connection, the Board of Directors commissioned external analysis and assessment of the extent to which there may be consequences under either employment law or civil law arising from the fraud case against LEONI employees in either Germany or beyond. The latter occurred correspondingly with investigations of the Supervisory Board, which addressed this question with respect to members of the Board of Directors.

The measures applied may be summarised as follows:

- **Investigations and asset tracing:** The investigations of the authorities in the concerned countries were continued during the year under report and are still ongoing. LEONI continues to support the authorities in finding and clarifying the facts. LEONI also continued its own measures to trace money flows and to recover the funds. Assets amounting to about € 125 k have so far been recovered. The measures to recover the assets are ongoing.

- **Process improvements:** The external review launched in the previous year of the financial processes and controls as well as the whole area of finance by an auditing firm was completed. LEONI has since then been implementing recommended actions and improvement measures. Guidelines, processes and controls were updated and enhanced. In response to the fake CEO fraud, educating staff on such relevant subject matter as, in particular, social engineering was again an inherent part of information security measures during the year under report. LEONI is focusing in this respect on an awareness campaign that addresses staff by target group and in all relevant languages. This is raising consciousness of such forms of attack and underpinning the corresponding action requirements. LEONI is simultaneously also aiming for further improvement of technical measures; filters detect certain kinds of fraud and support the user with corresponding notices. More measures to keep the protection level consistently high are planned. The presented improvement measures aim not only to avoid another case of fake CEO fraud, but also to minimise risks due to other possible fraud scenarios. The measures to improve the corresponding systems are presented in the sections headed risk management, internal control and compliance management system.

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Internal Control System
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Compliance management system
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- **Employment law-related consequences:** Based on the facts established, we already responded in the previous year with initial consequences in the form of measures under employment law. Clearing up the fraud case from the aspect of employment law was completed in the year under report and further action under employment law was taken. Several labour court proceedings are currently still pending in Germany and abroad in connection with the presented notices of dismissal.

- **Assertion of claims for damages:** Based on the available evidence, the Board of Directors commissioned the Baker McKenzie law firm to examine possible claims for compensation against employees of the LEONI Group. Based on their opinion, the Board of Directors decided to assert claims for compensation for the loss LEONI AG incurred and reported the fraud case to LEONI AG's D&O insurers. The assertion and enforcement of claims against employees are ongoing. It is not yet possible to comment on progress and prospects of success. Correspondingly, the Supervisory Board examined the fraud case during the year under report with respect to possible responsibility on the part of the Board of Directors. Based on external appraisals, the Board likewise decided to assert claims for compensation for the loss LEONI AG incurred as well as to commence talks with LEONI AG's D&O insurers.

- **Insurance payouts:** LEONI obtained a payout of € 5 million from its existing fidelity insurance policy. Additional insurance payouts from the above policy are conceivable, but this cannot be estimated yet.

Risks due to corporate governance violations
In general, there is the risk that corporate governance bodies and / or staff infringe laws, internal guidelines or the standards of good corporate governance recognised by LEONI.

Risks due to export control and duties
Political and regulatory changes involving, for example, export regulations, customs regulations or embargoes, could affect our business activity in some national markets and compromise our financial position and performance. Any infringements could entail fines, sanctions as well as loss of reputation and claims for damages. We therefore make sure of resolutely observing the corresponding regulations.

The Board of Directors' assessment of the overall situation
In the opinion of the Board of Directors, the risk to the LEONI Group increased for 2018 in relation to projects because of the large volume of orders. The biggest risk continues to be a break in the supply chain to a customer. The risk aggregation shows that developments which might threaten the Company's continued existence can be ruled out with a probability bordering on certainty during the planning period. The Company's risk cover potential is sufficient to safeguard its continued existence.

Supplementary report

There were no events of special significance and with material impact on the LEONI Group's earnings, financial and asset situation occurring after close of the financial year and until this report was signed.

Forecast

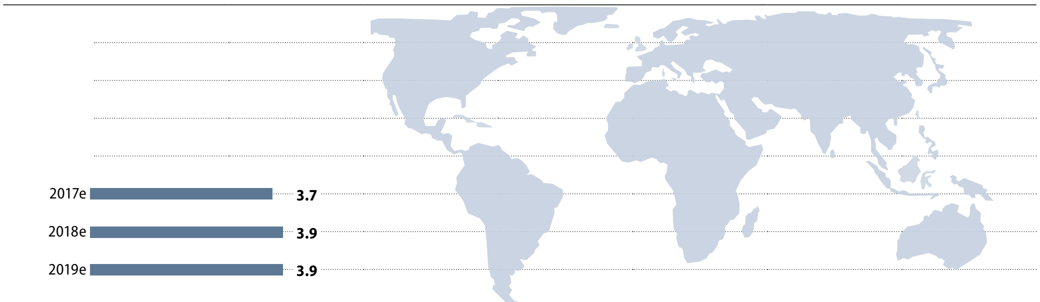
Business and underlying conditions

Macroeconomic setting

The International Monetary Fund believes that the global economic upturn seen last year will continue in 2018. The upbeat sentiment and persistently good financing terms should help the willingness to invest remain high, particularly in export-oriented countries. Furthermore, the fiscal reform in the United States may lead to a short-term economic boost not only in the country itself, but also among its major trading partners such as Canada and Mexico. Despite all the optimism, however, the IMF continues to refer to numerous risks including the expansionary monetary policy of the central banks and its possible end, nationalistic tendencies, geopolitical tensions, upcoming elections in several countries together with humanitarian catastrophes and the resultant migrant flows.

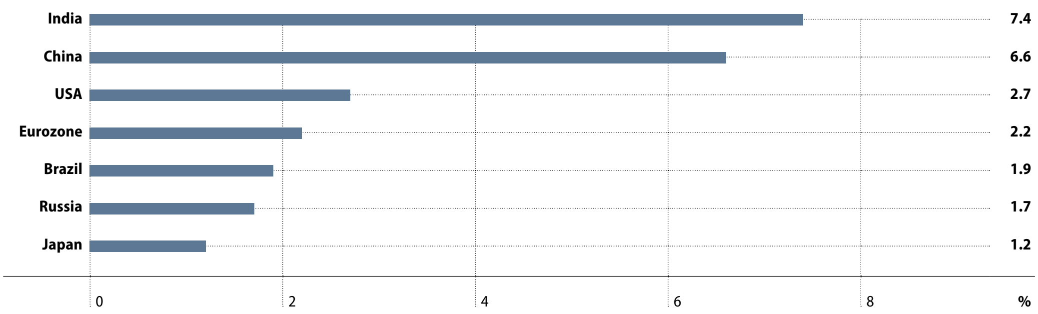
Specifically, global gross domestic product should expand by 3.9 percent globally in 2018. The industrialised countries will contribute growth of 2.3 percent, and the IMF in its World Economic Outlook Update of January 2018 forecasts a better performance in almost all countries than in autumn 2017. GDP growth of 4.9 percent is forecast for the developing countries and emerging markets, which will once again be based mostly on China, India and other Asian states. The uptrend should, however, also stabilise in Brazil and Russia.

Global economic growth 2017 to 2019 %



Source: IWF

2018 economic growth in selected regions

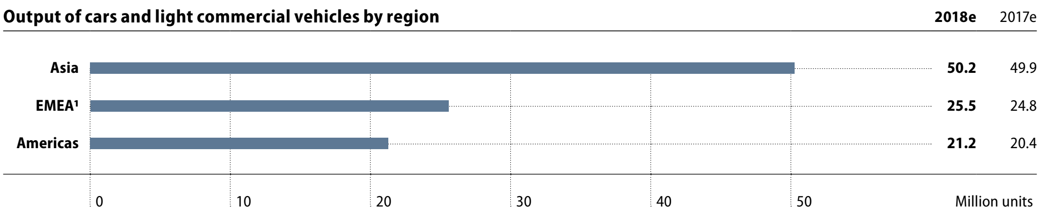


Source: IWF (estimate)

Business by sector

The German Association of the Automotive Industry (VDA) expects **car sales** to rise by approximately 1 percent to about 86 million new registrations worldwide in 2018. The momentum in China is expected to continue, as is the strong recovery in Russia and Brazil. The overall European market should roughly match its pre-year level, and another slight decline is projected for the United States. IHS Automotive estimates that global **output of cars and light commercial vehicles** will be up by just under 2 percent. At the same time, perceptibly more cars are expected to be produced, while the output figure for light commercial vehicles will be almost flat. The Americas are forecast to record the highest growth rates from today's perspective, followed by the EMEA region and Asia. As things stand at present, substantially more vehicles with alternative drive technologies will come off the line in all regions, with projected worldwide growth of around 44 percent.

Output of cars and light commercial vehicles by region

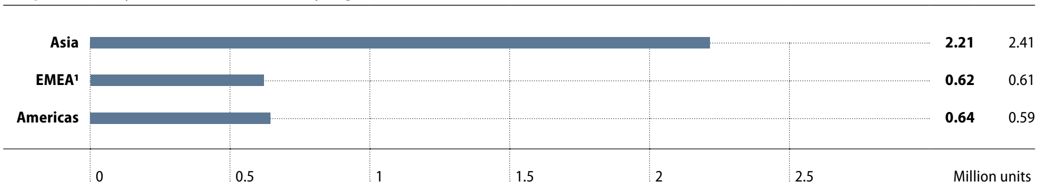


[1] *Europe, Middle East, Africa*

Source: IHS Automotive

For **heavy commercial vehicles**, IHS Automotive projects a decline in output of almost 4 percent worldwide in 2018 resulting exclusively from a sharp drop in Asia, which would follow the extremely dynamic performance in the previous year. By contrast, substantially more heavy commercial vehicles are expected to be produced in the EMEA region and in the Americas, in particular.

Output of heavy commercial vehicles by region



[1] Europe, Middle East, Africa

Source: IHS Automotive

For the **electrical goods industry**, the German Electrical and Electronic Manufacturers' Association (ZVEI) again projects 4-percent worldwide market growth in 2018, to which primarily emerging countries will contribute, but industrialised countries, too. The rate of increase forecast for both the Americas and Asia is about 5 percent; for Europe it is roughly 2 percent. From today's perspective, the market segments of importance to LEONI, i.e. automation, power engineering, communication and information technology as well as electromedicine are projected to each grow by 4 to 6 percent globally. The electrical engineering and electronics industry estimates market growth of about 2 percent in Germany.

The German Engineering Federation (VDMA) estimates that the **mechanical engineering** sector's worldwide sales will increase by around 4 percent this year. This rise will be underpinned primarily by the Chinese mechanical engineering industry, but the sector should also continue to grow in Japan and the Americas. Germany's machinery and plant manufacturers forecast an unchanged momentum in 2018, that is, further output growth of around 3 percent.

The domestic market of the **information and communications technology** (ICT) sector will, according to the German BITKOM sector association, grow by 1.3 percent in 2018 and thus somewhat less dynamically than in the previous year. The gain should result chiefly from the information technology sector, and here especially from the software and IT consulting segments. By contrast, sales growth in the telecommunications industry is expected to be no more than muted.

Business performance and future direction

The LEONI Group's business performance

Against the backdrop of the generally positive prospects for the most important markets and the good order situation in both divisions, the Board of Directors forecasts an increase in LEONI's **consolidated sales** to at least € 5.0 billion in 2018. A fact to be taken into consideration here is that the pro rata sales of the divested Business Group Electrical Appliance Assemblies included in the pre-year results will be absent. We will probably generate most of our growth in Asia. We forecast a slight increase in the Americas and a stable trajectory in the EMEA region.

From today's perspective, **consolidated EBIT** will range between € 215 million and € 235 million and thus exceed the 2017 result adjusted for non-recurring income of around € 30 million.

Business and underlying conditions
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The forecast is based on the following **premises**: Business in our most important customer sectors will perform as expected in 2018. The underlying macroeconomic conditions, the prices of the most important commodities for the LEONI Group – for copper we have budgeted an average price of € 4.90 per kg – and exchange-rate parities should be in line with our expectations in 2018. For personnel costs we have estimated country-specific rates of growth, which are based on our many years of experience in these regions. Possible acquisitions or divestments have not been taken into account.

Strategy
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As part of our strategic realignment towards becoming a leading provider of intelligent energy and data management solutions, we will step up the digitalization of our product range and of the whole Company further in 2018, and increasingly position ourselves as a systems and development partner to our customers. To this end, we are planning targeted enhancement of expertise to close the existing knowledge gaps. However, this will not fundamentally change LEONI's **business policy**. Our **dividend policy** continues in principle to provide for a payout of about one third of annual net income.

Performance of the Wiring Systems Division

The Wiring Systems Division is expected to increase its **external sales** to about € 3.2 billion this year. Shipments to our customers are likely to increase, particularly in Asia but also in the Americas. We expect the amount of business in the EMEA region to remain at the previous year's level.

Earnings before interest and taxes should once again improve to a figure between € 135 million and € 145 million, attributable particularly to the planned sales growth as well as our ongoing efficiency enhancement and cost-cutting measures.

In connection with new customer projects, we are planning to expand various facilities in Asia, the Americas, Eastern Europe and North Africa in 2018. We intend to build new plants in Bulgaria, Mexico and Serbia. All told, this will lead to a further increase in capital expenditure.

Based on our strategic repositioning, we will expand our range of products for electromobility, connectivity and autonomous driving this year and enhance our position as a development partner and systems supplier through additional expertise in electronics and software. Going forward, we see particularly big opportunities for the Wiring Systems Division here. The digitalization of our processes, especially the steady expansion of automated production, also harbours great potential. We also want to gain further, significant shares of the high-voltage market, especially in Asia. In addition, we are seeking to strengthen our global footprint in general and once again see China as a key region presenting outstanding opportunities.

Performance of the Wire & Cable Solutions Division

External sales in the Wire & Cable Solutions Division will come to about € 1.8 billion in 2018. The good performance, expected to exceed market growth, in the automotive and industrial businesses will offset the disappearance of sales of Business Group Electrical Appliance Assemblies that was sold in 2017. In regional terms, the business volume in Asia should increase marginally while declining slightly in the Americas and the EMEA region.

As things stand at present, **EBIT** will come to between € 80 million and € 90 million.
Capital expenditure in the Wire & Cable Solutions Division will rise further during the current reporting period. In addition to the expansion of automotive cable production in Eastern Europe, in particular, we are setting priorities in Germany with our Factory of the Future and the Digital Solutions Group.

In line with our strategy of developing the Wire & Cable Solutions Division into a leading solutions provider for the megatrends of energy and data, we will broaden the range of intelligent cables offered to our customers in 2018. In the first half of the year, we plan to make the prototype of a new intelligent cable marketable with a view to launching this innovative product in the second half of the year in application-related solutions, for example including such smart services options as monitoring or preventive maintenance. Furthermore, the digitalization of the entire division and the expansion of our activities to become a solutions provider through the acquisition of additional knowledge in the areas of sensor technology, electronics and functional simulation provide good opportunities for the Wire & Cable Solutions Division. While we will continue to focus on our core markets, we will seek to gain new customers through a broadened added-value approach that includes consulting, simulation and smart services.

Financial and asset situation

The financial and asset situation of the LEONI Group will remain solid in 2018. From today's perspective and thanks to the good order situation, capital expenditure will increase to a total of around € 300 million, of which around € 45 million will be spent on the Factory of the Future in Roth. Adjusted for this exceptional factor, the operational capex ratio will come to about 5 percent of sales in 2018. For free cash flow we are aiming for a positive figure before dividends, as in 2017. Financial liabilities maturing in the current period under report will be refinanced on schedule, taking advantage of opportunities as they arise. Liquidity remains assured thanks to the concluded long-term finance and the extensive credit lines.

Procurement

Expanding and maintaining supplier relationships is of great importance for LEONI. Strategic purchasing within the WCS Division will continue to apply conventional supplier management in the current year and push ahead with the necessary expansion of the supplier portfolio. A major challenge will be to ensure the greatest possible security of supply in a market setting characterised by very good capacity utilisation. Given the forecast industry and sales growth, the purchasing activities of the Wiring Systems Division will focus on ensuring the required capacity at a global level and to make sure the planned sales growth is accompanied by corresponding cost-reduction measures on the source market.

Employees

The number of employees in the LEONI Group is expected to continue growing globally. In the Wiring Systems Division, we require additional employees for the numerous new customer projects and the associated capacity expansion, the focal areas being the Americas and Eastern Europe. The Wire & Cable Solutions Division is planning to recruit worldwide new staff in the automotive business and, in Germany, for the Factor of the Future as well as the Digital Solutions Group.

Research & Development

The development activity of both divisions this year will be increasingly guided by the new corporate strategy of becoming a leading provider of intelligent energy and data management solutions. In the Wiring Systems Division, the emphasis will be on projects to implement autonomous driving and the low-cost realisation of electromobility. In addition, we will focus on realising the system concept by pooling such skills as architecture analyses and optimisations, simulation-related topics as well as the automation of production and applying them at system level. The Wire & Cable Solutions Division will develop the intelligent cable to marketability while also further digitalizing its products and services. We also plan to realise a first customer project involving the 3D extrusion method.

Compliance

Now that the restructuring of our Compliance Management System has been completed, the system will undergo an external audit in accordance with IDW PS 980 in 2018 as was initiated in December 2017. Furthermore, risk-minimising measures focused on money laundering and conflicts of interest will be implemented. We are also planning to step up classroom training on the new Code of Conduct to raise our staff's awareness even more of the rules it includes and the issue of integrity.

General statement on future growth

Based on the good order situation in both divisions, the Board of Directors believes that the LEONI Group will generate slight sales growth to at least € 5.0 billion in 2018. Consolidated EBIT is projected to reach a figure of between € 215 million and € 235 million. Adjusted for the positive exceptional factors amounting to € 30 million in fiscal 2017, we expect substantial year-on-year earnings growth in 2018. The good income situation will further strengthen our financial and asset situation, providing us with a solid basis to increase our capital investment further and thereby to prepare for future growth.

LEONI Group forecast

	Actual 2017 figures	Forecast for 2018
Consolidated sales	€ 4.9 billion	at least € 5.0 billion
EBIT	€ 225.3 million	€ 215 – 235 million
Capital expenditure	€ 281.4 million	5 % of sales [1]
Free cash flow	€ 11.1 million	positive

[1] *excl. investment in the Factory of the Future*

Medium-term outlook to 2020

The compound annual growth rate (CAGR) of sales is expected to total more than 5 percent during the three-year period from 2018 to 2020. The EBIT margin will reach at least 5 percent of sales in 2020. For the same year we also project a positive free cash flow after dividends and an capex ratio amounting to 5 percent of sales.

Compensation report

This compensation report describes the main features of the system for compensating the members of the Board of Directors and explains the structure as well as the amount of individual member income. Also described are the details of benefits that have been promised to members of the Board of Directors for the event of termination of their mandate as well as the principles for and amounts of compensation for members of the Supervisory Board.

The compensation report follows the recommendations of the German Corporate Governance Code (GCGC or Code) and contains disclosures required by the German Commercial Code (HGB), The German Accounting Standard (DRS) and the International Financial Reporting Standards (IFRS).

Compensation for the Board of Directors

The Supervisory Board of LEONI AG diligently and regularly considers, pursuant to Section 87 of the German Stock Corporation Act, the appropriateness of the compensation for members of the Board of Directors. This involves discussion and inclusion in the review of the individual components and their effect on future compensation for members of the Board of Directors. This analysis also comprises a comparison with DAX and MDAX companies as well as consideration of the wage and salary structure within the Company. However, it does not consider the ratio of Board of Directors compensation to the compensation for senior management and the workforce as a whole, also over time, as provided for in Section 4.2.2 (2) Sentence 3 of Code. The current Declaration of Conformity explains this deviation in detail.

Declaration of Conformity
» page 28 et seq.

Basic principles of the compensation system

The system for compensating the Board of Directors that is valid for the reporting period has been in force since 1 January 2015 and applies until 31 December 2019. It is aimed towards establishing incentives for successful and long-term business growth and increase in enterprise value, in which the members of the Board of Directors are to participate. Exceptional performance is to be rewarded; any failure to meet targets is to result in a considerable reduction of compensation.

In accordance with the Code, we hereinafter explain the principles of the system for compensating the members of LEONI AG's Board of Directors and the specific structure of the individual components.

The table below provides an overview of the structure and system:

Component	Measurement basis	Corridor	Precondition for payment	Payment
1. Fixed compensation Fixed salary Benefits in kind / Fringe benefits	Function, responsibility, duration of Board membership, standard	Firmly agreed for the term of the contract	Contractual stipulation	Monthly
2. Short-term compensation component Annual bonus	Task, performance, consolidated net income + EBIT margin	0 to 110 % [Target fully met = 100 %]	1-year planning, target attainment	100 % per annum in the subsequent year
3. Medium-term compensation component Multi-year bonus	Task, performance, consolidated net income	0 to 115 % [Target fully met = 100 %]	3-year planning, target attainment on a 3-year average at least 50 %	50 % in the 4th year
4. Long-term compensation component Long-term method, Bonus account	Task, performance, EVA and share appreciation	0 up to cap, penalty rule	Contractual stipulation	Once a year in the subsequent year; 50 % of which converted into LEONI shares with a 50-month holding period
5. Disability and other benefits Accrued pension rights	Pensionable fixed salary, years of service on the Board, defined-contribution plan	Fixed amount	Retirement, disability	—

Fixed compensation

The fixed component is a firm, annual amount of basic compensation that is paid in equal monthly instalments. As all the other compensation components are variable and can drop to nil, the fixed component is the minimum amount of Board of Directors compensation. It is commensurate with the amounts paid by other MDAX companies.

Variable components

In addition to the fixed compensation, there are three variable compensation components, each of which have upper limits in absolute terms and can drop to nil. The weighting between the short and medium-term components is approx. 50/50.

SHORT-TERM COMPENSATION COMPONENT – ANNUAL BONUS: An annual bonus will be assessed depending on the net income generated, whereas amounts that exceed 110 percent (cap) of the net income budgeted in the planning for the year will be disregarded. The assessed annual bonus can rise by another 10 percent provided the Group generates an EBIT margin of more than 7.5 percent. Assessment of the annual bonus will be discounted by 10 percent for EBIT margins that are less than 4.5 percent but not below 3.5 percent. Should the Group generate an EBIT margin of less than 3.5 percent, the discount on the assessed annual bonus will be 30 percent. In each year of the contract term the annual bonus will have an upper limit in absolute terms; it will be paid in cash and can drop to nil.

MEDIUM-TERM COMPENSATION COMPONENT – MULTI-YEAR BONUS: The multi-year bonus is geared, depending on the respective year's net income, to the results of a three-year period, while amounts that exceed 115 percent (cap) of the budgeted annual net income amounts will be disregarded. Payment is made in the fourth year after expiry of the three-year period and only if the (arithmetic) average degree of target attainment for the three-year period is at least 50 percent.

50 percent of the annual amount will be paid in the respective subsequent year as an instalment. If the (arithmetic) average degree of target attainment for the three-year period of at least 50 percent is not achieved, the multi-year bonus is forfeited in full, meaning that instalments already paid must be refunded. The multi-year bonus thus conforms to the sustainability requirement set out in both the VorstAG and the Code. In each year of the contract term the multi-year bonus will have an upper limit in absolute terms; it will be paid in cash and can drop to nil.

LONG-TERM COMPENSATION COMPONENT: A long-term compensation component that takes adequate account of the economic value added (EVA) and the Company's market capitalisation is intended to further strengthen sustained, positive business performance. It is, for one financial year, paid up to a contractually agreed cap. Any excess is retained in a bonus account and serves as credit for the subsequent period. If the Company's performance is negative in a financial year, this will be charged to any credit in the bonus account, which can drop to nil. If the long-term compensation component for a financial year does not reach the cap, it will be topped up with any credit held in the bonus account. Of the gross amount paid out, 50 percent must be invested in LEONI shares that must be retained for a period of 50 months, thereby conforming to the 48-month minimum holding period prescribed by the VorstAG.

ABSOLUTE UPPER LIMIT: The total compensation, which is the sum of the fixed, short-term, medium-term and long-term components, has, as do the short-term, medium-term and long-term components themselves, an absolute upper limit for each member of the Board of Directors in each year of their contract term.

The total compensation is commensurate with that paid by other MDAX companies and other companies of similar size. It takes account of both good and poor performance. Furthermore, the individual components do not tempt the Board of Directors to take inappropriate risk. An internationally recognised compensation expert oversaw the preparation of the compensation structure and confirmed its conformity with the legislation including the Code. The Supervisory Board assured itself of the expert's independence. In summary, it may be concluded that compensation for the members of LEONI's Board of Directors meets the requirements of both the VorstAG and Code and is set up for sustainability.

Pension, disability and other benefits

In the event of temporary work incapacity due to illness or other reasons, for which the member of the Board of Directors is not responsible, the compensation will, depending on the contractual agreement, continue to be paid for a period of nine up to twelve months, at most up to termination of the employment contract.

Provided this has been agreed based on an individual contract, there is a pension commitment to the member of the Board of Directors. This commitment encompasses disability, surviving dependents' and retirement benefits. Specifically, this means: In the event of permanent work incapacity, the member of the Board of Directors will receive a disability pension. If the member of the Board of Directors dies, the widow and orphaned children will be paid pensions.

For plans up to the end of 2014 there is, following the end of their 65th (or 63rd with agreed discounts) year of age, an entitlement to payment of retirement benefits, which are computed according to the period of service on the Board of Directors and the pensionable fixed salary. Pensionable is defined as a contractually agreed proportion of the final fixed salary.

A defined contribution pension is granted for plans from 2015. This involves, in the case of first-time plans, there being for each member of the Board of Directors an absolute limit to the benefit to be paid for each year of the contract term. The retirement benefit system is set up in such a way that the standard retirement age is 67 years and at the earliest 63 years subject to accepting discounts on the pension.

The disability and other benefits granted to members of LEONI AG's Board of Directors are also commensurate with those of other MDAX companies.

Miscellaneous
Severance payments upon premature termination of Board of Directors duties in the absence of a material reason are limited to two years' compensation and shall not be more than the annual compensation for the balance of the employment contract (severance cap pursuant to the Code).

In the event of a change of control, the members of the Board of Directors have, so far as contractually agreed, the right to terminate for material reason and shall be entitled to severance payment. This is limited to a maximum of three years' compensation (150 percent of the severance cap pursuant to the Code) and shall even in this event not exceed the annual compensation for the balance of the employment contract.

Cost of compensation in 2017
The compensation for members of the Board of Directors is presented in line with the reference tables of the Code. This involves differentiation between the benefits granted to members of the Board of Directors on the one hand and what is paid to them on the other hand.

GRANTED BENEFITS € '000	Dr Klaus Probst President / CEO (until 7 May 2015)				Dieter Bellé President / CEO (until 31 January 2018)				Martin Stüttem Member of the Board of Directors (from 1 April 2017)			
	2016	2017			2016	2017			2016	2017		
			min	max			min	max			min	max
1. Total compensation pursuant to GCGC												
Components not performance-related												
Fixed compensation					750	750	750	750		338	338	338
Fringe benefits					29	35	35	35		23	23	23
Total					**779**	**785**	**785**	**785**		**360**	**360**	**360**
Performance-related components (targets)												
Short-term compensation component (100 %)					546	500	0	550		366	0	402
Medium-term compensation component (100 %)					760	508	0	584		511	0	588
Long-term compensation component (100 %)	225[1]				400	400	0	400		113	0	113
Total	**225**				**1,706**	**1,408**	**0**	**1,534**		**989**	**0**	**1,102**
Service costs					308	562	562	562		0	0	0
Total compensation pursuant to GCGC	**225**				**2,793**	**2,755**	**1,347**	**2,881**		**1,349**	**360**	**1,462**
2. Reconciliation of the compensation from GCGC to IFRS (Expenses)												
Total compensation pursuant to GCGC	225				2,793	2,755				1,349		
Short-term compensation component: – Target (100 %) + actual compensation	 				 (546) 29	 (500) 550				 (366) 402		
Medium-term compensation component: – Target (100 %) + entitlement to compensation based on actual target attainment – Income from repayments and reversal of provisions					 (760) 0 (340)	 (508) 575 0				 (511) 420 0		
Long-term compensation component: – Target pursuant to GCGC + actual expenses for the financial year – Income from reversal of provisions	 (225) 225 				 (400) 66 0	 (400) 433 0				 (113) 544 0		
Settlement for premature contract termination					0	1,138				0		
Expenses of the compensation pursuant to IFRS	**225**				**842**	**4,042**				**1,727**		
3. Reconciliation of the compensation from GCGC to HGB (Art. 314)												
Total compensation pursuant to GCGC	225				2,793	2,755				1,349		
Short-term compensation component: – Target (100 %) + actual compensation					 (546) 29	 (500) 550				 (366) 402		
Medium-term compensation component: – Target (100 %) + entitlement to compensation based on actual target attainment – compensation components for which the condition precedent has not yet been fulfilled + compensation components for which the condition precedent has been fulfilled					 (760) 0 0 0	 (508) 575 0 0				 (511) 420 (420) 0		
Long-term compensation component: ± deviation from the target – service costs	 0 				 (118) (308)	 0 (562)				 0 0		
Compensation pursuant to HGB (Art. 314)	**225**				**1,090**	**2,310**				**875**		

ALLOCATIONS € '000	Dr Klaus Probst 2016	Dr Klaus Probst 2017	Dieter Bellé 2016	Dieter Bellé 2017	Martin Stüttem 2016	Martin Stüttem 2017
Components not performance-related						
Fixed compensation			750	750		338
Fringe benefits			29	35		23
Total	**0**		**779**	**785**		**360**
Performance-related components (actual figures)						
Short-term compensation component			29	550		402
Medium-term compensation component			(170)[2]	575		210
Long-term compensation component	225[1]		282	400		113
Total	**225**		**141**	**1,525**		**725**
Service costs			308	562		0
Total compensation pursuant to GCGC	**225**		**1,228**	**2,872**		**1,085**

[1] Based on the clarification and supplementary agreement of 18/8/2016 pertaining to the termination and settlement agreement of 27/3/2015, the bonus account entitlements from 2014, which were not carried over, were rectified to 2015. The payment was accordingly determined pursuant to the Board of Directors service contract and made in 2016.
[2] The conditions for payment of the medium-term component were not met. The instalments already paid for 2014 (Dr Hiller) and for 2015 (Mr Bellé and Dr Hiller) must consequently be refunded.

Compensation report

Compensation for the Board of Directors

Bruno Fankhauser Member of the Board of Directors (from 1 February 2016)				**Karl Gadesmann** Chief Financial Officer / CFO (from 1 October 2016)				**Dr Frank Hiller** Member of the Board of Directors (until 31 December 2016)				**Total**	
2016	**2017**			**2016**	**2017**			**2016**	**2017**			**2016**	**2017**
		min	max			min	max			min	max		
367	450	450	450	113	450	450	450	500				1,730	1,988
38	45	45	45	5	24	24	24	26				98	127
405	**495**	**495**	**495**	**118**	**474**	**474**	**474**	**526**				**1,828**	**2,114**
375	488	0	536	106	488	0	536	410				1,437	1,841
375	521	0	634	106	552	0	634	367				1,608	2,092
92	150	0	150	38	150	0	150	350				1,105	813
842	**1,159**	**0**	**1,321**	**250**	**1,189**	**0**	**1,321**	**1,127**				**4,150**	**4,745**
0	0	0	0	0	0	0	0	0				308	562
1,247	**1,654**	**495**	**1,815**	**368**	**1,664**	**474**	**1,795**	**1,653**				**6,286**	**7,421**
1,247	1,654			368	1,664			1,653				6,286	7,421
(375)	(488)			(106)	(488)			(410)				(1,437)	(1,841)
20	536			6	536			22				77	2,025
(375)	(521)			(106)	(552)			(367)				(1,608)	(2,092)
0	561			0	561			0				0	2,117
0	0			0	0			(306)				(646)	0
(92)	(150)			(38)	(150)			(350)				(1,105)	(813)
0	350			0	550			0				291	1,877
0	0			0	0			0				0	0
0	0			0	0			679				679	1,138
425	**1,942**			**124**	**2,121**			**921**				**2,537**	**9,832**
1,247	1,654			368	1,664			1,653				6,286	7,421
(375)	(488)			(106)	(488)			(410)				(1,437)	(1,841)
20	536			6	536			22				77	2,025
(375)	(521)			(106)	(552)			(367)				(1,608)	(2,092)
0	561			0	561			0				0	2,117
0	(561)			0	(561)			0				0	(1,542)
0	0			0	0			0				0	0
(92)	0			(38)	0			(350)				(598)	0
0	0			0	0			0				(308)	(562)
425	**1,181**			**124**	**1,161**			**548**				**2,412**	**5,526**
367	450			113	450			500				1,730	1,988
38	45			5	24			26				98	127
405	**495**			**118**	**474**			**526**				**1,828**	**2,114**
20	536			6	536			22				77	2,025
0	280			0	280			(153)[2]				(323)	1,346
0	150			0	150			0				507	813
20	**967**			**6**	**967**			**(131)**				**261**	**4,183**
0	0			0	0			0				308	562
425	**1,461**			**124**	**1,441**			**395**				**2,397**	**6,859**

Addition of the individual payments in € thousands in the table may deviate from the reported totals due to rounding.

The ‘granted benefits’ table presents, in the compensation for members of the Board of Directors pursuant to GCGC, which benefits the members would have been granted for 100 percent target fulfilment and which individually attainable upper and lower limits would have applied. This total compensation (GCGC) would have corresponded to an amount of € 7,421 k in fiscal 2017 (previous year: € 6,286 k). As this involves budgeted figures that would only have been matched in the event of 100 percent target fulfilment, these figures must be reconciled with the business performance that actually occurred and conditions precedent.
A distinction must be made here between reconciliation of the compensation (pursuant to GCGC) with IFRS and with Section 314 of the German Commercial Code (HGB). Any corresponding adjustment amounts versus the budgeted figures pertaining to all variable compensation components are reported in these reconciliations. This then results in the actually granted benefits pursuant to IFRS or Section 314 HGB.

The compensation pursuant to IFRS in the financial year amounted to € 9,832 k in 2017 (previous year: € 2,537 k) and pursuant to Section 314 HGB consequently to € 5,526 k (previous year: € 2,412 k).

The change in compensation pursuant to IFRS and HGB is attributable especially to the lower payment of variable compensation components for 2016 in contrast to 2017. The compensation pursuant to IFRS additionally reflects the settlement payment (provision) made to Dieter Bellé due to the premature termination of his contract.

The termination agreement reached between LEONI AG and Dieter Bellé provides for a further settlement payment to Mr Bellé after the end of his period of office in the amount of € 3,222.9 k (salary up the regular end of his period of office on 31/12/2019) in the event that no claims are asserted against Mr Bellé or the D&O insurer due to the CEO fraud, or it is established by a judicial decision with the authority of res judicata that there are no claims for compensation to be asserted against Mr Bellé due to the CEO fraud. The further settlement payment will not come to bear in the event of a settlement between the Company and the D&O insurer.

The 'receipts’ table shows what cash amounts the members of the Board of Directors received or will receive from the individual compensation components according to the GCGC. In total, the members of the Board of Directors will be paid compensation for their service on the Board of € 6,859 k for the 2017 financial year (previous year: € 2,397 k). Other compensation comprises the non-monetary benefits in the use of company cars and top-ups on insurance policies.

The fiscal 2017 expense for Board of Directors members’ disability and other benefits amounted to € 562 k (previous year: € 308 k). The defined benefit obligation came to € 6,362 k (previous year: € 5,811 k). The individual figures are presented in the table below.

Pension commitments (excl. deferred compensation)	**Service costs**		**Defined benefit obligation**	
€ ‘000	**2016**	**2017**	**2016**	**2017**
Dieter Bellé [1]	308	562	5,811	6,362
Total	308	562	5,811	6,362

[1] Commitment to payment of an age-related, disability and surviving dependents’ pension, which is computed according to the pensionable fixed salary.

The disability and other benefit expenses in principle comprise service costs and past service costs pursuant to IFRS. The defined benefit obligation (DBO) corresponds to the scope of obligations pursuant to IFRS.

A pension will be paid to the former President & CEO Dieter Bellé based on the policy concluded in 2009 when he has either reached the retirement age of 65 years (63 with agreed discounts) or he becomes permanently disabled. This pension entitlement is computed as an agreed pensionable proportion of the final fixed annual salary. The other members of the Board of Directors were not yet given any benefit commitments.

Supervisory Board compensation

The Articles of Association govern compensation for members of the Supervisory Board. A system of fixed compensation has applied for members of LEONI AG's Supervisory Board since 1 January 2013. It stipulates a fixed amount of € 85 k per ordinary member of the Supervisory Board. The chairperson receives double this amount and the deputy chairpersons receive one and a half times the amount. The compensation for committee work (Personnel, Audit, Strategy and Nomination Committees) comes to € 8 k per ordinary member and to € 16 k per committee chairperson. It is paid only if the committee meets at least once in the year. Attendance of Supervisory Board and Audit Committee meetings will be paid for in the amount of € 1,000 per meeting and Supervisory Board member, with a maximum of ten meetings to be taken into consideration per financial year.

The maximum overall compensation possible for Supervisory Board members including committee work and attendance money comes to € 1,534 k.

Cost of compensation 2017

€ '000		Fixed compensation (net)	Attendance money	Compensation for committee work	Other	Total
Dr Werner Rupp [1]	**2017**	58	5	48	0.1	111
	2016	170	10	48	2	230
Dr Klaus Probst [2]	**2017**	109	8	32	0.2	149
	2016	0	0	0	0	0
Franz Spieß [3]	**2017**	128	10	16	0.4	154
	2016	128	10	16	0	154
Prof. Dr-Ing. Klaus Wucherer [4]	**2017**	47	3	32	0	82
	2016	128	8	32	1.0	168
Dr Werner Lang [5]	**2017**	112	9	21	0.1	142
	2016	85	6	16	0	107
Gabriele Bauer [6]	**2017**	31	4	16	0	51
	2016	85	8	16	0	109
Dr Elisabetta Castiglioni [7]	**2017**	54	4	8	2.4	69
	2016	0	0	0	0	0
Wolfgang Dehen [7]	**2017**	54	5	16	0	75
	2016	0	0	0	0	0
Mark Dischner [7]	**2017**	54	5	8	0.3	68
	2016	0	0	0	0	0
Dr Ulrike Friese-Dormann	**2017**	85	6	0	1.0	92
	2016	85	6	0	2	93
Josef Häring [6]	**2017**	31	4	0	0	35
	2016	85	8	0	0	93
Ingrid Hofmann [6]	**2017**	31	3	8	0	42
	2016	85	8	8	0	101
Karl-Heinz Lach	**2017**	85	9	8	0.2	102
	2016	85	8	0	0	93
Richard Paglia	**2017**	85	10	16	0	111
	2016	85	10	16	0	111
Prof. Dr Christian Rödl	**2017**	85	10	16	0	111
	2016	87	10	16	0	113
Carmen Schwarz [7]	**2017**	54	3	8	0.3	66
	2016	0	0	0	0	0
Helmut Wirtz [6]	**2017**	31	4	8	1.2	44
	2016	85	8	8	2	103
Inge Zellermaier [7]	**2017**	54	5	0	0	59
	2016	0	0	0	0	0
Total	**2017**	**1,189**	**107**	**261**	**6**	**1,563**
	2016	**1,192**	**100**	**176**	**7**	**1,475**

Addition of the individual payments in € thousands may deviate from the reported totals due to rounding.

[1] Chairman of the Supervisory Board until 3/5/2017

[2] Chairman of the Supervisory Board from 11/5/2017

[3] 1st Deputy Chairman of the Supervisory Board

[4] 2nd Deputy Chairman of the Supervisory Board until 11/5/2017

[5] 2nd Deputy Chairman of the Supervisory Board from 11/5/2017

[6] Member of the Supervisory Board until 11/05/2017

[7] Member of the Supervisory Board from 11/05/2017

Disclosures pursuant to Sections 289 a (1) and 315 a (1) of the German Commercial Code (HGB) as well as explanatory report for fiscal 2017

COMPOSITION OF THE SHARE CAPITAL: The Company's share capital amounted to € 32,669,000.00 on 31 December 2017 (previous year: € 32,669,000.00). This is divided into 32,669,000 registered no-par-value shares. The shares are paid up in full. According to Article 4 2) of the Articles of Association, the shareholder's right to securitise his, her or its shareholding is precluded so far as securitisation is not required under the rules of a stock market on which the shares are then admitted. With respect to LEONI AG, Section 67 (2) sentence 1 of the German Stock Corporation Act defines as shareholders only those persons or entities entered in the share register.

All shares are subject to the same rights and obligations. The individual rights and obligations of the shareholders are stipulated by the requirements of the German Stock Corporation Act, especially so its Sections 12, 53a et seq., 118 et seq. and 186.

CONSTRAINTS CONCERNING THE VOTING RIGHTS OR THE TRANSFER OF SHARES:
Each share provides one vote at the Annual General Meeting and is key to the shareholders' share of the profit. Treasury shares held by the Company, from which the Company does not derive any rights, are excluded from this principle. In the cases described in Section 136 of the German Stock Corporation Act, the voting rights of the affected shares are nullified by law. Infringements of reporting obligations as defined by Sections 33 (1, 2), 38 (1) and 39 (1) of the German Securities Trading Act (WpHG) may, under Section 44 of the German Securities Trading Act, lead to rights from shares and also the voting right not existing, at least temporarily.

LEONI AG is not aware of any other constraints affecting voting rights, especially so any contractual constraints. Legal requirements apply to the exercise of voting rights by shareholder associations as well as by financial institutions and persons otherwise granted proxy. In particular, Section 135 of the German Stock Corporation Act (AktG) applies.

Transfer constraints exist in so far as shares that members of the Board of Directors and executives receive or have received in the context of a long-term incentive programme are subject to a holding period of 50 months.

LEONI AG has not received report or become otherwise aware of **ANY SHAREHOLDINGS, EITHER DIRECT OR INDIRECT, THAT EXCEED 10 PERCENT OF THE VOTING RIGHTS.**

Nor are there **ANY SHARES WITH SPECIAL ENTITLEMENTS THAT GRANT CONTROL RIGHTS**.

THE CONTROL OF VOTING RIGHTS IN THE CASE OF SHAREHOLDING EMPLOYEES WHO DO NOT DIRECTLY EXERCISE THEIR CONTROL RIGHTS: So far as employees are shareholders, they are entitled to directly exercise the control rights associated with their shares in accordance with the Articles of Association and the law.

STATUTORY PROVISIONS AND RULES IN THE ARTICLES OF ASSOCIATION ON THE APPOINTMENT AND RECALL OF MEMBERS OF THE BOARD OF DIRECTORS AND ON CHANGES TO THE ARTICLES OF ASSOCIATION:
The appointment and recall of members of the Board of Directors is governed by Sections 84 and 85 of the German Stock Corporation Act as well as in Section 31 of Germany's Co-determination Act. Pursuant to Article 5 (1) of the Articles of Association, the Board of Directors has at least two members. Furthermore, pursuant to Article 5 (2) sentence 1 of the Articles of Association, the Supervisory Board appoints the members of the Board of Directors and determines their number. It is entitled to appoint deputy members of the Board of Directors as well as a chairperson and a deputy chairperson of the Board of Directors (Article 5 (2) sentence 2, 3 of the Articles of Association).

Sections 119 (1) no. 5 and 179 (1) of the German Stock Corporation Act stipulate that any amendment of the Articles of Association requires a shareholder resolution at the Annual General Meeting. Pursuant to Section 179 (1) sentence 2 of the German Stock Corporation Act and Article 19 of the Articles of Association, the Supervisory Board is entitled to adopt amendments and additions to the Articles of Association that pertain only to that version. Furthermore, the Supervisory Board is authorised pursuant to Art. 4 (5), subpara. 5 of the Articles of Association to amend the version of the Articles of Association in line with the exercise either in full or in part of an increase in share capital by exercise of authorised capital 2017 and after expiry of the term of authorisation. Furthermore, the Board was authorised by a shareholder resolution at the Annual General Meeting on 7 May 2015 to amend the Articles of Association in line with the respective utilisation of authorised capital 2015 and after expiry of the term of authorisation.

The Annual General Meeting adopts its resolutions by a simple majority of votes and, to the extent that a majority of shares is required, with a simple majority of shares, unless bindingly provided otherwise by law or by the Articles of Association or by Section 103 (1) P. 2 of the German Stock Corporation Act (Article 16 (3 P. 3) of the Articles of Association). Therefore, shareholder resolutions at the Annual General Meeting that amend the Articles of Association also require, in addition to a simple majority of the votes, the majority of the share capital represented upon adoption of the resolution, provided no greater majority is required by law.

POWERS OF THE BOARD OF DIRECTORS TO ISSUE OR BUY BACK SHARES:

PURCHASE OF TREASURY SHARES The Company's Board of Directors is authorised, in the cases stipulated in Section 71 of the German Stock Corporation Act, to buy back own shares and to sell shares bought back. A shareholder resolution at the Annual General Meeting on 7 May 2015 pursuant to Section 71 (1) section 8 of the German Stock Corporation Act authorised the Board of Directors of LEONI AG, with the approval of the Supervisory Board, until 6 May 2020 to acquire own shares accounting for a pro-rated amount of the share capital totalling no more than 10 percent of the existing share capital at the time of this authorisation taking effect or – if this amount is smaller – at the time when this authorisation is exercised. At no time may the total of shares acquired by virtue of this authorisation and other shares of the Company already acquired and still held by the Company or attributable to it pursuant to Sections 71d and 71e of the German Stock Corporation Act (AktG) exceed 10 percent of the Company's share capital. The purchase may also be made through entities that are dependent on or are majority-owned by the Company or by third parties for the account of an entity that is dependent on or majority-owned by the Company. Such purchase may only be made via the stock market or by means of a public purchase offer made to all shareholders and must satisfy the principle of equal treatment of the shareholders. The authorisation may be used in full or several partial amounts spread across several purchase times. The Board of Directors is authorised to use the treasury shares acquired on the basis of this authorisation for all legally permitted purposes including those stated in the authorisation. Shareholders at the Annual General Meeting authorised the Board of Directors to do as follows with the shares acquired on the basis of this authorisation:

1. to resell them through means other than the stock market or by offer to all shareholders, on condition that the acquired shares are sold for cash and at a price that is not significantly lower than the market price for Company shares of the same category at the time of sale. This authorisation to exercise is limited to shares accounting for a pro-rated amount of the share capital totalling no more than 10 percent of the Company's share capital, neither at the time of this authorisation taking effect nor – if this amount is smaller – at the time when this authorisation is exercised. Further details are contained in the authorisation granted by the Annual General Meeting.

2. to transfer them to third parties provided this is done for the purpose of acquiring businesses, parts of businesses or shares in businesses or other assets or for executing business combinations.

3. to fulfil subscription or conversion rights, which arise from exercise of option or conversion rights or fulfilment of option exercise or conversion obligations, which were granted or imposed as part of the issue of warrant-linked or convertible bonds, profit-sharing rights or participating bonds (or combinations of these instruments) of the company or its group companies.

4. to transfer them to employees of the Company or to employees or board members of subordinated, affiliated companies within the meaning of Sections 15 et seq. of the German Stock Corporation Act.

5. to redeem them without any further resolution by the Annual General Meeting. Any such redemption may also be carried out without a reduction of capital by adjusting the pro-rata share of the other no-par-value shares in the Company's share capital. In this case, the Board of Directors is authorised to adjust the number of no-par-value shares stated in the Articles of Association.

6. to pay a scrip dividend.

If the acquired treasury shares are used for one of the purposes stated in Fig. 1 to 4 of this section, shareholders' rights to subscribe shall be excluded. If the acquired treasury shares are used for the purpose stated in Fig. 6, the Board of Directors is authorised to exclude the right to subscribe. If the acquired treasury shares are sold via the stock market, there is no shareholders' right to subscribe either. In the event of disposal of acquired treasury shares by means of a public offer to the shareholders, which is made based on upholding the principle of equal treatment, the Board of Directors is authorised to exclude the subscription right of shareholders for fractional amounts.

The Board of Directors may make use of the authorisations in Fig. 1 to 4 and 6 only with the approval of the Supervisory Board. The Supervisory Board may furthermore stipulate that the Board of Directors' measures on the basis of this authorisation are executed only with its approval.

No use of this authorisation has been made to date. The Company did not hold any treasury shares on 31 December 2017, nor did it on 31 December 2016.

AUTHORISED CAPITAL The Board of Directors is authorised pursuant to Article 4 (5) of the Articles of Association to increase the Company's share capital by up to €16,334,500.00 on or before 10 May 2022 with the Supervisory Board's approval by issuing up to 16,334,500 new bearer shares, each with a pro-rated share of €1.00 in the share capital, on a cash and/or non-cash basis once or repeatedly (authorised capital 2017). Shareholders must be granted a right to subscribe. However, the Board of Directors is authorised pursuant to Art. 4 (5) subpara. 2 of the Articles of Association, with the approval of the Supervisory Board, to rule out shareholders' subscription rights in the cases of:

1. a capital increase for cash, if the issue price of the new shares is not materially – within the meaning of Section 203 (1) and (2), Section 186 (3) sentence 4 of the German Stock Corporation Act – below the market price of already market-listed shares of the Company of the same type and with the same status at the time the issue price is set, which is to take place as soon as possible after the new bearer shares are placed. This exclusion of the subscription rights shall in total not exceed 10 percent of the Company's share capital, with the lowest amount of Company share capital at the following three times being decisive: on 11 May 2017, at the time this authorisation comes into effect or at the time it is exercised. More detail is contained in Article 4 (5) subpara. 2 (first bullet) of the Articles of Association.

2. a capital on a non-cash basis, especially to be able to offer new shares to third parties in the context of business combinations or furthermore for the purpose (also indirect) of acquiring businesses, operations, parts of businesses or shares in businesses or other assets or rights to acquire assets including receivables from the company or its group subsidiaries.

3. if this is necessary to grant the holders of convertible bonds and/or warrant-linked bonds or participation rights that were or will be issued by the Company or by its direct or indirect group companies a subscription right to new shares to the extent of their entitlement after the exercise of the conversion or option right or after fulfilment of the conversion obligation.

4. in order to exclude fractional amounts from the right of subscription.

The pro-rated amount of the share capital accounted for by the shares to be issued while excluding the shareholders' subscription rights shall in total not exceed 10 percent of the Company's existing share capital at the time the resolution is passed at the Annual General Meeting. More detail is contained in Article 4 (5) subpara. 3 of the Articles of Association.

CONTINGENT CAPITAL The Board of Directors is authorised, based on the shareholder resolution at the Annual General Meeting on 7 May 2015 and Article 4 (6) of the Articles of Association, with the approval of the Supervisory Board, until 6 May 2020 once or several times to issue warrant-linked or convertible bonds, profit-sharing rights or participating bonds (or combination of these instruments; collectively referred to as 'bonds') with a total par value of up to € 500,000,000 and to grant the holders the respective partial debentures with the same rights warrant-linked or conversion rights for registered Company shares with a pro-rated amount of the share capital totalling up to € 6,533,800.00 in accordance with the warrant-linked or convertible bond terms. More detail is contained in the authorisation resolution.

The legal right to subscribe to bonds is granted to shareholders in the manner that the bonds are taken on by a bank or the members of a banking syndicate or by a company of equal standing as defined by Section 186 (5) Sentence 1 of the German Public Stock Corporation Act (AktG) with the obligation that they be offered to shareholders for subscription. The Board of Directors is authorised, however, with the approval of the Supervisory Board to:

1. exempt maximum amounts, which might arise due to the subscription ratio, from the subscription right of the shareholders and also to exclude subscription right to the extent required so that holders of previously issued bonds with warrant-linked or conversion rights, or warrant-linked or conversion obligations may be granted right to subscription in the amount that would be due to them after exercising their warrant-linked or conversion rights, or fulfilling their warrant-linked or conversion obligations as shareholders.

2. fully exclude the right of shareholders to subscribe to bonds issued for cash, with warrant-linked or conversion rights or with warrant-linked or conversion obligations if the Board of Directors concludes, after due examination, that the issue price of the bonds does not fall substantially below their theoretical market value, calculated in accordance with recognised, particularly financial mathematical methods. This authorisation to exclude the subscription right shall apply to bonds with warrant-linked / conversion rights or warrant-linked / conversion obligations for shares accounting for a pro-rated amount of the share capital totalling no more than 10 percent of the Company's share capital, neither at the time of the authorisation taking effect nor – if this amount is smaller – at the time when the authorisation is exercised. This upper limit of 10 percent of the share capital is reduced by the pro-rated amount of the share capital accounted for by those shares issued or sold during the term of this authorisation while excluding the subscription right pursuant to or in accordance with Section 186 (3) sentence 4 of the German Stock Corporation Act; the other details being contained in the authorisation resolution.

3. so far as profit sharing rights or participating bonds are issued without warrant-linked rights / conversion rights or warrant-linked / conversion obligations, shareholder subscription rights may be excluded entirely if these profit sharing rights or participating bonds are structured in the same way as bonds, i.e. they do not provide any membership rights in the company, they do not grant any share of liquidation proceeds and the yield is not calculated on the basis of the amount of net income, the distributable profit or the dividend. In this case the interest and the issue amount of the profit sharing rights or participating bonds must also correspond with the market terms prevailing at the time of the issue. An issue of bonds that excludes subscription rights under this authorisation may only be exercised so far as the amount of the new shares to be issued on the basis of such bonds, together with the shares that are issued by the Company during the term of this authorisation under another authorisation with exclusion of the shareholders' right to subscribe, or are to be issued on the basis of such bonds during the term of this authorisation and exclusion of the shareholders' right to subscribe, must not exceed 20 percent of the Company's current share capital at the time this authorisation takes effect.

The Company's share capital was divided by up to € 6,533,800 into as many as 6,533,800 registered (no-par-value) shares (contingent capital 2015). The contingent capital increase is only to be performed to the extent that option and/or conversion rights are exercised, or that those obliged to exercise the option and/or convert have met their option exercise and/or conversion obligation, or so far as the Company exercises its right under such instruments either entirely or partially to grant shares in the Company instead of paying the cash amount due and provided no other forms of fulfilment are used. More detail is contained in Article 4 (6) of the Articles of Association.

AGREEMENTS OF THE COMPANY THAT ARE CONDITIONAL UPON A CHANGE OF CONTROL AS A RESULT OF A TAKEOVER BID: In the event of a change of control as a result of a takeover bid, the borrower's note loans placed in 2012, 2013 and 2015 in the total amount of € 330 million as well as the other loan agreements may be called in immediately. Furthermore, in such an event some of the major customers, suppliers as well as other joint venture partners also have the right to terminate contractual agreements with the Company prematurely.

AGREEMENTS ON COMPENSATION THAT THE COMPANY HAS REACHED WITH MEMBERS OF THE BOARD OF DIRECTORS OR STAFF FOR THE EVENT OF A TAKEOVER BID:
The service contract of a former member of the Board of Directors contained a change-of-control clause. This provided as follows: In the event that the Company receives notification pursuant to Section 33 (1) sentence 1 of the German Securities Trading Act (WpHG) whereby the party obliged to report declares that they have reached or exceeded 30 percent or 50 percent of the voting rights in the Company, or notification pursuant to Section 35 WpHG stating that a shareholder has taken control of the Company as defined by Section 29 WpHG, the corresponding member of the Board of Directors is entitled to terminate his or her

contract of employment with a notice period of three months to the end of the calendar month and to resign from his or her office as a member of the Board of Directors with the same notice period. The Board member is in this case entitled to payment of a settlement for the remaining term of his or her contract of employment. This is to be based on an amount of annual compensation that comprises (1) the average fixed compensation of the most recently ended and the current financial year, (2) the average annual bonus for the most recently ended financial year and the annual bonus budgeted for the current financial year, (3) the average of the notional annual bonus from the most recently ended financial year and the notional annual bonus budgeted for the current financial year as well as (4) the average of the share bonus for the most recently ended financial year and 80 percent of the maximum payable amount for the share bonus of the current financial year. Such settlement is limited to three years' compensation and shall not exceed the annual compensation for the balance of the employment contract. There shall be no entitlement to a settlement if the change of control takes effect within twelve months prior to the start of the corresponding Board of Directors member's retirement, or the service contract would automatically have ended within the next six months regardless of a change of control, or if the Company extraordinarily terminates the contract for good cause. More information is to be found in the compensation report.

Compensation report
›› page 118 et seq.

Nuremberg, 23 February 2018

The Board of Directors

Bruno Fankhauser Karl Gadesmann Martin Stüttem

CONSOLIDATED FINANCIAL STATEMENTS

In 2017, LEONI's consolidated net income increased from € 11.5 million to € 143.9 million, while earnings before interest and taxes rose from € 79.2 million to € 225.3 million. Further, moderate growth is expected for 2018.

Consolidated income statement

€ '000 01/01/ to 31/12/	Notes	2017	2016
Sales		4,922,807	4,431,322
Cost of sales		(4,101,454)	(3,700,196) [1]
Gross profit on sales		**821,353**	**731,126** [1]
Selling expenses		(243,448)	(239,915)
General and administration expenses		(273,264)	(240,471)
Research and development expenses		(129,088)	(134,385)
Other operating income	[6] [7]	45,734	27,977 [1]
Other operating expenses	[6]	(18,844)	(77,398)
Result from associated companies and joint ventures	[19]	22,842	12,219
EBIT		**225,285**	**79,153** [1]
Finance revenue	[8]	1.011	682
Finance costs	[8]	(26.117)	(25.245)
Other income from share investments		167	209
Income before taxes		**200,346**	**54,799** [1]
Income taxes	[9]	(56,423)	(43,281)
Net income		**143,923**	**11,518** [1]
attributable to: Equity holders of the parent company		145,022	10,705 [1]
Non-controlling interests		(1,099)	813 [1]
Earnings per share (basic and diluted) in Euro	[30]	4.44	0.33 [1]
Weighted average shares outstanding (basic and diluted)	[30]	32,669,000	32,669,000

[1] Prior-year figures adjusted; cf. Note 4

Consolidated statement of comprehensive income

€ '000 01/01/ to 31/12/	Notes	2017	2017	2016	2016
Net income			**143,923**		**11,518**[1]
Other comprehensive income					
Items that cannot be reclassified to the income statement:					
Actuarial gains or losses on defined benefit plans			9,042		(42,755)
Income taxes applying to items of other comprehensive income that are not reclassified			(335)		3,662
Share of the actuarial gains and losses that pertain to associates and joint ventures			32		(75)
Items that can be reclassified to the income statement:					
Cumulative translation adjustments					
Losses and gains arising during the period		(38,882)		(17,910)	
Less reclassification adjustments included in the income statement		(1,914)		91	
Total cumulative translation adjustments			(40,796)		(17,819)
Cash flow hedges					
Gains and losses arising during the period		4,322		(23,794)	
Less reclassification adjustments included in the income statement		10,525		15,345	
Less reclassification adjustments in the statement of financial position		101		0	
Total cash flow hedges			14,948		(8,449)
Parts of the items that can be reclassified to the income statement, which pertain to associates and joint ventures			(823)		10
Income taxes applying to items of other comprehensive income that are reclassified			(3,409)		277
Other comprehensive income (after taxes)	[10]		**(21,341)**		**(65,149)**
Total comprehensive income			**122,582**		**(53,631)**[1]
attributable to: Equity holders of the parent company			124,188		(54,505)[1]
non-controlling interests			(1,606)		874[1]

[1] *Prior-year figures adjusted; cf. Note 4*

Consolidated statement of cash flows

€ '000 01/01/ to 31/12/	2017	2016[1]
Net income	**143,923**	**11,518**
Adjustments to reconcile cash provided by operating activities:		
Income taxes	56,423	43,281
Net interest	23,263	23,977
Dividend income	(183)	(209)
Depreciation and amortisation	149,524	151,094
Impairment of non-current assets	2,780	5,388
Non-cash result from associated companies and joint ventures	(22,826)	(12,219)
Gain on business acquisition	0	(1,333)
Result of asset disposals	(1,892)	309
Effect of deconsolidation	(24,256)	(3,266)
Change in operating assets and liabilities		
Change in receivables and other financial assets	(71,622)	(10,588)
Change in inventories	(86,753)	(49,714)
Change in other assets	(20,265)	(42,494)
Change in restructuring provisions	(15,660)	18,238
Change in other provisions	(10,497)	(5,752)
Change in liabilities	160,574	79,985
Income taxes paid	(39,695)	(29,950)
Interest paid	(4,475)	(3,735)
Interest received	296	675
Dividends received	5,982	209
Cash flows from operating activities	**244,641**	**175,414**
Capital expenditures for intangible assets and property, plant and equipment	(275,195)	(211,988)
Acquisitions of subsidiaries less assumed cash and cash equivalents	(1,139)	(4,586)
of which: Purchase price € 3,479 k (previous year: € 6,100 k)		
Assumed cash and cash equivalents € 2,340 k (previous year: € 1,514 k)		
Capital expenditures for other financial assets	0	(238)
Cash receipts from disposal of assets	6,105	1,890
Income from the disposal of a business operation / subsidiaries less cash and cash equivalents paid	36,653	12,014
thereof: Disposal proceeds € 53,740 k (previous year: € 16,673 k)		
Cash and cash equivalents paid € 17,087 k (previous year: € 4,659 k)		
Cash flows from capital investment activities	**(233,576)**	**(202,908)**
Cash receipts from acceptance of financial debts	102,297	38,010
Cash repayments of financial debts	(105,516)	(27,263)
Interest paid	(15,308)	(12,769)
Dividends paid by LEONI AG	(16,335)	(32,669)
Dividends paid for non-controlling interests	(1,024)	0
Cash flows from financing activities	**(35,886)**	**(34,691)**
Change of cash and cash equivalents	(24,821)	(62,185)
Currency adjustment	(7,395)	(195)
Cash and cash equivalents at beginning of period	217,300	279,680
of which carried on the balance sheet under the item 'assets held for sale'	8,387	0
of which carried on the balance sheet under the item 'cash and cash equivalents'	208,913	279,680
Cash and cash equivalents at end of period	185,084	217,300
of which carried on the balance sheet under the item 'assets held for sale'	0	8,387
of which carried on the balance sheet under the item 'cash and cash equivalents'	185,084	208,913

[1] Prior-year figures adjusted; cf. Note 1 (concerning presentation of interest paid) as well as Note 4

Consolidated statement of financial position

Assets € '000	Notes	31/12/2017	31/12/2016
Cash and cash equivalents		185,084	208,913
Trade accounts receivable and other financial assets	[11]	664,700	584,775
Other assets	[12]	124,842	115,629
Receivables from income taxes		11,171	16,035
Inventories	[13]	669,485	588,273
Assets held for sale	[14]	0	74,712
Total current assets		**1,655,282**	**1,588,337**
Property, plant and equipment	[15]	1,052,337	948,933 [1]
Intangible assets	[16]	64,486	70,574 [1]
Goodwill	[18]	146,682	147,935
Shares in associated companies and joint ventures	[19]	34,059	24,754
Trade receivables from long-term development contracts	[11]	60,535	53,344
Other financial assets	[20]	7,349	7,543
Deferred taxes	[9]	50,897	61,356
Other assets		54,683	43,642
Total non-current assets		**1,471,028**	**1,358,081** [1]
Total assets		**3,126,310**	**2,946,418** [1]

Equity and liabilities € '000	Notes	31/12/2017	31/12/2016
Current financial debts and current proportion of long-term financial debts	[21]	254,373	150,345
Trade accounts payable and other financial liabilities	[22]	974,884	855,003 [1]
Income taxes payable		25,541	25,874
Other current liabilities	[23]	188,592	159,559 [1]
Provisions	[24]	33,404	53,463
Liabilities held for sale	[14]	0	41,761
Total current liabilities		**1,476,794**	**1,286,005** [1]
Long-term financial debts	[21]	336,947	462,143
Long-term financial liabilities		27,585	14,103
Other non-current liabilities		11,716	5,127
Pension provisions	[25]	170,792	183,059
Other provisions	[24]	33,298	33,253
Deferred taxes	[9]	45,580	45,564
Total non-current liabilities		**625,918**	**743,249**
Share capital	[26]	32,669	32,669
Additional paid-in capital	[26]	290,887	290,887
Retained earnings	[26]	763,930	635,243 [1]
Accumulated other comprehensive income		(72,194)	(51,360)
Equity holders of the parent company		1,015,292	907,439 [1]
Non-controlling interests		8,306	9,725 [1]
Total equity	[26]	**1,023,598**	**917,164** [1]
Total equity and liabilities		**3,126,310**	**2,946,418** [1]

[1] *Prior-year figures adjusted; cf. Note 4*

Consolidated statement of changes in equity

€ '000	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income: Cumulative translation adjustments	Accumulated other comprehensive income: Cash flow hedges	Accumulated other comprehensive income: Actuarial gains and losses	Equity holders of the parent company	Non-controlling interests	Total
1 January 2016	**32,669**	**290,887**	**657,207**	**102,776**	**(6,742)**	**(82,184)**	**994,613**	**1,715**	**996,328**
Net income			10,705				10,705	813	11,518
Other comprehensive income				(17,870)	(8,172)	(39,168)	(65,210)	61	(65,149)
Total comprehensive income							*(54,505)*	*874*	*(53,631)*
Dividend payment			(32,669)				(32,669)	0	(32,669)
Purchase of non-controlling interests								7,136	7,136
31 December 2016	**32,669**	**290,887**	**635,243** [1]	**84,906**	**(14,914)**	**(121,352)**	**907,439** [1]	**9,725** [1]	**917,164** [1]
1 January 2017	**32,669**	**290,887**	**635,243**	**84,906**	**(14,914)**	**(121,352)**	**907,439**	**9,725**	**917,164**
Net income			145,022				145,022	(1,099)	143,923
Other comprehensive income				(41,111)	11,539	8,738	(20,834)	(507)	(21,341)
Total comprehensive income							124,188	(1,606)	122,582
Dividend payment			(16,335)				(16,335)	(1,024)	(17,359)
Purchase of non-controlling interests								1,342	1,342
Disposal of non-controlling interests								(131)	(131)
31 December 2017	**32,669**	**290,887**	**763,930**	**43,795**	**(3,375)**	**(112,614)**	**1,015,292**	**8,306**	**1,023,598**

[1] *Prior-year figures adjusted; cf. Note 4*

Notes

Principles

LEONI AG ("LEONI", the "Group" or the "Company") was founded in Germany under the name of Leonische Werke Roth-Nürnberg, Aktiengesellschaft by an agreement dated 23 April 1917 and was entered in the commercial register on 2 February 1918. LEONI AG is registered with the District Court of Nuremberg under number HRB 202. The Company is based in Nuremberg, at Marienstrasse 7. The Group's principal activities are described in Note 5.

These consolidated financial statements of LEONI AG have been prepared based on Section 315a of the German Commercial Code (HGB – "Consolidated Financial Statements pursuant to the International Financial Reporting Standards") in accordance with the International Financial Reporting Standards (IFRS) and the associated interpretations (SIC/IFRIC interpretations) as obliged to by Directive (EU) no. 1606/2002 of the European Parliament and of the Council concerning the adoption of international accounting standards in the European Union. The term IFRS also covers the still valid International Accounting Standards (IAS).

LEONI AG's consolidated financial statements on 31 December 2017 have been prepared in euros. Except where stated otherwise, all amounts are presented in thousands of euros ("€ k"). The balance sheet is structured by term, while the income statement is prepared using the function of expense method. The statement of comprehensive income is issued in two related presentations. Where the balance sheet and income statement items are summarised to improve clarity of presentation, they are shown separately in the Notes.

The accounting and valuation methods applied in the consolidated financial statements on 31 December 2017 are in line with those of the previous year with the exception of the new IFRS requirements applied for the first time in the 2017 financial year. These are explained under Note 2.

The Management Board on 23 February 2018 authorised the presented consolidated financial statements for the year ended 31 December 2017 for submission to the Supervisory Board.

The consolidated financial statements will be published in the electronic Federal Gazette (Bundesanzeiger) under number HRB 202.

1 | Principles of consolidation as well as summary of key accounting and valuation methods

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

Principles of consolidation
The consolidated financial statements include the accounts of LEONI AG and of all subsidiaries that are either directly or indirectly controlled by LEONI AG. The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee. In particular, the Group controls an investee if, and only if, it has all the following elements:

- power over the investee, i.e. the Group has existing rights that give it the ability to direct the relevant activities (the activities that significantly affect the investee's returns)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect the amount of the investor's returns

If facts or circumstances indicate that one or several of the three elements of control have changed, the Group must reassess whether it controls an investee.

Subsidiaries are fully consolidated from the time of acquisition, i.e. from the time when the Group has acquired control over the subsidiary. Inclusion in the consolidated financial statements ends as soon as LEONI no longer has control. A change in the ownership share of a subsidiary is, without loss of control, accounted for as an equity transaction. Losses are allocated to the non-controlling interests even when this results in a negative balance.

The financial statements of the subsidiaries are prepared using uniform accounting policies on the same balance sheet date as the financial statements of the parent company. All intercompany balances, income, expenses as well as unrealised profits, losses and dividends from intercompany transactions are eliminated in full.

All business combinations are accounted for using the acquisition method based on applying the requirements of IFRS 3. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes in the fair value of a contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill arises and is upon initial consolidation measured at cost if the consideration transferred and the amount recognised for non-controlling interest exceeds the fair value of the net identifiable assets acquired and liabilities assumed. If this transferred consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After goodwill is first accounted for, it is tested for impairment according to IAS 36 at least once a year, which may lead to an impairment loss (impairment-only approach).

Shares in associated companies and joint ventures

It is an associated business when LEONI can exert significant influence over its operating and financial policies but does not control or jointly control the decision-making processes. This is in principle the case when between 20 and 50 percent of the voting rights are held.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations to determine significant influence or joint control are comparable with those to determine control of subsidiaries.

Shares in associated companies and in joint venture companies are accounted for under the equity method. The shares are valued with their purchase price on the acquisition date, which is increased or reduced respectively in the subsequent periods for any changes in net assets of the company such as the proportionate share of net income or loss and by received dividends. The proportionate net income or loss is determined using the accounting policies described in this Note. In line with the treatment of fully consolidated subsidiaries, the goodwill included in the carrying amount of companies accounted for under the equity method is no longer amortised either. Instead of a test for impairment of equity method goodwill, the whole investment accounted for under the equity method is reviewed for impairment according to IAS 36, provided there are indications according to IAS 39 of additional impairment loss. The Group determines on each balance sheet date whether there are objectively discernible indications that the investment in an associated company or joint venture might be impaired. If this is the case, the difference between the fair value of the investment and the carrying amount is expensed as an impairment loss.

The financial statements of the associates and of the joint ventures are prepared using uniform accounting policies on the same balance sheet date as the financial statements of the parent company.

Foreign currency translation

These consolidated financial statements are prepared in the presentation currency, the euro, which is the functional currency of the group parent company, LEONI AG. The financial statements of the foreign subsidiaries included in the consolidated financial statements with a functional currency other than the euro, are, under IAS 21, translated into the Group currency, the euro, according to the functional currency concept. The functional currency of the individual subsidiaries is the currency of the primary economic environment in which the company operates. The financial statements prepared in the respective functional currency of the subsidiary are translated using the closing rate method, i.e. the assets and liabilities are translated from the functional currency to the presentation currency at the closing exchange rate on the balance sheet date, while the statements of income are translated using annual average exchange rates (arithmetic average of the monthly average exchange rates). Any differences arising from the translation of assets and liabilities compared with the previous year's translation as well as translation differences between the income statement and the statement of financial position are recorded in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences in the other comprehensive income relating to that foreign operation is recognised in the income statement when the gain or loss on disposal is recognised.

A foreign currency transaction, i.e. a transaction entered into by a consolidated company in a currency other than its functional currency, is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. In the subsequent periods, monetary assets and liabilities are revalued using the closing rate at each balance sheet date. The resulting currency differences are recorded in the income statement. Non-monetary items are still carried at the transaction rate, or, if they are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Exchange gains or losses that arise from measurement of monetary, principally intra-group items are allocated to operating income (EBIT) to the extent that they involve exchange gains or losses directly related to an operating transaction.

The exchange rates of the companies material to the consolidated financial statements have changed as follows:

Average exchange rate at balance sheet date — 1 euro in foreign currency units

Country	Currency	ISO Code	31/12/2017	31/12/2016
Brazil	Real	BRL	3.96950	3.43360
China	Renminbi Yuan	CNY	7.79810	7.32570
United Kingdom	Pound	GBP	0.88730	0.85700
Korea	Won	KRW	1,278.52000	1,268.88000
Mexico	Peso	MXN	23.59000	21.85000
Poland	Zloty	PLN	4.17600	4.41700
Romania	Leu	RON	4.65930	4.54300
Russian Federation	Rubel	RUB	69.32000	64.73000
Switzerland	Swiss Franc	CHF	1.17000	1.07400
USA	Dollar	USD	1.19900	1.05550

Annual average exchange rate — 1 euro in foreign currency units

Country	Currency	ISO Code	2017	2016
Brazil	Real	BRL	3.62362	3.85071
China	Renminbi Yuan	CNY	7.62873	7.32339
United Kingdom	Pound	GBP	0.87470	0.81581
Korea	Won	KRW	1,275.59538	1,279.14347
Mexico	Peso	MXN	21.44338	20.53164
Poland	Zloty	PLN	4.25723	4.36152
Romania	Leu	RON	4.57129	4.49601
Russian Federation	Rubel	RUB	66.04808	73.74116
Switzerland	Swiss Franc	CHF	1.11315	1.08933
USA	Dollar	USD	1.13048	1.10217

Measurement of fair value

The Group measures various assets at their fair value on each balance sheet date. Fair value is the price that an entity would receive to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring fair value, it is assumed that the business transaction takes place either on the principal market or, if there is no principal market, on the most advantageous market for the asset or the liability. The Group must have access to the principal market or the most advantageous market.

The fair value of an asset or a liability is measured on the assumptions on which market participants would base their pricing of the asset or the liability. This assumes that the market participants act in their best business interest.

A fair value measurement of a non-financial asset takes account of the market participant's ability, through the asset's highest and best use or through its sale to another market participant who finds the asset's highest and best use, to generate economic benefit. The Group applies valuation techniques appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is ascertained or presented in the financial statements are categorised into the fair value hierarchies described hereinafter, based on the lowest level input that is significant to the entire measurement of fair value:

Level 1:
(Non-adjusted) prices quoted in active markets for identical assets or liabilities
Level 2:
A valuation technique whereby the lowest level input that is significant to the entire measurement of fair value is directly or indirectly observable on the market
Level 3:
A valuation technique whereby the lowest level input that is significant to the entire measurement of fair value is not observable on the market

In the case of assets and liabilities that are recognised in the financial statements on a recurring basis, the Group ascertains whether any reclassification of the hierarchy levels has taken place by, at the end of each reporting period, reviewing the classification based on the lowest level input that is significant to the entire measurement of fair value.

The services of outside appraisers are used in some individual cases to value significant assets as well as such significant liabilities as contingent considerations. The Group analyses as at each reporting date the value of assets and liabilities that must, in accordance with the Group's accounting policies, be remeasured or reassessed. This analysis involves a review of the significant inputs that were applied to the previous valuation.

Revenue recognition
Revenues are generated mainly from the sale of products. Pursuant to IAS 18, sales revenues are generally recognised net of value added tax (VAT) upon delivery of products to the customer or upon fulfilment of service contracts. Delivery has occurred when the risks and rewards associated with ownership have been transferred to the buyer. Provisions for customer rebates and discounts as well as for returns and other adjustments are provided for in the same period the related sales are recognised. Fulfilment of service contracts occurs when substantially all performance obligations have been met. In the case of long-term development contracts, revenues are recognised according to the stage of completion provided that the contracts meet the conditions for applying the percentage-of-completion method pursuant to IAS 11. This applies to the development contracts described below.

Interest income is recognised as interest accrues. By using the effective interest rate method this means that the interest income recognised is the amount produced by using the effective interest rate. This is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholder's right to receive payment is established.

Research and development costs

Research costs are expensed as incurred.

Development costs are expensed as incurred unless they relate to customer-specific development contracts accounted for pursuant to IAS 11, or they meet the criteria of IAS 38 for capitalisation as an intangible asset. Pursuant to IAS 11 for customer-specific development contracts that meet the corresponding conditions the percentage-of-completion method is applied. The capitalised amount, where payment is expected after more than one year, is disclosed under trade receivables from long-term development contracts. The current proportion is contained in trade receivables. The percentage of completion is determined according to the ratio of costs incurred to total costs (cost-to-cost method). The income from development contracts is reported under sales in the income statement.

Government grants

A government grant is recognised when there is sufficient assurance that the grant will be received and that the enterprise will comply with the conditions attaching to it. Expense-related grants are recognised as income on a systematic basis over the periods necessary to match them with the associated costs. Grants for an asset are deducted from the cost of the asset.

Factoring

Some trade receivables, mainly from carmakers and their suppliers, are sold to factoring companies to realise cash receipts early. Such receivables are derecognised from the consolidated balance sheet at the time of sale because the risk of default is transferred to the purchaser. The security deposit assessed by the factor is recognised in current other financial assets. The liabilities from cash receipts for sold receivables are reported under other financial liabilities.

Reverse factoring

Reverse factoring transactions are used to finance suppliers in connection with copper procurement. These agreements are used mainly to take advantage of longer payment terms. There is no effect, however, either in terms of recognition or under civil law that would entail reclassification of the trade liabilities to another type of liability on the balance sheet.

Inventories

Inventories encompass raw materials, production supplies and goods purchased as well as work in progress and finished goods. They are stated at the lower of cost and the net realisable value. Raw materials, production supplies as well as goods purchased are evaluated at cost using the weighted average cost formula or at the lower net realisable value on the balance sheet date. The net realisable value is computed based on the estimated selling price in the normal course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs of conversion of work in progress and finished products comprise, alongside the direct costs of production material and production wages, proportionate material and production overhead costs based on standard capacity.

Non-current assets held for sale

A non-current asset, or a disposal group, is classified as held for sale if the related carrying amount is realised mainly by a sale transaction and not by continued use, and if the criteria pursuant to IFRS 5 in this regard are met. If non-current assets or a disposal group are classified as held for sale, depreciation is ceased and the Company determines the fair value of such assets. If the fair value of the assets held for sale or the disposal group, less the selling costs, is less than the net carrying amount of the assets, a write-down is made on the fair value, less the selling costs. If the disposal plan changes and the criteria pursuant to IFRS 5 for an asset or disposal group that were classified as held for sale are no longer met, they are no longer presented separately but reclassified to the balance sheet item where they were originally recorded. They are valued at the lower of the carrying amount before the asset or disposal group was classified as held for sale (as adjusted for any subsequent depreciation, amortisation or revaluation that would have been recorded without classification as held for sale) and their recoverable amount at the date of the decision not to sell.

Property, plant and equipment

Property, plant and equipment is, upon initial recognition, valued at cost. Attributable borrowing costs are capitalised as part of the cost of a qualifying asset pursuant to IAS 23. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Government grants for capital investments reduce the cost of those assets for which the grant was awarded. In the subsequent periods, property, plant and equipment is carried at cost less accumulated depreciation. It is depreciated over its probable economic life. Immovable assets are mostly depreciated on a straight-line basis and movable assets are, depending on their type of use, depreciated using either the straight-line method or, if so required by their actual use, the declining method. When carrying out larger-scale maintenance, the costs are recognised in the carrying amount of the item of property, plant or equipment, provided that recognition criteria are met.

The following useful lives are assumed for depreciation:

Buildings and facilities	max. 50 years
Machinery and equipment	max. 15 years
Factory and office equipment	max. 10 years
Computer hardware	3 – 5 years

Leased installations are depreciated on a straight-line basis over the respective shorter period of the term of the lease or the estimated ordinary useful life.

A property, plant or equipment is derecognised either when it is disposed of or when no further economic benefit is to be expected from either the use or disposal of the asset. The gains or losses resulting from derecognition are determined as the difference between the net disposal proceeds and the carrying amount and are, in the period in which the asset is derecognised, recorded in the income statement.

The residual values of the assets, useful lives and depreciation methods are reviewed at the end of the financial year, and if necessary adjusted.

Leases

Leases are classified as either finance or operating. Leasing transactions whereby LEONI is the lessee and bears all substantial risks and rewards typical of ownership from use of the leased asset are accounted for as finance leases. Accordingly, the lessee capitalises the leased asset and records the corresponding lease obligation on the balance sheet at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The leased asset is depreciated over its economic life. If there is no reasonable certainty at the beginning of the lease that the Group will obtain ownership, the leased asset is depreciated in full over the shorter of the two periods of the expected useful life and the term of the lease. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement. All other leasing agreements entered into by LEONI, as a lessee, are accounted for as operating leases. The lease payments are expensed on a straight-line basis over the lease term.

Whether an arrangement contains a lease is determined based on the arrangement's economic substance at the time it was concluded and requires an assessment whether meeting the contractual arrangement depends on the use of a certain asset or certain assets and whether the arrangement gives the right to use the asset.

Intangible assets

Intangible assets comprise patents, software, licenses and similar rights, as well as customer relationships, brands, technology and production know-how acquired in the context of business combinations. An intangible asset that results from development expenditure is capitalised if a newly developed product or process can be clearly defined, is technically feasible and is intended for either own use or for sale. Capitalisation also assumes that the development expenses can with a sufficient degree of likelihood be covered with future inflow of cash and cash equivalents and the other IAS 38.57 criteria are met.

Intangible assets acquired separately are, upon initial recognition, valued at cost. The costs of intangible assets acquired as part of business combinations equal their fair values as at the date of acquisition. In the subsequent periods, intangible assets are carried at their cost less any accumulated depreciation and any accumulated impairment losses. Measurement in the subsequent periods should differentiate between intangible assets with a finite useful life and with an indefinite useful life.

According to IAS 38, intangible assets with a finite useful life must be amortised over their useful life. The Company therefore, in accordance with these requirements, amortises development costs capitalised as assets on a straight-line basis and amortises other intangible assets with a finite useful life on a straight-line basis over their useful lives to their estimated residual values, which is normally nil. Other intangible assets with a finite useful life are mainly software licenses with an estimated useful life of three years as well as customer relationships with useful lives of six to 23 years as well as technology and production know-how with a useful life of five to 15 years, in both cases acquired in the context of business combinations. The amortisation method and the amortisation period for an intangible asset with a finite useful life are reviewed, at least, at the end of each financial year. Any changes to the amortisation method and the amortisation period due to revision of the expected useful life or the expected use of the asset's future economic benefit are treated as changes in estimates.

According to IAS 38, intangible assets with an indefinite useful life have no longer been amortised; instead such intangible assets must, according to IAS 36, be reviewed for impairment at least annually and written down to their lower recoverable amount. The review is carried out as at 31 October of each year according to the same principles as in the case of goodwill. The remarks below therefore apply accordingly. Intangible assets with an indefinite useful life are reviewed once a year to determine whether the estimate of assessment of an indefinite useful life is still justified. If this is not the case, the assessment is prospectively changed from an indefinite to a definite useful life. LEONI recorded brands acquired in the context of business combinations as intangible assets with an indefinite useful life.

Intangible assets are derecognised when they are disposed of or when no further economic benefit is to be expected from either their use or disposal.

Goodwill
Goodwill from a business combination is, upon initial recognition, measured at cost calculated as the excess of the transferred consideration over the identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at the acquisition cost less any accumulated impairment losses.

Goodwill is not amortised; instead it is in line with the requirements of IAS 36 reviewed for impairment at least once a year. The Group reviews the goodwill for impairment annually as at 31 October. A review also takes place if events or circumstances indicate that there might be an impairment loss. For the purpose of the impairment test, goodwill acquired in the context of a business combination is, from the acquisition date, to be allocated to the Group's cash-generating units expected to benefit from the synergies of the business combination. This applies regardless of whether other assets or liabilities of the acquired business are allocated to these cash-generating units. Goodwill is tested at the level of the cash-generating unit to which it is allocated by comparing the carrying amount of the cash-generating unit or units with the recoverable amount. Impairment has occurred if the carrying amount exceeds the recoverable amount, requiring a write-down to the recoverable amount. The recoverable amount corresponds to the higher of the two amounts from the fair value less cost to sell and value in use. The value in use of a cash-generating unit is defined as the present value of projected cash flows to the Company from the cash-generating unit. To determine the value in use, the projected cash flows are discounted to their present value based on a discount rate before tax that reflects current market assessments of the time value of money and the risks specific to the cash-generating unit. An appropriate valuation model is applied to determine the fair value less cost to sell. This is based on valuation multiples, discounted cash-flow valuation models, stock market prices and other available indicators of the fair value.

Later reversal based on disappearance of the reason for a goodwill impairment recorded in previous financial years or interim reporting periods is not permitted.

Impairment testing of intangible assets and of property, plant and equipment
An assessment is made at each balance sheet date whether there are any indications that an impairment loss may have occurred. If there are such indications, the recoverable amount of the asset is determined and compared with its carrying amount. The system for and effects of this review are in line with the test of goodwill (see comments on goodwill above).

If specific cash flows generated largely independently from other assets or groups of assets cannot be allocated to the individual assets, they are tested for impairment based on the smallest, overriding cash-generating unit of assets.

If the reasons for applying the impairment charge have disappeared, the write-down on the asset is reversed. Such reversal is limited to the amount that would have resulted when taking amortisation or impairment into account.

Regardless of whether there is evidence of impairment, a corresponding test for impairment is applied once a year to both intangible assets that are not yet ready for use and intangible assets with an indefinite useful life.

Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. Financial instruments recorded as either financial assets or financial liabilities are as a matter of principle presented separately. They are reported on a net basis only where a right of set-off with respect to the amounts exists at the present time and it is intended to settle net.

Financial instruments are recognised as soon as LEONI becomes a contracting party to the financial instrument. In the case of regular way purchases or sales in the context of a contract whose conditions provide for the asset to be delivered within a period of time that is normally determined by the rules or conventions of the respective market, the settlement date, i.e. the date on which the asset is supplied to or by LEONI, is pertinent to initial recognition as well as derecognition.

Financial assets comprise particularly cash and cash equivalents, trade receivables as well as other originated loans and receivables, financial instruments held to maturity as well as both primary and derivative financial assets held for trading purposes.

Financial liabilities normally provide a claim for return in cash or another financial asset. These comprise particularly bonds and other securitised liabilities, trade liabilities, liabilities to banks, liabilities under finance leases, borrower's note loans and derivative financial liabilities.

Financial assets are derecognised when one of the three following conditions is met:

- The contractual rights to receive the cash flows from a financial asset are extinguished.
- Although the Group retains the rights to receive the cash flows from financial assets, it assumes a contractual obligation to immediately pay the cash flows to a third party in the context of an agreement that meets the requirements of IAS 39.19 ("pass-through arrangement").
- The Group has transferred its contractual rights to receive the cash flows from a financial asset and substantially all the risks and rewards incident to ownership of the financial asset have thereby been transferred, or alternatively when control of the financial asset has been transferred.

Cash receipts from the sale of receivables that were not yet passed on to the buyer of the receivables on the balance sheet date are reported under other financial liabilities.

Financial liabilities are derecognised when the obligation underlying the liability has been met, terminated or extinguished.

Financial instruments are initially recognised at their fair value. The assumption or issue of directly attributable transaction costs is considered when determining the carrying amount if the financial instruments are not measured at fair value through profit or loss.

For measurement subsequent to initial recognition the financial instruments are allocated to one of the measurement categories listed in IAS 39 to which they are designated at the time of their initial recognition.

Financial assets

Financial assets are divided into the following categories:

- ***Financial assets remeasured to fair value through profit or loss***

  This category comprises financial assets held for trading (FAHft) and financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss (FVtPL). Financial assets are classified as held for trading if they are acquired and held with a view to disposal in the near future. Derivatives, including embedded derivatives recognised separately, are also classified as held for trading except for such derivatives that were designated as a hedging instrument and are effective as such.

  Gains or losses on financial assets of this category are recognised in the income statement.

  Neither in the 2017 financial year nor in the previous year did the Company classify any primary financial assets as held for trading, nor did it make use of the option to designate financial assets at fair value through profit or loss upon their initial recognition.

- ***Held-to-maturity investments***

  Held-to-maturity investments (HtM) are non-derivative financial assets with fixed or determinable payments and fixed maturity that an enterprise has the positive intent and ability to hold to maturity. They are measured at amortised cost using the effective interest rate method. Gains or losses are recognised in net profit or loss when the financial asset is derecognised or impaired, as well as through the amortisation process.

  The Group had financial assets of this category in neither fiscal 2017 nor the previous year.

- ***Loans and receivables***

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Following initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method less any impairment.

  Valuation allowances are made when receivables are uncollectible or probably uncollectible and a reliable estimate of the valuation allowance can be made. There is need for valuation allowance when there are objectively discernible indications such as receivables overdue for a prolonged period, initiation of foreclosure measures, looming default or overindebtedness as well as insolvency proceedings having been applied for or commenced. Trade receivables with usual payment terms, which normally do not exceed twelve months, are therefore recognised at the nominal amount, less appropriate allowances. Receivables that do not bear interest or bear below market interest rates and have an expected term of more than one year are discounted with the discount subsequently amortised to interest income over the term of the receivable. Impairment of trade receivables as well as receivables from long-term development contracts is recognised in separate impairment accounts. Impairment losses of all other financial assets are recognised directly.

  Gains or losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

- ***Available-for-sale financial assets***
  Available-for-sale financial assets (AfS) are non-derivative financial assets that are designated as available for sale and are not classified in one of the aforementioned categories. They must be measured at their fair value. The gains or losses resulting from valuation at fair value are recorded separately as accumulated other comprehensive income within equity. If there are significant loss events or, in the case of equity instruments, losses ongoing over a longer period, this will be expensed accordingly in the income statement. The Group assumes there to be a significant loss event involving impairment of more than 20 percent and prolonged decline in value of equity instruments to be probable when there has been continued loss in value over a period of twelve months. Later reversals of impairment on available-for-sale financial assets are as a matter of principle recorded as accumulated other comprehensive income. Only in the case of debt instruments are reversals recognised in the income statement up to the original amount of impairment, with any amounts above that recorded as accumulated other comprehensive income. Provided that there is no quoted market price in an active market for investments in equity instruments and that their fair value cannot be reliably measured, they are carried at acquisitions cost. A write-down to the present value of the future cash flows is made in the case of a decline in value other than temporary.

Financial liabilities
Financial liabilities that fall into the category of "financial assets at fair value through profit or loss" are also carried at fair value in the subsequent periods with the resulting gains or losses recognised in the income statement.

This category comprises financial liabilities held for trading (FLHfT) as well as liabilities that were, upon initial recognition, designated as financial liabilities at fair value through profit or loss (FVtPL). Financial liabilities are classified as held for trading if they are acquired and held with a view to disposal in the near future. Derivatives, including embedded derivatives recognised separately, are also classified as held for trading except for such derivatives that were designated as a hedging instrument and are effective as such.

Neither in the 2017 financial year nor in the previous did the Company classify any primary financial liabilities as held for trading, nor did it make use of the option to designate financial liabilities at fair value through profit or loss (FVtPL) upon their initial recognition.

All financial liabilities that do not fall into this category and are not derivative financial instruments are measured at amortised cost using the effective interest rate method (Financial Liabilities at Amortised Cost – FLAC). In the case of current liabilities, the amortised cost corresponds to either their repayment or settlement value. Gains or losses are recognised in the income statement when the liabilities are derecognised or amortised.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cheques and immediately disposable bank deposits with an original maturity of three months or less. Cash is recognised at par value.

Derivative financial instruments and hedging activities

Derivative financial instruments entered into by the LEONI Group are recorded at their fair value on the balance sheet date. Depending on their maturity, derivatives with a positive fair value are reported as current or non-current other financial assets and derivatives with a negative fair value are reported as current or non-current other financial liabilities. In general, the Group recognises the changes in fair value of derivative financial instruments in the income statement. However, the Group records changes in fair value of foreign currency derivatives used to hedge anticipated foreign currency-denominated cash flows on firm commitments and forecast transactions in accumulated other comprehensive income until the hedged item is recognised in the income statement when the requirements of the standard to apply cash flow hedge accounting are met. The reclassification from accumulated other comprehensive income into earnings occurs in the same period as the underlying transaction takes place and has effect on net income. The ineffective portions of the fair value changes of those derivatives are recognised in earnings immediately. The fair value changes of interest rate derivatives designated to hedge non-current liabilities subject to interest rate fluctuation are also recognised in accumulated other comprehensive or directly in equity if they meet the requirements to apply cash flow hedge accounting. The amounts recorded in other comprehensive income subsequently lead to the interest expenditure from the relevant underlying transaction recorded in the income statement being balanced. Where interest-rate derivative contracts are concluded to hedge the fair value of a hedged item measured at amortised cost, the hedging instrument is measured at the fair value and any changes in fair value are recognised in the income statement under either finance costs or finance revenue.

Commodity future transactions that are settled in cash are recognised as derivatives, changes in the fair value of which are recognised in the cost of sales.

Contracts entered into for the purpose of receipt or supply of non-financial items according to the Group's expected purchase, sale or usage requirements and held as such (own use contracts) are reported not as derivative financial instruments but as pending transactions.

If contracts contain embedded derivatives, such derivatives are reported separately from the host contract when the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The review whether a contract contains an embedded derivative that must be reported separately from the host contract is made at the time when the Company became a contracting party. A reassessment is made only when there are major changes to the terms of the contract that result in a significant change to the cash flows.

Accruals

Accruals are also reported under liabilities. Accruals are liabilities to pay for goods or services that have been received but have not been paid or invoiced by the supplier.

Pension and other post-employment benefits

The valuation of defined-benefit pension obligations is based upon actuarial computations using the projected-unit-credit method in accordance with IAS 19. Changes due to the actuarial assumptions or differences between the actual development and the original assumptions as well as gains or losses on the pension plan or plan assets (actuarial gains or losses) as a difference between the return on plan assets recorded in net interest expenses and the actual return are recognised in other comprehensive income. Past service cost is recognised in the income statement at the time of the change to the plan.

The amount recognised as a defined benefit asset or liability comprises the present value of the defined benefit obligation, less the fair value of plan assets out of which the obligations are to be settled directly. The value of a defined benefit asset is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The interest costs relating to the net obligation are presented under finance costs.

Other provisions

Other provisions are recorded when a present legal or constructive obligation to a third party has been incurred from past events, the payment is probable and the amount can be reasonably estimated. So far as the Group expects repayment for an accrued provision at least in part for example from an insurance policy, such repayment is recognised as a separate asset provided the inflow of the repayment is virtually certain. The provisions are valued according to IAS 37 with the best estimate of the amount of the obligation. Where provisions do not become due until after one year and a reliable estimate of the payment amounts and dates is possible, the present value for the non-current proportion is determined on a discounted basis. The unwinding of discount on provisions is recognised under interest expenses.

Obligations to dispose of an asset and to re-cultivate its site or similar obligations must be recognised as a component of acquisition and production costs and simultaneously recognised as a provision. In the subsequent periods this amount added to the asset is to be depreciated over its residual useful life. The best possible estimate of the payment obligation or provision is accreted to its present value at the end of each period.

Restructuring provisions are recognised when the constructive obligation has arisen according to the criteria under IAS 37.72. Accruals are not reported under provisions, but rather under liabilities.

Income taxes

The current tax assets and tax liabilities for the current and prior periods are measured at the amount expected to be recovered from the taxation authority or paid to the taxation authority. Calculation of the amount is based on the tax rates and tax laws that are applicable to the corresponding period. Uncertain income tax items for tax years not yet finally assessed are considered at the best possible estimate based on experience.

Deferred tax is, pursuant to IAS 12, formed according to the balance sheet liability method. This provides that tax assets and liabilities for all temporary differences, apart from the exceptions under IAS 12.15, IAS 12.24, IAS 12.39 and IAS 12.44, between the carrying amount in the statement of financial position and the amount for tax purposes as well as for tax loss carryforwards are recognised (temporary concept). Deferred taxes are measured using the currently enacted tax rates in effect during the periods in which the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax law is recognised in the period that the law is enacted. Deferred tax assets are applied only to the extent that it is more likely than not that the tax benefit will be realised. The legally independent entities are assessed individually in this respect, with any history of loss included in the assessment. Further details are presented in Note 9.
The deferred tax assets and those not recognised are reviewed in this regard on each balance sheet date.

Deferred tax assets and liabilities are offset if they relate to income taxes levied by the same taxation authority and the Group has a legally enforceable right to set off current tax assets against current tax liabilities.

Income taxes referring to items that are recognised in other comprehensive income are also recognised in other comprehensive income and not in the income statement.

Earnings per share

Earnings per share are computed in accordance with IAS 33, Earnings per Share. The basic earnings per share are computed by dividing consolidated net income attributable to the LEONI shareholders by the weighted average of the number of ordinary shares outstanding during the relevant period. The diluted earnings per share are computed by dividing consolidated net income attributable to the LEONI shareholders by the total of the weighted average number of ordinary shares outstanding, plus the weighted average number of securities that can be converted into ordinary shares. There was no dilution in the reporting periods presented.

Statement of cash flows

The statement of cash flows is classified by operating, investing and financing activities in accordance with IAS 7. This involves cash flows from operating activities being determined by the indirect method whereby net profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows. Undistributed income from entities valued under the equity method and exchange gains or losses reclassified from other comprehensive income to the income statement is principally reported under "other non-cash expenses and income". Interest paid was previously classified as cash flows from operating activities. Based on an analysis of presentation at comparable companies, we found that the majority classify interest paid as cash flows from financing activities. For better comparability, we therefore changed our presentation accordingly and are showing interest paid under financing activities. We have adjusted the previous year's figure accordingly. Interest paid in connection with working capital management as well as interest and dividends received are classified as cash flows from operating activities. Dividends paid are classified as a financing cash flow. The cash holdings comprise cash and cash equivalents. These include cash in hand, cheques and immediately disposable bank deposits with an original maturity of up to three months. The effect of exchange rate-related changes in value on cash and cash equivalents is presented separately so that the cash and equivalents at the beginning and end of the period can be reconciled.

Segment reporting

Segment reporting is based on the accounting standard IFRS 8, Operating Segments, following the management approach contained therein, which provides for reporting based on the internal organisational and reporting structure as well as what management uses internally for evaluating segment performance. The segment reporting and designation therefore follows the internal organisational and reporting structure of the Group. The Group is organised into business units by products and services for the purpose of Corporate Governance. The Group therefore has two segments subject to reporting: Wire & Cable Solutions and Wiring Systems. Management monitors the earnings before interest and taxes (EBIT) separately to take decisions on allocation of resources and to determine the profitability of the segments. The EBIT is ascertained in line with the accounting and valuation principles of the consolidated financial statements. It also contains the earnings from measurement under the equity method of joint ventures and associates.

Key judgments, estimates and assumptions

When preparing the consolidated financial statements, management makes judgements, estimates and assumptions that influence the amounts of assets, liabilities and contingent liabilities as well as the expense and income reported on the balance sheet date. The uncertainty that these assumptions and estimates involve can, however, in future periods cause outcomes that result in major adjustment to the carrying amounts of the assets and liabilities concerned.

The most significant assumptions concerning the future as well as other key sources of estimation uncertainty at the balance sheet date, which present a risk that material adjustment to the carrying amounts of the assets and liabilities will be necessary within the next financial year, are explained hereinafter.

Impairment testing of goodwill, intangible assets and of non-current assets is based on calculation of the recoverable amount, which is the higher of value in use and fair value less cost to sell. To estimate the value in use the Group must estimate the probable future cash flows of the cash-generating units to which the non-current asset or goodwill relates, and moreover choose a reasonable interest rate to compute the present value of these cash flows (discounted cash flow method). The cash flows are extrapolated from the business planning for the next five financial years, excluding any restructuring measures to which the Group has not yet committed and material, future capital expenditure that would raise the performance of the cash-generating units tested. The business planning is prepared on a bottom-up basis taking targets into account, meaning that the budgeted figures are prepared in detail for each business unit or business group and subsidiary and condensed to the segments and the Group as a whole. Key planning assumptions are based on the unit-sales projections issued by the carmakers. It takes into account price agreements based on experience and anticipated efficiency enhancements as well as a sales trend based on the strategic outlook. The recoverable amount is heavily dependent on the projected unit sales and on the discount rate applied under the discounted cash flow method.

The estimate of fair value less cost to sell differs from the value in use only through the treatment of the measured asset as a business operation not belonging to the Group. The assumptions and parameters applied to ascertain the recoverable amount and the details of the impairment tests are explained more thoroughly in Notes 17 and 18.

Management must, with respect to accounting for capitalised deferred taxes relating mainly to unused loss carryforwards, make estimates and judgements concerning the amount of taxable profit available in the future for use of the loss carryforwards. So far as this has been made sufficiently specific, future tax planning strategies and the expected timing of the income from it will be considered in the process. Deferred tax assets are recognised regularly to the extent that deferred tax liabilities in the same amount and with the same term applicable to them are expected. Furthermore, deferred tax assets are recognised only if future taxable income is with high probability expected that is sufficient to use the deferred tax assets from loss carryforwards and temporary differences. For this judgement, the taxable income is extrapolated from the business planning that has been prepared according to the principles described above. Due to the mounting uncertainty about the future, the period under consideration is normally three years. In the case of entities in loss situations, deferred tax assets are not recognised until there are signs of a turnaround or it is highly probable that the future positive results can be generated. Rules on limiting the use of losses (minimum taxation) are observed when measuring the valuation allowances for deferred tax assets from loss carryforwards. Further details are presented in Note 9.

The pension expense pertaining to defined benefit plans post employment is determined based upon actuarial computations. These measurements are based on assumptions and judgements with respect to discount rates applied to the net obligation, future wage and salary increases, mortality and future pension increases. Due to the non-current nature of such plans, such estimates are subject to material uncertainties. Details of these uncertainties and sensitivities are presented in Note 24.

2 | New accounting requirements

New accounting requirements applied for the first time in the financial year

- In January 2016, the IASB issued limited amendments to IAS 7, Statement of Cash Flows. This will in the future require additional disclosures of changes in financial liabilities. In particular, the amendments require a reconciliation for each item between the opening and closing balances in the statement of financial position for which cash flows were classified in the statement of cash flows as cash flows from financing activities liabilities. This change is to be applied to financial years beginning on or after 1 January 2017.

- Application of other, minor amendments and clarifications involving various Standards was also mandatory for the first time for 2017. However, they did not have any or any material effect on the consolidated financial statements.

Future, new accounting requirements

A) Accounting requirements endorsed by the European Union (EU)

- In May 2014, the IASB published the new IFRS 15, Revenue from Contracts with Customers. The Standard introduces a new five-step model for revenue recognition, which is to be applied to all revenues from contracts with customers. The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The principles in IFRS 15 provide a structured approach to measurement and recognition of sales revenues. The scope of the Standard covers all kinds of sectors and entities and therefore supersedes all existing requirements concerning revenue recognition. This Standard is to be applied for the first time to financial years beginning on or after 1 January 2018. It requires either full retrospective application or modified retrospective application. LEONI did not make use of the early application option, but rather applied the new Standard with effect from the set date of it coming into force and chose the fully retrospective method.

LEONI has formed an inter-disciplinary project group that, during the 2016 and 2017 reporting years, analysed the impact of the new Standard. The first step involved qualitative identification of the customer contracts based on the business models of the two divisions, Wiring Systems and Wire & Cable Solutions. As part of this analysis, the existing customer contracts were assessed both economically and legally in light of the five-step model and an impact analysis was prepared. Building on this, all subsidiaries Group-wide were queried, which involved making this first quantitative assessment of the focal areas material to the LEONI Group with respect to IFRS 15. The findings of this survey were subsequently used to further narrow down the probably relevant adoption topics, which were then discussed in detail with respect to specific contract terms in the key business areas with the business units that are represented in said areas. The relevant adoption topics thus identified were thoroughly assessed in both quantitative and qualitative terms by an interdisciplinary project group. A Group-wide accounting guideline was thereupon prepared and corresponding training was provided.

The following key statements can be made based on this quantitative and qualitative assessment:

- There will be no adoption effects upon the sale of goods of the Wire & Cable Solutions Division because control normally passes to the customer upon delivery of the goods and, consequently, the revenue as well as therefore the income will (still) be recognised at that time.

- There will be some adoption effects upon the sale of goods of the Wiring Systems Division because some customer-specific products are made without any option for alternative use and LEONI has a legal right to payment for the services rendered. The conditions for revenue and income recognition over a period of time are thereby met. These analyses found that this in some instances entails earlier revenue and income recognition together with presentation under assets, meaning that an increase in equity of approx. € 9 million, a reduction in inventories of approx. € 73 million, an increase in contract assets of approx. € 86 million as well as an increase in deferred tax assets of approx. € 4 million is expected as at 31 December 2017. No material income effects other than the impact of adoption are expected on the balance sheet in either the 2017 comparative period or in the subsequent periods.

- In the case of providing services or a combination of contracts to provide services and the sale of goods, these will principally be charged to the customer at the respective standalone selling prices. On the whole, the provision of services plays a subordinate role within the Group.

- The development work performed in the Wiring Systems Division ahead of series supply to customers in the car and commercial vehicle industry is extensive. LEONI has concluded that development services are provided over a period of time as the customer receives the benefit from the Group's service and simultaneously makes use of it. On this basis, the Group will continue to recognise revenue from these development contracts (or from the development components of contracts comprising development services and the supply of wiring systems) over a period of time and not at a point in time. Due to the now changed presentation of receivables from development contracts, a decrease in receivables from development contracts of approx. € 77 million as well as an increase in contract assets of approx. € 77 million is expected as at 31 December 2017.

- Subject to specific conditions, IFRS 15 stipulates that payments to customers must be recognised as an asset and amortised in line with the revenue for which these payments were made. These analyses found that a larger number of payments now meets these conditions, resulting in a sales and income decrease of approx. € 1 million in 2017 and an increase in equity as at 31 December 2017 of approx. € 6 million after taxes.

- LEONI provides warranties in line with the legal requirements and with respect to the warranted properties, but beyond that does not offer any extended warranties in the sense of additional maintenance or service work. LEONI therefore considers these to be assurance-type warranties that are still to be accounted for pursuant to IAS 37.

This entirely new wording of the revenue recognition requirements will result in greater need for explanation. The obligation concerning the newly required disclosures will furthermore result in broadening of the information contained in the consolidated financial statements. LEONI will collect this information at the corporate level by means of suitable enhancement of its reporting tools and process as well as release it accordingly in the Group.

- On 24 July 2014, the IASB published the final version of IFRS 9 Financial Instruments (IFRS 9 [2014]), which supersedes both IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings together the three project phases accounting for financial instruments: Classification and Measurement, Impairment and Hedge Accounting. IFRS 9 applies for the first time to financial years beginning on or after 1 January 2018. Earlier application is permitted. With the exception of hedge accounting, the Standard is to be applied retroactively, but presentation of comparative information is not required. The requirements for hedge accounting must generally and apart from a few exceptions be applied prospectively.

  LEONI will apply the new Standard as of the date of it coming into force from 1 January 2018 without presenting a comparative period. The overall effect was examined in a Group-wide project on implementation of IFRS 9 in 2017. Relevant adoption topics arising from the three IFRS 9 project phases were thoroughly assessed in both quantitative and qualitative terms. A Group-wide accounting guideline was thereupon prepared and corresponding training was provided. Material, quantitative effects on the statement of financial position or equity are not expected. The scope of disclosure requirements will widen significantly.

Classification and measurement:
Application of the new requirements pertaining to classification and measurement will in a few cases probably result in revised presentation and measurement, which will not have any material effect on the balance sheet or equity.

– All financial assets that are currently measured at fair value will continue to be measured at fair value.

– The Group holds trade receivables and other financial receivables including long-term receivables from development contracts principally to collect the contractual cash flows that exclusively represent repayments and interest. LEONI therefore expects these instruments still to be measured at amortised cost.

Impairment:
The Group will apply the simplified impairment method of IFRS 9 and recognise the losses from trade receivables as well as contract assets expected over the full lifetime within the scope of IFRS 15. Underlying the new impairment requirements is a more forward-looking model that is based on expected losses. Previously, impairment was recognised mainly based on losses already incurred. This new impairment model will consequently mean that expected losses are expensed earlier. The Group analysed the principal types of receivables and expects an increase in valuation allowances of approx. € 7 million (pre-tax amount).

Hedge accounting:
LEONI believes that all hedging relationships designated as effective under IAS 39 will also meet the hedge-accounting requirements of IFRS 9 in the future. As the general principles for the way hedge accounting is applied do not change, first-time application of IFRS 9 is not expected to have any material effect.

- In January 2016, the IASB issued the new IFRS 16, which abolishes the previous distinction of leases on the lessee side between operating and finance leases. For lessors, there will be only minor changes compared with accounting pursuant to IAS 17 Leases. According to IFRS 16, the lessee recognises a leasing liability for principally all leases in the amount of the present value of the future lease payments and simultaneously recognises a corresponding right of use to the leased asset. The majority of the obligations from operating leases currently presented under Note 27 'Contingencies and other obligations' will therefore in the future be recorded on the balance sheet. These new requirements must be applied to financial years beginning on or after 1 January 2019. Early application is permitted even if IFRS 15 is already being applied. LEONI has begun to analyse the expected impact on its consolidated financial statements. The Company expects an enlarged balance sheet because of the increase in lease liabilities as well as the increase in assets as a consequence of the right-of-use to be recognised as an asset. This will also result in an increase in net financial liabilities and have an impact on the income statement. Instead of the previous recognition of the leasing costs in the functional areas, the future recognition of the impairment of the right of use and interest expense will result in significantly increased EBITDA and slightly increased EBIT. In the statement of cash flows, we also anticipate a slight, positive effect on cash provided by operating activities as the principal portion must, according to IFRS 16, be presented under cash flow from financing activities. A project group is working in depth this year on the precise effects and implementation of the Standard's new requirements.

B) The European Union (EU) has not yet endorsed the following accounting requirements issued by either the IASB or IFRIC:

- IFRIC 23, Uncertainty over Income Tax Treatments, was issued in May 2017. The Interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. Entities are required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. They must furthermore consider whether it is probable that the relevant authority will accept each tax treatment (or group of tax treatments) that they used or plan to use in their income tax filing. IFRIC 23 is to be applied to reporting periods beginning on or after 1 January 2019. Earlier application is permitted. LEONI is currently examining whether the Interpretation will have any impact on its consolidated financial statements. Application of the above requirements will be binding in the future so far as they are endorsed by the EU.

The IASB also issued amendments other than the aforementioned updates. These will probably not be relevant to LEONI and are not mentioned for this reason.

3 | Scope of consolidation

Along with LEONI AG, the consolidated financial statements account for 15 companies in Germany and 57 companies outside Germany in which LEONI AG is entitled, either directly or indirectly, to a majority of the voting rights.

Number of fully consolidated companies

	31/12/2017	31/12/2016
Germany	16	19
Outside	57	62
Total	**73**	**81**

The acquisition in the first quarter of the year under report of a business in Switzerland that was allocated to the Wire & Cable Solutions Division changed the scope of consolidation, as did the disposal in May of seven subsidiaries based in Asia and Europe. These subsidiaries were involved in the production and marketing of cables for the electrical and domestic appliance industry.

Furthermore, two German subsidiaries belonging to the Wiring Systems Division were merged into one legal entity in the third quarter and, in the fourth quarter, two German subsidiaries belonging to the Wire & Cable Solutions Division were merged into one legal entity.

A complete list of the fully consolidated subsidiaries as well as of the associates and joint ventures on 31 December 2017 is shown at the end of these notes.

4 | Acquisitions and disposals of subsidiaries

LEONI acquired two thirds of the shares in Zurich-based Adaptricity AG. The company contributes software-supported consulting services based on expert electrotechnical knowledge to the Group. The company was first consolidated upon gaining control of it on 15 February 2017. The acquired business will be integrated in the Wire & Cable Solutions Division. The purchase price was € 3,479 k. Taking the acquired cash and cash equivalents totalling € 2,340 k into account, the cash consideration paid was € 1,139 k. The acquisition did not incur any material transaction costs.

The overview below shows the fair values of the acquired assets and liabilities on the date of initial consolidation:

€ '000	**Recognised at acquisition**
Cash and cash equivalents	2,340
Trade accounts receivable	34
Inventories	8
Intangible assets	2,261
Total assets	4,643
Trade accounts payable	107
Other liabilities	127
Deferred tax liabilities	381
Total liabilities	615
Net assets	**4,028**
Non-controlling interests	1,342
Pro-rata net assets	**2,686**
Purchase price	3,479
Goodwill	**793**

The purchase price exceeded the sum of pro-rata assets and liabilities, which is why goodwill amounting to € 793 k was recognised for the acquired staff and expected synergies.

In the time between LEONI gaining control and 31 December 2017, the acquired business contributed sales of € 192 k and incurred an after-tax loss of € 1,196 k. The company's contribution to Group sales and earnings after taxes would not have been materially different had the acquisition taken place on 1 January.

On 2 May 2017, LEONI sold its domestic and electrical appliance cables business, i.e. all the shares in its subsidiaries EA Cable Assemblies GmbH, LEONI Cable Belgium N.V., LEONI WCS Southeast Europe d.o.o., LEONI Cable Assemblies Slovakia s.r.o., LEONI Cable (Xiamen) Co., Ltd., LEONI Cable Assemblies (Changzhou) Co., Ltd. and EA Cable Assemblies (Hong Kong) Co., Ltd. The subsidiaries were deconsolidated on the day of their disposal as control over them also passed to the purchaser on this date. Pending the final audit of the disposal balance sheet by the purchaser, the consideration to be paid by the purchaser amounts to € 51,061 k. From the sale, the Group recognised a gain on deconsolidation totalling € 24,256 k. This included an exchange gain in the amount of € 1,914 k, which was reclassified from other comprehensive income to the income statement and presented under other operating income.

The overview below shows the deconsolidated assets and liabilities:

€ '000	**Deconsolidated upon disposal**
Trade accounts receivable	34,331
Inventories	17,958
Total current assets	4,624
Property, plant and equipment	14,669
Other non-current assets	525
Cash and cash equivalents	17,087
Deconsolidated assets	89,194
Trade accounts payable	18,775
Total current liabilities	19,773
Current financial liabilities to LEONI AG	13,271
Long-term financial debts	8,619
Other non-current liabilities	37
Long-term financial debts	60,475
Net assets	**28,719**
Consideration received	53,740
Purchase price adjustment requirement	(2,679)
Deconsolidated net assets	(28,719)
Deconsolidated OCI	1,914
Effect of deconsolidation	**24,256**

In fiscal 2017, the Group took in a payment of € 53,740 k from its sale of this business, which therefore, when taking the disposed cash and cash equivalents into account, provided the Group with cash of € 36,653 k. The transaction costs incurred totalled € 1,679 k (of which € 614 k in preceding years).

In fiscal 2016, LEONI signed an agreement to purchase 51 percent of the shares in Wuhan Hengtong Automotive, a wiring system manufacturer based in Shanghai, China. The company was first consolidated upon gaining control of it on 16 November 2016. The acquired business was integrated into the Wiring Systems Division and produces cable systems particularly for the Dongfeng Group, China's second-largest carmaker. The purchase price was € 6,100 k. Taking the acquired cash and cash equivalents totalling € 1,514 k into account, the cash consideration paid was € 4,586 k. The acquisition did not incur any material transaction costs. Given that it was not yet possible to make a reliable purchase price allocation because of the prevailing commercial structures in fiscal 2016, provisional fair values of the acquired assets and liabilities on the date of initial consolidation were applied. As soon as assured knowledge was available, the purchase price was allocated within the next twelve months in the 2017 financial year and the previous year's figures were adjusted accordingly. The adjustments to inventories came to € 2 million and for current liabilities they amounted to € 2.7 million as well as various minor effects. The adjustment totalled € 0.5 million. The negative goodwill, reversal of which was recognised in the previous year in other operating income, changed from € 823 k to € 1,333 k.

The overview below shows the final fair values of the acquired assets and liabilities on the date of initial consolidation:

€ '000	Recognised at acquisition
Trade accounts receivable	13,030
Inventories	3,653
Total current assets	2,442
Property, plant and and equipment as well as intangible assets	4,929
Total assets	24,054
Trade accounts payable	7,723
Other current liabilities	1,756
Total liabilities	9,479
Net assets	**14,575**
Acquired net assets	**7,433**
Purchase price	6,100
Negative goodwill	**1,333**

The company was renamed LEONI ZhengAo Automotive Wire Harness Co. Ltd. in the 2017 financial year.

Also in fiscal 2016, the Company signed an agreement to sell its shares in LEONI Studer Hard GmbH to the French company Ionisos SAS as part of the Wire & Cable Solutions Division's new strategic alignment. All formal and material conditions for loss of control were met on 3 November 2016, from which date the company was no longer included within the scope of consolidation. The consideration to be paid by the purchaser for the shareholding amounted to € 16,673 k. From the sale the Group recognised a gain on deconsolidation of € 3,266 k in other comprehensive income. It also incurred transaction costs of € 623 k.

The result and thus the contribution to consolidated net income was € 3,226 k up to the time of disposal.

The Group took in a payment of € 16,673 k from its sale of the shares in LEONI Studer Hard GmbH, which therefore, when taking the deconsolidated cash and cash equivalents amounting to € 4,659 k into account, provided the Group with cash totalling € 12,014 k from the transaction.

The overview below shows the deconsolidated assets and liabilities as well as how the gain on deconsolidation is derived:

€ '000	**Deconsolidated upon disposal**
Cash and cash equivalents	4,659
Trade accounts receivable	538
Inventories	75
Total current assets	205
Property, plant and equipment	6,066
Other non-current assets	34
Deconsolidated assets	11,577
Trade accounts payable	92
Total current liabilities	528
Long-term financial debts	0
Other non-current liabilities	161
Long-term financial debts	781
Net assets	**10,796**
Consideration received	16,673
Deconsolidated net assets	(10,796)
Goodwill in a disposal group	(2,539)
Swiss federal issuance stamp duty	(49)
Deconsolidated OCI	(23)
Effect of deconsolidation	**3,266**

Explanations

5 | Segment reporting

The Group is organised into business units by products and services for the purpose of Corporate Governance. The segment reporting follows the internal organisational and reporting structure of the Group. The Group has two segments subject to reporting:

Wire & Cable Solutions
The Wire & Cable Solutions Division is a leading manufacturer of wire and cable that, as part of its strategic realignment, is gradually developing into a provider of intelligent and secure energy transmission and data management system solutions.

Wiring Systems
The development, manufacture and sale of cable harnesses, complete wiring systems as well as related components and connectors for the international automotive and supply industry constitute the main business of the Wiring Systems Division.

Management monitors the earnings before interest and taxes (EBIT) to take decisions on allocation of resources and to determine the profitability of the units. The EBIT is ascertained in line with the accounting and valuation principles of the consolidated financial statements. It also contains the earnings from measurement under the equity method of joint ventures and associates.

The ROCE (Return on Capital Employed) is a key return figure on the basis of which management monitors the profitability of the segments. It is derived from the ratio of EBIT to average Capital Employed (CE), which comprises the non-interest-bearing assets less non-interest-bearing liabilities. The calculation uses the amount of capital employed at its average of the past five quarterly reporting dates.

Intersegment sales and revenues are generally recorded at values that approximate sales to third parties.

The details by segment for the 2017 and 2016 financial years are as follows:

	Wire & Cable Solutions		Wiring Systems		Reconciliation		LEONI Group	
€ '000	2017	2016	2017	2016[1]	2017	2016	2017	2016[1]
Sales	2,067,220	1,912,179	3,061,868	2,690,052	(206,281)	(170,909)	4,922,807	4,431,322
Less intersegment sales	205,909	170,596	372	313	(206,281)	(170,909)	—	—
External sales	1,861,311	1,741,583	3,061,496	2,689,739			4,922,807	4,431,322
domestic	426,509	381,026	940,253	870,870	0	0	1,366,762	1,251,896
abroad	1,434,802	1,360,557	2,121,243	1,818,869	0	0	3,556,045	3,179,426
abroad in %	77.1	78.1	69.3	67.6			72.2	71.7
EBIT	104,576	83,744	116,578	35,709	4,131	(40,300)	225,285	79,153
as a percentage of external sales	5.6	4.8	3.8	1.3			4.6	1.8
Financial result and other investment income							(24,939)	(24,354)
Income before taxes							200,346	54,799
Income taxes							(56,423)	(43,281)
Consolidated income							143,923	11,518
Earnings from measurement under the equity method	0	0	22,842	12,219	0	0	22,842	12,219
Depreciation and amortisation	46,544	47,979	93,473	95,782	9,507	7,333	149,524	151,094
EBITDA	151,120	131,723	210,051	131,491	13,638	(32,967)	374,809	230,247
as a percentage of external sales	8.1	7.6	6.9	4.9			7.6	5.2
Restructuring expenses	0	3,622	0	27,816	0	0	0	31,438
Total assets	1,574,821	1,445,606	2,129,374	2,035,259	(577,885)	(534,447)	3,126,310	2,946,418
Average capital employed	712,250	700,723	891,273	852,348	(8,789)	(11,687)	1,594,734	1,541,384
ROCE	14.7 %	12.0 %	13.1 %	4.1 %			14.1 %	5.1 %
Investment in property, plant and equipment as well as intangible assets	107,788	65,308	163,922	135,412	9,701	10,038	281,411	210,758
Acquisitions / investments in financial assets	3,479	0	119	6,338	0	0	3,598	6,338
Average number of employees	8,427	9,276	74,741	67,308	303	283	83,471	76,867

[1] *Prior-year figures adjusted*

Segment information by geographical regions:

	EMEA total		thereof:							
			Germany		Eastern Europe		Rest of Europe		Rest of EMEA	
€ '000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
External sales										
Wire & Cable Solutions	1,067,862	971,038	426,509	381,026	364,628	300,874	257,469	271,496	19,256	17,642
Wiring Systems	2,337,693	2,089,904	940,253	870,870	284,034	285,822	1,071,947	900,040	41,459	33,172
	3,405,555	3,060,942	1,366,762	1,251,896	648,662	586,696	1,329,416	1,171,536	60,715	50,814
Non-current assets	868,698	762,258	241,425	186,755	392,793	362,970	93,345	101,422	141,135	111,111

	Americas		Asia		Reconciliation		LEONI Group	
€ '000	2017	2016	2017	2016[1]	2017	2016	2017	2016[1]
External sales								
Wire & Cable Solutions	426,818	376,961	366,631	393,584			1,861,311	1,741,583
Wiring Systems	323,434	325,491	400,369	274,344			3,061,496	2,689,739
	750,252	702,452	767,000	667,928			4,922,807	4,431,322
Non-current assets	113,206	117,843	168,843	164,305	136	(145)	1,150,883	1,044,261

[1] *Prior-year figures adjusted*

The 14.8 percent sales increase during the period under report was due particularly to Asia.

As in the previous year, China accounted for the most significant proportion of consolidated external sales in Asia with an 11.8 percent (previous year: 11.2 percent) share while, in the Americas, the United States accounted for 8.6 percent (previous year: 9.9 percent). The non-current assets segmented by region include the intangible assets and the property, plant and equipment as well as investments in associated companies and joint ventures.

In the previous year, sales to one customer of the Wiring Systems Division totalled € 457,061 k and thus accounted for more than ten percent of consolidated sales. In fiscal 2017, there were no sales to any one customer accounting for ten percent or more of consolidated sales.

6 | Other operating income and other operating expenses

The other operating income broke down as follows:

€ '000	2017	2016 [1]
Gain on deconsolidation of the domestic and electrical appliance business	24,256	0
Insurance compensation for the 2016 fraud case	5,000	0
Provision of services for JV in Langfang	4,273	5,544
Government grants	3,587	4,693
Reversal of provision for other taxes	0	4,278
Income from deconsolidating LEONI Studer Hard GmbH	0	3,266
Exchange gains	0	1,243
Others	8,618	8,953
[1] *Prior-year figures adjusted*	**45,734**	**27,977**

The previous year's adjustment is attributable to the change in negative goodwill upon initial consolidation of Wuhan Hengtong Automotive. More detailed explanation of this is to be found in Note 4.

The Company sold its domestic and electrical appliance cables business in fiscal 2017. This yielded gains on deconsolidating several subsidiaries in the amount of € 24,256 k, of which exchange gains amounting to € 1,914 k. More detailed explanation of this is to be found in Note 4.

The Group received insurance compensation of € 5,000 k in connection with the fraud case uncovered in the previous year.

There was furthermore income from providing services for our joint venture in Langfang of € 4,273 k (previous year: € 5,544 k; cf. also Note 19 in this regard).

The performance-related government grants of € 3,587 k (previous year: € 4,693 k) pertained mostly to the subsidy for export business in Egypt. More detailed explanation of this is to be found in Note 7.

The other operating expenses in the amount of € 18,844 k (previous year: € 77,398 k) included mainly exchange losses in the amount of € 10,092 k.

€ '000	2017	2016
Exchange losses	10,092	0
Factoring cost	2,767	2,226
Loss on disposals of property, plant and equipment as well as intangible assets	2,099	1,994
Fraud case	0	39,552
Restructuring cost	0	31,438
Others	3,886	2,188
	18,844	**77,398**

7 | Government grants

The Group obtained various government grants related to income in the 2017 financial year, which totalled € 10,020 k (previous year: € 5,789 k), of which € 6,433 k (previous year: € 1,096 k) was directly offset in the income statement with the expenses incurred. This pertained primarily to grants to cover the costs of starting up and opening a new plant in Mexico. Performance-related grants in the amount of € 3,587 k (previous year: € 4,693 k), which pertained mainly to the Wiring Systems Division, were furthermore presented in other operating income. Of this, € 2,792 k (previous year: € 2,622 k) was attributable to the subsidy for export business in Egypt.

Government grants for capital investment in property, plant and equipment in the amount of € 23,212 k (previous year: € 12,371 k) were recognised in fiscal 2017, most of which pertained to wiring systems plants in Romania. These were deducted from the costs to purchase and manufacture the related property, plant and equipment.

The received grants are linked to creating jobs and keeping these for several years, to tax payments and to achieving a specified sales volume in these companies.

8 | Finance revenue and costs

There was only minor year-on-year change in the financial result, i.e. the balance of finance revenue and costs.

The finance revenues in the amount of € 1,011 k (previous year: € 682 k) involved exclusively interest income. As in the previous year, all interest income was computed on the basis of the effective interest rate method.

Finance costs broke down as follows:

€ '000	2017	2016
Interest expenses	20,828	20,301
Finance cost from pension obligations	3,427	3,630
Other finance costs	1,862	1,314
Finance cost	**26,117**	**25,245**

The interest expenses included interest of € 20,559 k (previous year: € 20,277 k) that was computed on the basis of the effective interest rate method.

9 | Income taxes

Taxes on income including deferred taxes break down as follows in the income statements for fiscal 2017 and fiscal 2016:

€ '000		2017	2016
Current taxes			
	Germany	7,951	4,532
	Outside	42,670	32,012
		50,621	**36,544**
Deferred taxes			
	Germany	1,634	10,727
	Outside	4,168	(3,990)
		5,802	**6,737**
Income taxes		**56,423**	**43,281**

In the 2017 financial year, the Group recognised tax expenses of € 56,423 k (previous year: € 43,281 k) in the income statement. Tax expense of € 3,744 k (previous year: tax income of € 3,939 k) was recognised in other comprehensive income.

Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. For the Group's German companies, the deferred taxes on 31 December 2017 were calculated using a corporate tax rate of 15 percent, unchanged from the previous year. A solidarity surcharge of 5.5 percent on the corporate tax as well as an average trade tax rate of 13.8 percent were included as in the previous year. As in the previous year, the tax rate thus applied to calculate deferred taxes for German companies amounted to a combined 29.6 percent. For non-German companies the country-specific, respective tax rates were used.

The table below reconciles the income tax expense or the expected tax expense at the reported tax rate to the effective income taxes presented in the financial statements for the respective financial year. To calculate the projected income tax expense, we multiplied the pre-tax earnings by the combined income tax rate in Germany of 29.6 percent (previous year: 29.6 percent) applicable to the financial year.

	2017		2016 [1]	
	€ '000	%	€ '000	%
Expected tax expense (2017: 29.6 %; 2016: 29.6 %)	59,302	29.6	16,221	29.6
Foreign tax rate differentials	(14,179)	(7.1)	(9,354)	(17.1)
Change in valuation allowances on deferred tax assets	13,764	6.9	36,266	66.2
Non-deductible expenses	7,012	3.5	4,424	8.1
Foreign tax at source	6,624	3.3	1,612	2.9
Prior-period tax income / expense	1,244	0.6	(1,284)	(2.3)
Income from equity investments	(6,767)	(3.4)	(3,620)	(6.6)
Gain / loss on deconsolidation of disposed businesses	(7,185)	(3.6)	(967)	(1.8)
Other	(3,393)	(1.6)	(17)	0.0
Effective income taxes / tax rate	**56,423**	**28.2**	**43,281**	**79.0**

[1] Prior-year figures adjusted

Changes to foreign tax rates are recognised in the income statement in a partial negative amount of € 2,490 k (previous year: tax expense of € 409 k) in the item Other amounting to negative € 3,393 k. This, in turn, included a partial negative tax-income amount of € 1,821 k caused by lowering of the corporate tax rate in the USA to 21 %.

The change in valuation allowances on deferred tax assets in the amount of € 13,764 k (previous year: € 36,266 k) in the fiscal year involved particular tax assets not capitalised in the amount of € 15,562 k (previous year: € 29,357 k). As in the previous year, these valuation allowances concerned primarily deferred tax assets from loss carryforwards to the extent it is considered more likely than not that such benefits will be used in future years. In determining the valuation allowance all factors including legal factors and information available were taken into account. Deferred tax assets, which in preceding periods we applied primarily to loss carryforwards, were written down in the amount of € 4 k (previous year: € 13,376 k). The change in valuation allowances included reversal of valuation allowances on deferred tax assets with effect on the income statement in the negative amount of € 1,423 k (previous year: a negative amount of € 6,444 k). The item included a negative amount of € 379 k (previous year: negative € 23 k) for the use of loss carryforwards for which no tax assets were recognised in the previous years. In the case of entities that incurred a tax loss in either the current or previous year, and where the deferred tax assets on loss carryforwards are not covered by a net deferred tax liability, deferred tax assets on loss carryforwards were recognised in the amount of € 2,097 k (previous year: € 6,433 k). Based on management's assumptions for and estimates of future business performance, which were derived from experience as well as the currently available information and forecasts, realisation of this tax asset appears to be sufficiently probable.

The deferred tax assets and deferred tax liabilities were derived from temporary differences recorded under the following balance sheet items as well as tax loss carryforwards:

	Consolidated statement of financial position		Consolidated income statement	
€ '000	**2017**	**2016**	**2017**	**2016**
Inventories	8,528	9,429	(522)	556
Accounts receivable and other assets	2,393	7,865	(2,238)	(2,048)
Property, plant and equipment	3,139	4,844	(1,714)	(623)
Intangible assets	612	406	210	(103)
Non-current financial assets	435	605	(170)	(205)
Tax loss carryforwards	101,376	97,326	4,844	23,793
Liabilities and provisions	18,025	20,623	(1,755)	5,988
Pension provisions	31,327	38,134	(4,177)	753
Total	165,835	179,232		
Valuation allowance	(96,200)	(87,067)	(11,730)	(34,898)
Deferred tax assets (before offsetting)	**69,635**	**92,165**		
Inventories	8,153	5,897	(2,423)	(40)
Accounts receivable and other assets	4,058	2,936	(1,098)	(310)
Property, plant and equipment	27,921	34,270	5,508	(2,123)
Intangible assets	15,246	17,395	2,542	3,297
Non-current financial assets	7,216	7,951	729	1,271
Liabilities and provisions	1,713	6,149	4,437	(1,281)
Pension provisions	10	1,775	1,755	(764)
Deferred tax liabilities (before offsetting)	**64,318**	**76,373**		
Deferred tax income / expense			**(5,802)**	**(6,737)**
Net deferred tax assets / tax liabilities	**5,317**	**15,792**		

No deferred tax assets on temporary differences and tax loss carryforwards were recognised in the amount of € 96,200 k (previous year: € 87,067 k) because realisation of the tax assets in the foreseeable future does not seem sufficiently certain.

The net amount of deferred tax assets and liabilities was derived as follows:

	Consolidated statement of financial position	
€ '000	**2017**	**2016**
Deferred tax assets	147,097	148,423
Valuation allowance	(96,200)	(87,067)
Net deferred tax assets	**50,897**	**61,356**
Deferred tax liabilities	**45,580**	**45,564**
Net deferred tax assets / tax liabilities	**5,317**	**15,792**

Deferred taxes on outside basis differences (differences between the net assets including goodwill of the subsidiaries and the respective tax value of the shares in these subsidiaries) were not recognised because reversal of differences arising for example from dividend payments can be managed and no material tax effects are to be expected in the foreseeable future. Outside basis differences amounted to € 357,812 k on 31 December 2017 (previous year: € 272,764 k).

On the balance sheet date, the Group had mainly foreign income tax but also German corporate tax loss carryforwards totalling € 367,700 k (previous year: € 354,330 k), of which € 240,811 k (previous year: € 221,522 k) may, based on legislation applicable on the respective reporting date, be carried forward indefinitely and in unlimited amounts. In Germany, however, losses carried forward may be deducted from income without restriction up to € 1,000k only. Any remaining amount of income may be offset by loss carryforwards by up to 60 percent. The remaining tax losses eligible for limited carryforward pertained exclusively to foreign subsidiaries and will expire by 2027 at the latest if not utilised.

The table below shows the usability of the loss carryforwards:

€ '000		**2017**
Useable until	2018	1,156
Useable until	2019	889
Useable until	2020	5,612
Useable until	2021	10,222
Useable until	2022	19,381
Useable until	2023	18,564
Useable until	2024	15,159
Useable until	2025	33,606
Useable until	2026	9,562
Useable until	2027	12,738

The Group's German trade tax loss carryforwards amounted to € 136,786 k on the balance sheet date (previous year: € 113,406 k), all of which, based on legislation applicable on the respective balance sheet dates, may be carried forward indefinitely and in unlimited amounts. The options to offset against future income correspond to the corporate tax loss carryforwards. There were foreign loss carryforwards for US state tax in the amount of € 16,645 k on the balance sheet date (previous year: € 21,735 k).

In the financial year, German trade tax loss carryforwards amounting to € 60 k (previous year: € 49 k) and German corporate tax loss carryforwards amounting to € 60 k (previous year: € 49 k) were utilised. Foreign income tax loss carryforwards were used in the amount of € 34,448 k (previous year: € 16,192 k).

Loss carryforwards for US state tax were used in the amount of € 1,473 k in the financial year (previous year: € 1,804 k).

10 | Other comprehensive income

The overview below shows the components of other comprehensive income and the tax effects:

	2017			2016		
€ '000	Pre-tax amount	Tax effect	Net amount	Pre-tax amount	Tax effect	Net amount
Change in actuarial gains / losses	9,042	(335)	8,707	(42,755)	3,662	(39,093)
Foreign currency translation adjustments	(40,796)	0	(40,796)	(17,819)	0	(17,819)
Change in unrealised gains / losses on cash flow hedges	14,948	(3,409)	11,539	(8,449)	277	(8,172)
Changes in the share of other comprehensive income accounted for by associates and joint ventures	(791)	0	(791)	(65)	0	(65)
Other comprehensive income	**(17,597)**	**(3,744)**	**(21,341)**	**(69,088)**	**3,939**	**(65,149)**

Actuarial losses decreased by € 9,042 k during the period under report (previous year: losses of € 42,755 k) because of gains on plan assets in the United Kingdom and Switzerland as well as gains due to the increase in the discount rate in Germany.

Other comprehensive income showed currency translation losses of € 40,796 k (previous year: losses of € 17,819 k) due to translation primarily of the Chinese renminbi and the US dollar into the euro reporting currency.

Taking deferred taxes into account, the overall result was other comprehensive income of negative € 21,341 k (previous year: negative € 65.149 k).

11 | Accounts receivable and other financial assets as well as long-term receivables from development contracts

€ '000	2017	2016
Trade receivables	626,379	558,300
Receivables from associated companies and joint ventures	8,857	3,403
Other financial assets	29,464	23,072
	664,700	**584,775**
Non-current trade receivables from development contracts	**60,535**	**53,344**

Trade receivables were non-interest bearing. On the balance sheet date, trade receivables were reduced by factoring amounting to € 194,078 k (previous year: € 153,125 k).

The trade receivables pertaining to development orders involved customer-specific development contracts accounted for in accordance with IAS 11. The short-term proportion of receivables from development contracts in the amount of € 16,618 k (previous year: € 20,243 k) is included in trade receivables. The sales for the financial year include revenue amounting to € 24,750 k (previous year: € 29,496 k) from such development contracts. The expenses recognised corresponded to the sales.

The allowances for trade receivables were as follows:

€ '000	2017	2016
Allowance as of 1 January	**10,243**	**9,392**
Currency translation adjustments	(85)	1
Additions (allowances recognised as expense)	1,499	2,537
Usage	(848)	(423)
Reversal	(1,980)	(1,264)
Allowance as of 31 December	**8,829**	**10,243**

There were no allowances for long-term receivables from development contracts in either the financial year under report or the previous one.

The table below shows non-current and current financial receivables that, on the balance sheet date, were neither impaired nor overdue as well as overdue receivables that were not impaired:

€ '000	Carrying amount	of which: neither impaired nor passed due on the reporting date	of which: not impaired on the reporting date and passed due in the following periods: Less than 30 days	Between 30 and 60 days	Between 61 and 90 days	Between 91 and 180 days	Between 181 and 360 days	More than 360 days
	31/12/2017							
Trade receivables	626,379	578,125	28,439	6,623	3,828	4,236	3,271	2,594
Long-term trade receivables from development contracts	60,535	60,535	0	0	0	0	0	0
Receivables from associated companies and joint ventures	8,857	8,857	0	0	0	0	0	0
Other financial receivables	26,616	23,615	996	0	1,940	0	0	2
	31/12/2016							
Trade receivables	558,300	508,887	32,889	5,393	3,101	5,681	2,083	1,032
Long-term trade receivables from development contracts	53,344	53,344	0	0	0	0	0	0
Receivables from associated companies and joint ventures	3,403	3,403	0	0	0	0	0	0
Other financial receivables	23,734	21,285	746	650	468	133	366	86

The other financial receivables of € 26,616 k (previous year: € 23,734 k) are included in the short and long-term other financial assets in the amount of € 36.812 k (previous year: € 30,615 k). These items furthermore include derivative financial assets in the amount of € 9,078 k (previous year: € 5,765 k) as well as equity instruments in the amount of € 1,115 k (previous year: € 1,116 k).

The maximum risk of loan default corresponded to the carrying amount of the receivables. There were not, with respect to the neither impaired receivables nor the overdue receivables, any signs on the reporting date that the debtors will fail to make payment.

Receivables were covered by credit insurance in the amount of € 127,604 k (previous year: € 151,060 k).

12 | Other assets

€ '000	2017	2016
Receivables for VAT	77,972	68,863
Prepaid expenses	16,611	18,638
Advanced payment	12,207	13,446
Receivables for other taxes	4,569	3,742
Insurance technical reserves	1,847	3,088
Other assets	11,636	7,852
	124,842	**115,629**

13 | Inventories

€ '000	2017	2016
Raw materials and manufacturing supplies	321,779	273,023
Work in progress	119,174	99,648
Finished products and merchandise	228,532	215,602
	669,485	**588,273**

The amount of impairment of inventories, recognised as expense, was € 19,440 k (previous year: € 20,947 k). As in the previous year, the fiscal 2017 write-downs on inventory were fully included in the cost of sales.

The inventory recognised as expense in the cost of sales (inventory used) in the financial year amounted to € 2,880,569 k (previous year: € 2,554,381 k).

The carrying amount included inventories in the amount of € 28,631 k (previous year: € 26,844 k) that were measured at net realisable value.

14 | Assets and liabilities held for sale

No assets or liabilities were held for sale in the 2017 financial year.

The assets in the amount of € 74,712 k held for sale in the previous year concerned the disposal of the domestic and electrical appliance business, which was completed in May 2017. Further information on this is presented in Note 4.

15 | Property, plant and equipment

€ '000	Land, leasehold rights and buildings	Technical equipment, plant and machinery	Other equipment, factory and office equipment	Advance payments and assets under construction	Total
Net book value on 1 January 2016	**272.252**	**418.706**	**91.882**	**119.467**	**902,307**
Acquisition costs on 1 January 2016	426,764	1,062,838	275,555	119,712	1,884,869
Currency differences	(1,675)	(442)	(1,195)	(431)	(3,743)
Additions	16,385	63,311	27,807	88,183	195,686
Additions due to changes in scope of consolidation	225	4,128	60	0	4,413
Reclassification of asset held for sale	12,548	0	0	0	12,548
Transfers assets held for sale	1,245	35,209	7,194	1,961	45,609
Disposals	3,885	36,929	11,625	879	53,318
Disposals due to changes in scope of consolidation	3,907	6,879	517	23	11,326
Transfers	22,116	79,519	10,362	(111,997)	0
31 December 2016	467,326	1,130,337	293,253	92,604	1,983,520
Accumulated amortisation on 1 January 2016	154,512	644,132	183,673	245	982,562
Currency differences	(465)	(747)	(896)	26	(2,082)
Additions	16,520	83,023	30,616	0	130,159
Increase in impairment	0	592	628	933	2,153
Reclassification of asset held for sale	4,590	0	0	0	4,590
Transfers assets held for sale	1,222	24,782	4,597	205	30,806
Disposals	3,664	32,303	10,751	10	46,728
Disposals due to changes in scope of consolidation	966	3,894	401	0	5,261
31 December 2016	169,305	666,021	198,272	989	1,034,587
Net book value on 31 December 2016 [1]	**298,021**	**464,316**	**94,981**	**91,615**	**948,933**
Acquisition costs on 1 January 2017	467,326	1,130,337	293,253	92,604	1,983,520
Currency differences	(8,493)	(32,218)	(6,156)	(3,694)	(50,561)
Additions	17,547	86,617	30,277	132,160	266,601
Disposals	5,167	25,902	10,186	1,150	42,405
Transfers	20,226	54,314	6,364	(80,904)	0
31 December 2017	491,439	1,213,148	313,552	139,016	2,157,155
Accumulated depreciation on 1 January 2017	169,305	666,021	198,272	989	1,034,587
Currency differences	(3,040)	(17,689)	(3,713)	(32)	(24,474)
Additions	15,850	83,632	29,605	0	129,087
Increase in impairment	0	846	350	0	1,196
Disposals	2,790	23,551	9,237	0	35,578
31 December 2017	179,325	709,259	215,277	957	1,104,818
Net book value on 31 December 2017	**312,114**	**503,889**	**98,275**	**138,059**	**1,052,337**

[1] Prior-year figures adjusted

With respect to the impairment in the amount of € 1,196 k, we refer to Note 17.

16 | Intangible assets

€ '000	Trademarks, similar rights, software and others	Customer relationships and order backlog	Development costs	Advance payments	Total
Net book value on 1 January 2016	**30,853**	**33,949**	**3,506**	**11,016**	**79,324**
Acquisition costs on 1 January 2016	110,768	123,347	17,852	11,185	263,152
Currency differences	(534)	442	(1,038)	5	(1,125)
Additions	7,270	0	1,482	6,320	15,072
Additions due to changes in scope of consolidation	516	0	0	0	516
Transfers assets held for sale	826	0	0	0	826
Disposals	347	0	0	8	355
Disposals due to changes in scope of consolidation	68	0	0	0	68
Transfers	6,972	0	157	(7,129)	0
31 December 2016	123,751	123,789	18,453	10,373	276,366
Accumulated amortisation on 1 January 2016	79,915	89,398	14,346	169	183,828
Currency differences	(502)	361	(1,047)	(1)	(1,189)
Additions	10,918	8,927	981	109	20,935
Increase in impairment	355	2,880	0	0	3,235
Transfers assets held for sale	563	0	0	0	563
Disposals	389	0	0	0	389
Disposals due to changes in scope of consolidation	65	0	0	0	65
31 December 2016	89,669	101,566	14,280	277	205,792
Net book value on 31 December 2016 [1]	**34,082**	**22,223**	**4,173**	**10,096**	**70,574**
Acquisition costs on 1 January 2017	123,751	123,789	18,453	10,373	276,366
Currency differences	(1,412)	(586)	(561)	(246)	(2,805)
Additions	7,729	101	968	6,012	14,810
Additions due to changes in scope of consolidation	0	0	0	2,261	2,261
Disposals	2,291	0	0	318	2,609
Transfers	6,761	0	33	(6,794)	0
31 December 2017	134,538	123,304	18,893	11,288	288,023
Accumulated depreciation on 1 January 2017	89,669	101,566	14,280	277	205,792
Currency differences	(1,070)	(418)	(499)	1	(1,986)
Additions	11,603	7,781	597	456	20,437
Increase in impairment	1,584	0	0	0	1,584
Disposals	2,290	0	0	0	2,290
31 December 2017	99,496	108,929	14,378	734	223,537
Net book value on 31 December 2017	**35,042**	**14,375**	**4,515**	**10,554**	**64,486**

[1] *prior-year figures adjusted*

The item trademarks and similar rights, software and others included technology as well as non-patented production know-how acquired in the context of business combinations. The residual value of the technology and the production know-how amounted to € 4,010 k (previous year: € 4,600 k); the average residual useful life was about seven years. Also included were brands acquired in the context of business combinations in the amount of € 1,877 k (previous year: € 1,877 k), which were classified as intangible assets with an indefinite useful life as there was no foreseeable limit to the use of these brands. The contractual and non-contractual business relationships obtained in the context of business acquisitions under the item customer relationships and order backlog had a residual value of € 14,367 k (previous year: € 22,224 k), the average residual useful life of which was 5.5 years.

Amortisation of intangible assets with a finite useful life was included in the following function costs:

€ '000	**2017**	**2016**
Cost of sales	10,230	12,330
General and administration expenses	9,049	6,774
Selling expenses	703	686
Research and development expenses	455	1,144
Total	**20,437**	**20,934**

There was no appreciation either in this financial year or in the previous year.

17 | Impairment testing of property, plant and equipment as well as intangible assets

Property, plant and equipment as well as intangible assets were tested for impairment where there were possible signs of depreciation pursuant to IAS 36.13. The existing brand was also tested for possible impairment as part of the impairment test that must be carried out at least once a year. For this impairment testing, the expected cash flows were in all cases extrapolated from the business planning as approved by management for a period of five years. In the impairment tests, the recoverable amount of the respective cash-generating unit was as a matter of principle based on the fair value less cost to sell and was determined based on the level three parameters pursuant to IFRS 13.

The brands existing within the Wire & Cable Solutions Division were tested for impairment on 31 October. This was based on an after-tax discount rate of 8.87 percent (previous year: 7.78 percent). The impairment test did not result in any need for write-down.

The following disclosures refer to cash-generating units that were tested for impairment because there were indications of impairment.

In the case of a cash-generating unit of the Wire & Cable Solutions Division, the impairment test was based on an after-tax discount rate of 8.38 percent (previous year: 7.80 percent). The test did not find any need for write-down. From an increase in the after-tax interest rate by more than 0.6 of a percentage point (previous year: 0.8) the fair value less cost to sell would, all other parameters being equal, drop below the carrying amount.

In a further case involving a cash-generating unit in the Wiring Systems Division, an impairment test was based on the fair values of the individual assets. This found impairment by € 1,196 k, which was expensed and mostly recognised in the cost of sales. The need for write-down pertained to property plant and equipment.

18 | Goodwill

Goodwill in the financial year is summarised as follows:

€ ’000	**2017**	**2016**
Acquisition costs on 1 January	156,103	158,084
Accumulated allowance	8,167	8,169
Carrying amount 1 January	**147,935**	**149,915**
Disposals	0	(2,539)
Additions	672	0
Currency translation differences	(1,925)	560
Carrying amount on 31 December	**146,682**	**147,935**
Acquisition costs on 31 December	149,698	156,103
Accumulated allowance on 31 December	3,016	8,167
Carrying amount on 31 December	**146,682**	**147,935**

In addition to the obligatory impairment tests of all goodwill that must be carried out at least once a year, the Company carries out additional impairment tests during the financial year where there are indications of impairment. The obligatory impairment test of all goodwill that must be carried out at least once a year was executed as at 31 October.

For the purpose of the impairment test, all goodwill was allocated to those cash-generating units or groups of cash-generating units that benefit from the synergies of the business combinations.

The principal goodwill allocations were as follows: In the Wiring Systems Division, the largest item of goodwill in the amount unchanged from the previous year of € 66.6 million was allocated at segment level. Also within the Wiring Systems Division, one item of goodwill in the amount of € 6.9 million (previous year: € 7.0 million) was allocated at the level of a business unit. In the Wire & Cable Solutions Division, one item of goodwill of € 64.9 million (previous year: € 65.9 million) was allocated to Business Group Industrial Solutions and goodwill totalling € 4.2 million (previous year: € 4.1 million) was allocated to Business Group Automotive Cables.

In all the goodwill impairment tests, determination of the recoverable amount was based on the fair value less cost to sell. The underlying cash flow forecasts are in each case based on the five-year business planning as approved by the Board of Directors.

As in the previous year, cash flows after the five-year period were on principle and for simplification extrapolated without applying a growth rate. The after-tax discount rates applied were as follows: for the Wiring Systems Division 8.80 percent (previous year: 7.89 percent), for Business Group Automotive Cables 10.13 percent (previous year: 9.55 percent) and for Business Group Industrial Solutions 8.45 percent (previous year 7.63 percent).

The test for impairment of goodwill found no need for write-down.

The Group's management holds the basic view that, by prudent judgement, any fundamentally possible change to basic assumptions for determining the recoverable amount of the cash-generating units or groups of cash-generating units to which goodwill has been allocated would not lead to the carrying amounts of the cash-generating units exceeding their recoverable amount, except for the following cash-generating units:

Within the Wire & Cable Solutions Division, an item of goodwill in the amount of € 64.9 million that is allocated to Business Group Industrial Solutions was tested for impairment. The after-tax discount rate was 8.45 percent (previous year: 7.63 percent). Based on the assumptions made, the value in use exceeded the carrying amount of € 440.4 million by € 35.8 million. From an increase in the discount rate by 0.57 of a percentage point (previous year: 0.31 of a percentage point) the value in use would, all other parameters being equal, match the carrying amount.

Likewise within the Wire & Cable Solutions Division, an item of goodwill in the amount of € 4.1 million that is allocated to Business Group Automotive Cables was also tested for impairment. The after-tax discount rate in this case was 10.13 percent (previous year: 9.55 percent). Based on the assumptions made, the value in use exceeded the carrying amount of € 287.1 million by € 28.7 million. From an increase in the discount rate by 0.65 of a percentage point (previous year: 0.96 of a percentage point) the value in use would, all other parameters being equal, match the carrying amount.

Within the Wiring Systems Division, an item of goodwill in the amount of € 6.9 million that is allocated to a business unit was likewise tested for impairment. The after-tax discount rate in this case was 9.45 percent (previous year: 8.56 percent). Based on the assumptions made, the recoverable amount exceeded the carrying amount of € 76.7 million by € 7.2 million. From an increase in the discount rate by 0.65 of a percentage point (previous year: 5.36 of a percentage point) the value in use would, all other parameters being equal, match the carrying amount.

19 | Shares in associated companies and joint ventures

As in the previous year, the shares in associated companies and joint ventures involved primarily LEONI Wiring Systems Co. Ltd. based in Langfang, China, in which the Group holds a 50 percent stake and which is included on the consolidated financial statements with this share. The business purpose of this joint venture is the production of cable harnesses for car model series.

The following key figures may be extrapolated from the financial statements prepared in accordance with IFRS for the aforementioned, significant joint venture. The figures are stated at 100 percent and do not reflect LEONI's share in these amounts. There is furthermore a reconciliation of the pro-rata net assets with the carrying amount of the share held by LEONI in this joint venture.

€ '000	**2017**	**2016**
Current assets	99,812	93,027
of which cash and cash equivalents	*20,055*	*24,396*
Non-current assets	27,668	26,664
Current liabilities	69,170	44,762
of which current financial liabilities	*49,555*	*31,146*
Non-current liabilities	0	35,465
of which non-current financial liabilities	*0*	*34,205*
Sales	244,033	206,862
Interest income	566	105
Interest expenses	2,266	2,674
Depreciation / amortisation	8,067	15,418
Expenses	173,543	156,675
Income before taxes	**60,723**	**32,200**
Income tax expense or revenue	(15,253)	(7,990)
Earnings after taxes	**45,470**	**24,210**
Other comprehensive income	(1,646)	20
Total comprehensive income	**43,824**	**24,230**
Pro-rata comprehensive income	21,912	12,115
Net assets (excl. goodwill)	**58,310**	**39,464**
Pro-rata net assets	29,155	19,732
Pro-rata goodwill	4,017	4,276
Carrying amount of investment	**33,172**	**24,008**
Average number of employees	**608**	**619**

LEONI received a dividend of € 12,004 k in the financial year.

The carrying amount of joint ventures and associated companies that are individually not significant was € 887 k (previous year: € 746 k).

The summarised financial information, based on the values pertaining to LEONI, is presented below:

€ '000	2017	2016
Income from continuing operations	109	114
Other earnings after taxes	32	(75)
Total comprehensive income	**141**	**39**

20 | Other non-current financial assets

The other non-current financial assets amounting to € 1,116 k (previous year: € 1,116 k) comprised investments classified as available-for-sale securities. They were valued at cost because there was no quoted price in an active market and their fair value could not be reliably measured.

The item also included primarily loans to third parties and staff in the amount of € 784 k (previous year: € 838 k) and collateral, pertaining mostly to rental deposits for office and warehouse buildings as well as staff residential units in Korea, in the amount of € 3,865 k (previous year: € 3,848 k).

21 | Financial liabilities

The financial liabilities comprised liabilities to banks, notes payable and other loan obligations. They totalled € 591,320 k on 31 December 2017 (previous year: € 612,488 k). Current financial liabilities and the short-term proportion of long-term loans amounted to € 254,373 k on the reporting date (previous year: € 150,345 k). Non-current financial liabilities decreased by € 125,196 k to € 336,947 k, which is attributable primarily to a loan from the European Investment Bank as well as a borrower's note loan maturing in the third quarter of 2018. These loans are therefore presented in current financial liabilities.

The overview below shows the existing borrower's note loans:

Nominal value € '000	Carrying amount 31/12/2017 € '000	Payment year	Repayment	Interest	Interest rate hedging instrument
25,000	25,204	2012	matures 2018	fixed income	none
48,500	48,914	2012	matures 2019	fixed income	none
25,000	26,221	2013	matures 2020	fixed income	fair value hedge
6,000	6,049	2015	matures 2020	fixed income	none
87,000	87,140	2015	matures 2020	variable rate	none
77,500	78,115	2015	matures 2020	fixed income	none
9,000	9,086	2012	matures 2022	fixed income	none
21,000	21,036	2015	matures 2022	variable rate	none
19,000	19,192	2015	matures 2022	fixed income	none
12,000	12,172	2015	matures 2025	fixed income	none

Detail of the financial liabilities and hedging instruments is to be found in Note 28.

22 | Trade payables and other financial liabilities

€ '000	2017	2016[1]
Trade liabilities	909,414	772,034
Liabilities to associated companies and joint ventures	1,319	1,116
Other liabilities	64,151	81,853
	974,884	**855,003**

[1] *Prior-year figures adjusted*

Trade liabilities in the amount of € 185,852 k (previous year: € 143,951 k) were transferred to banks as at 31 December 2017 within the scope of reverse factoring contracts.

Other liabilities included payables amounting to € 35,519 k (previous year: € 45,837 k) from the receipt of payment on receivables that were sold within factoring contracts.

23 | Other current liabilities

€ '000	2017	2016[1]
Liabilities to employees	116,788	93,983
Tax liabilities	31,718	37,771
Liabilities connected with social security	21,360	16,452
Other accruals	18,726	11,353
	188,592	**159,559**

[1] *Prior-year figures adjusted*

24 | Provisions

The changes in provisions are summarised as follows:

€ '000	01/01/2017	Usage	Dissolution	Allocation	Allocation of interest	Currency differences	Disposals due to changes in scope of consoli-dation	31/12/2017	current provisions 2017	non-current provisions 2017	current provisions 2016	non-current provisions 2016
Personnel-related-provisions	26,815	3,699	269	2,622	19	62	72	**25,354**	1,914	23,440	1,867	24,948
Provisions for product warranties	16,135	5,722	2,430	6,409	0	393	0	**13,999**	13,999	0	16,135	0
Other provisions for purchasing and distribution	11,565	5,420	584	4,101	0	388	5	**9,269**	8,972	297	11,346	219
Restructuring provisions	19,911	15,476	121	0	0	37	26	**4,251**	3,631	620	18,527	1,384
Other provisions	12,290	1,335	754	3,771	0	143	0	**13,829**	4,888	8,941	5,588	6,702
Total	**86,716**	**31,652**	**4,158**	**16,903**	**19**	**1,023**	**103**	**66,702**	**33,404**	**33,298**	**53,463**	**33,253**

The personnel-related provisions involved mainly long-term provision for anniversary bonuses in the amount of € 11,673 k (previous year: € 11,818 k) and for partial retirement agreements in Germany in the amount of € 7,611 k (previous year: € 8,480 k). The provision for anniversary bonuses is paid out according to the age structure of the workforce upon the employees' respective anniversaries of service. Based on the current workforce, payments will mostly become due in the next 20 years. The payments relating to provisions for partial retirement will probably be spread over the next six years.

The product warranties were determined based on experience, with goodwill concessions also taken into account. Provisions were added in the amount of € 6,409 k (previous year: € 7,415 k) for claims under warranty and/or for compensation in fiscal 2017. These provisions for claims under warranty and/or for compensation were offset by claims against the insurer in the amount of € 1,847 k (previous year: € 3,088 k).

There were also provisions for purchasing and distribution to cover onerous contracts.

The restructuring provisions in the amount of € 4,251 k (previous year: € 19,911 k) pertained to the Wiring Systems Division in the amount of € 3,398 k (previous year: € 16,820 k) and to the Wire & Cable Solutions Division in the amount of € 853 k (previous year: € 3,091 k). The non-current proportion of the restructuring provisions involved mostly severance costs in Spain and Italy in the Wiring Systems Division, payment of which stretches into the year 2019. Use of restructuring provisions in the amount of € 15,476 k involved the sums set aside in previous years for severance costs pertaining above all to the Wire & Cable Solutions Division in Germany as well as to the Wiring Systems Division in Germany, Tunisia and France.

The other provisions in the amount of € 13,829 k (previous year: € 12,290 k) included a further addition in the Wire & Cable Solutions Division of € 1,228 k for expected waste disposal obligations concerning a site in Germany.

25 | Pension provisions

At LEONI, there are in various countries pension commitments that provide for benefits in the event of disablement, retirement or death. These principal commitments are limited to our companies in the United Kingdom, Germany and Switzerland, and are set up as defined benefit plans. The obligations and the plan assets of the pension plans in these three countries accounted for 97.3 percent (previous year: 97.4 percent) and 99.2 percent (previous year: 99.1 percent), respectively, of the Group total. The pension plans in the United Kingdom and Switzerland are managed by legally independent entities, namely the LEONI UK Pension Scheme and Vorsorgestiftung LEONI Schweiz (LEONI Switzerland Pension Trust).

Germany

In Germany, LEONI grants defined benefits to most employees for the deferral of compensation. Amounts of deferred compensation earn fixed interest and lead to a claim for fixed lump-sum benefit once entitlement takes effect. These benefits are covered by capital insurance. The reinsurance policies are qualifying insurance policies and are therefore recognised as plan assets. The terms of the insurance policies are in line with the dates when the benefits become due. The interest rate for benefit modules follows the respectively current maximum rate stipulated by Section 65 of the Insurance Supervision Act (VAG) in conjunction with Section 2 (1) of the Actuarial Reserve Ordinance. It is capped at 6 percent, but currently lies between 4.5 percent and 5 percent because of the persistently low level of interest rates. The pension plan of Leonische Drahtwerke AG, which in the past covered all employees, was closed to people joining the Company after 31 December 1981, was replaced by the pension plan of LEONI AG in 2013. Furthermore, the pension plan's assets, from which payments of pension benefits that had already started at the time of the closure were made, were transferred to LEONI AG. This transfer of the pension plan did not entail any change to benefits for either people now in retirement or for future beneficiaries. The amount of pension benefit payments is based on years of service and the salary of the last year of employment.

Pension obligations of acquired German companies are generally based on eligible compensation levels and/or ranking within the Company hierarchy and years of service, or on a fixed amount per year of service. All defined pension plans of acquired companies are closed to new staff.

The plans in Germany are exposed to risks relating primarily to interest rates, longevity and partly also salary increases.

United Kingdom

In the United Kingdom, there is a defined benefit plan that was set up in the year 2000 and replaced the pension plan in place until then. Until it was closed to new staff joining in 2008, all employees were able to participate in this plan. The pension plan is administered by a trust whose board comprises both employer and employee representatives. There are also outside experts consulting on asset management and actuarial matters. The trust determines the contributions to be paid in by LEONI and decides on the additional contributions to be paid by LEONI in the event of any plan deficit. Due to the persistently low discount rates that are to be applied for computing pension obligation, the balance of defined benefit obligation and plan assets currently shows a deficit of € 66,626 k (previous year: € 71,061 k), equating to 31.2 percent (previous year: 33.2 percent) benefit obligation. Negotiations between LEONI and the trust are conducted every three years to determine the amounts to be paid in to clear any deficit and the period over which to do so. In addition to the ongoing contributions, payments of € 4,057 k were made in the financial year (previous year: € 3,766 k) to clear the deficit.

The amount of committed benefits is based upon the salary of the last year of employment as well as years of service and contributions of the participants to the fund. Pension adjustments are linked to an inflation index, reflecting increases in the cost of living.

LEONI is exposed due to these plans in the United Kingdom to risks involving primarily interest rates, investment, inflation and longevity as well as salary increases.

Switzerland

In Switzerland, there is, alongside the state pension, a statutory obligation to provide employees with pension insurance, which pays benefits in the event of retirement, disablement and death. This involves a defined benefit plan that, at LEONI, is managed by the legally independent 'Vorsorgestiftung LEONI Schweiz' (LEONI Switzerland Pension Trust). The trust's management is incumbent upon the board of trustees, which comprises an equal number of employer and employee representatives. The risks relating to longevity, interest rates and investment are borne exclusively by the trust. The savings contributions to the trust are paid in equal amounts by the employer and employees. A variety of measures can be applied in the event of any plan deficit. Alongside the options of reducing the pension payments or increasing the savings contributions, there is a statutory obligation on companies to pay recapitalisation contributions.

The size of benefit payments is, in the event of disability or death, geared to the amount of income insured, or, in the case of retirement, depends on the credit balances in nominal savings accounts (old-age credit) at the time of retirement.

Other countries

In France, there are defined benefit plans in accordance with the country's legal requirements and other agreements. The collective agreement of the French metal-working trade union determines the size of the benefit. It is linked to monthly wages and salaries and depends on years of service.

At the Italian subsidiaries, there are pension plans in accordance with the local legal requirements. These must be qualified as defined benefit plans pursuant to IAS 19 and were presented accordingly.

Furthermore, there are at some foreign subsidiaries pension-like defined benefit schemes, above all for transition payments after entering retirement, which were presented as defined benefit plans pursuant to IAS 19 and which were of only minor significance to the Group.

The trend in net pension obligations, which is comprised of the change in the defined benefit obligation and the change in the fair value of plan assets is as follows:

2017						
Change in defined benefit obligations	€ '000	**UK**	**Germany**	**Switzerland**	**Other**	**Total**
Defined benefit obligations at the beginning of the fiscal year		213,851	121,191	96,217	11,645	442,904
Current service cost		1,794	3,073	2,094	1,085	8,046
Interest cost		5,402	2,060	608	256	8,326
Actuarial (gains) / losses		6,656	(4,344)	(262)	(71)	1,979
Contributions by plan participants		15	2,454	2,090	0	4,559
Currency differences		(7,404)	0	(7,989)	(28)	(15,421)
Acquisition effects		0	0	863	0	863
Transfers under Swiss Law		0	0	1,661	0	1,661
Benefits paid		(6,706)	(2,992)	(5,115)	(1,266)	(16,079)
Defined benefit obligations at the end of the fiscal year		**213,608**	**121,442**	**90,167**	**11,621**	**436,838**
Change in plan assets	€ '000	**UK**	**Germany**	**Switzerland**	**Other**	**Total**
Fair value of plan assets at the beginning of fiscal year		142,790	37,249	77,502	2,304	259,845
Interest received		3,649	694	490	66	4,899
Return on plan assets (excl. interest income based on discount rate)		6,771	86	4,186	(42)	11,001
Currency differences		(5,007)	0	(6,653)	(21)	(11,681)
Contributions by the employer		6,189	253	2,024	987	9,453
Contributions by plan participants		15	2,454	2,090	0	4,559
Administrative costs, fees and taxes		(719)	0	0	0	(719)
Acquisition effects		0	0	734	0	734
Transfers under Swiss Law		0	0	1,661	0	1,661
Benefits paid		(6,706)	(795)	(5,115)	(1,047)	(13,663)
Plan assets at the end of the fiscal year		**146,982**	**39,941**	**76,919**	**2,247**	**266,089**
Net liability due to defined benefit plans		**66,626**	**81,501**	**13,248**	**9,374**	**170,749**

2016

Change in defined benefit obligations € '000	UK	Germany	Switzerland	Other	Total
Defined benefit obligations at the beginning of the fiscal year	192,848	105,361	96,695	11,301	406,205
Current service cost	1,482	2,591	2,491	1,244	7,808
Interest cost	6,439	2,512	673	294	9,918
Actuarial (gains) / losses	47,970	11,475	(758)	309	58,996
Past service cost	0	0	(888)	(944)	(1,832)
Contributions by plan participants	17	2,473	2,187	0	4,677
Currency differences	(29,900)	0	722	5	(29,173)
Disposal of subsidiaries / Reclassification to held-for-sale liabilities	0	(483)	0	0	(483)
Transfers under Swiss Law	0	0	1,487	0	1,487
Benefits paid	(5,005)	(2,738)	(6,392)	(564)	(14,699)
Defined benefit obligations at the end of the fiscal year	**213,851**	**121,191**	**96,217**	**11,645**	**442,904**

Change in plan assets € '000	UK	Germany	Switzerland	Other	Total
Fair value of plan assets at the beginning of fiscal year	145,076	33,478	75,149	1,767	255,470
Interest income	4,919	791	522	56	6,288
Return on plan assets (excl. interest income based on discount rate)	14,108	309	1,838	(46)	16,209
Currency differences	(21,580)	0	599	17	(20,964)
Contributions by the employer	5,872	1,126	2,112	950	10,060
Contributions by plan participants	17	2,473	2,187	0	4,677
Administrative costs, fees and taxes	(617)	0	0	0	(617)
Disposal of subsidiaries / Reclassification to held-for-sale liabilities	0	(205)	0	0	(205)
Transfers under Swiss Law	0	0	1,487	0	1,487
Benefits paid	(5,005)	(723)	(6,392)	(440)	(12,560)
Plan assets at the end of the fiscal year	**142,790**	**37,249**	**77,502**	**2,304**	**259,845**
Net liability due to defined benefit plans	**71,061**	**83,942**	**18,715**	**9,341**	**183,059**

The pension obligations are presented on the balance sheet as a net liability in the amount of € 170,792 k (previous year: € 183,059 k) and as a net asset in the amount of € 43 k (previous year: € 0 k).

The transfers under Swiss law concern the transfer of the obligation and of the related proportion of plan assets, known as the vested benefit credit, to the new employer or a suitable financial institution in accordance with the country's legal requirements.

The defined benefit obligation at the end of the financial year broke down into € 387,819 k (previous year: € 391,618 k) in funded obligations and € 49,019 k (previous year: € 51,286 k) in unfunded obligations.

A breakdown of the obligations into the categories of existing and past employees as well as non-vested and vested benefits is provided in the overview below:

2017 € '000	UK	Germany	Switzerland	Other	Total
Current employees with non-vested benefits	62,487	67,752	60,110	4,088	194,437
Current employees with vested benefits	0	0	0	7,533	7,533
Former employees with non-vested benefits	81,774	17,489	0	0	99,263
Pensioners	69,347	36,201	30,057	0	135,605
Defined benefit obligations at the end of the fiscal year	**213,608**	**121,442**	**90,167**	**11,621**	**436,838**

2016 € '000	UK	Germany	Switzerland	Other	Total
Current employees with non-vested benefits	59,742	67,189	64,171	4,662	195,764
Current employees with vested benefits	0	0	0	6,983	6,983
Former employees with non-vested benefits	80,802	16,497	0	0	97,299
Pensioners	73,307	37,505	32,046	0	142,858
Defined benefit obligations at the end of the fiscal year	**213,851**	**121,191**	**96,217**	**11,645**	**442,904**

The actuarial gains or losses on revaluation were recognised in accumulated other comprehensive income. The trend in the Group's actuarial losses, including the share pertaining to associated companies, is presented in the overview below:

€ '000	2017	2016
Actuarial losses at the beginning of the financial year	147,029	104,199
Actuarial (gains) / losses		
– due to the change in demographic projections	0	(42)
– due to the change in financial estimates	2,510	60,702
– due to adjustments based on experience	(561)	(1,589)
Return on plan assets (excl. interest income based on discount rate)	(11,002)	(16,208)
Disposal of subsidiaries	0	(33)
Actuarial losses at the end of the fiscal year	**137,976**	**147,029**

The assumptions for interest rates, rates of compensation increase and the expected return on plan assets on which the calculation for defined benefit obligations is based were established for each country as a function of their respective economic conditions. The discount rate was determined on the basis of top-tier, fixed-income corporate bonds. This involved referencing bonds that on the reporting date had maturities in line with the pension obligations and are quoted in the corresponding currency. AA-rated bonds were used as the basis for data to determine the discount rates.

The overview below shows the actuarial assumptions made to calculate the defined benefit obligation:

	2017				2016			
	UK	Germany	Switzerland	Total	UK	Germany	Switzerland	Total
Discount rate	2.38 %	1.93 %	0.70 %	1.88 %	2.62 %	1.72 %	0.65 %	1.91 %
Rate of wage and salary increase	3.18 %	2.50 %	1.00 %	2.51 %	3.25 %	2.50 %	0.75 %	2.46 %
Rate of compensation increase	3.05 %	1.75 %	0.00 %	1.98 %	3.10 %	1.75 %	0.00 %	1.98 %

The assumptions made for calculating net periodic pension costs are shown in the table below:

	2017				2016			
	UK	Germany	Switzerland	Total	UK	Germany	Switzerland	Total
Discount rate	2.62 %	1.72 %	0.65 %	1.91 %	3.76 %	2.42 %	0.70 %	2.63 %
Rate of wage and salary increase	3.25 %	2.50 %	0.75 %	2.46 %	2.99 %	2.50 %	1.00 %	2.36 %
Rate of compensation increase	3.10 %	1.75 %	0.00 %	1.98 %	2.89 %	1.75 %	0.00 %	1.84 %

The assumed mortality is based on published statistics and historical data in the respective countries. The valuation of the retirement benefit obligations in the United Kingdom was based on the S2NA mortality table of 2007 and updated with the CMI 2014 core model index. In Germany, the mortality tables used were the 'Heubeck-Richttafeln 2005 G', while in Switzerland it was the 'BVG 2015 Generationentafel'.

The discount rate is the key determinant for the amount of net pension obligations. An increase or a decrease by 1 percentage point has the following impact on the defined benefit obligation:

2017	€ '000	UK	Germany	Switzerland	Other	Total
Defined benefit obligations at the end of the fiscal year		**213,608**	**121,442**	**90,167**	**11,621**	**436,838**
Discount rate + 1 percentage point	Change:	(36,205)	(15,060)	(11,173)	(1,238)	(63,676)
	Defined benefit obligations:	177,403	106,382	78,994	10,383	373,162
Discount rate – 1 percentage point	Change:	48,051	18,729	14,205	1,574	82,559
	Defined benefit obligations:	261,659	140,171	104,372	13,195	519,397

2016	€ '000	UK	Germany	Switzerland	Other	Total
Defined benefit obligations at the end of the fiscal year		**213,851**	**121,191**	**96,217**	**11,645**	**442,904**
Discount rate + 1 percentage point	Change:	(36,014)	(15,691)	(12,025)	(1,247)	(64,977)
	Defined benefit obligations:	177,837	105,500	84,192	10,398	377,927
Discount rate – 1 percentage point	Change:	47,858	19,652	15,368	1,489	84,367
	Defined benefit obligations:	261,709	140,843	111,585	13,134	527,271

The assumptions concerning the trends in salaries, pensions and mortality with respect to the pension plan in the Group have the effect on the defined benefit obligation set out below. It should be noted that a drop in the pension level is ruled out by law in Switzerland.

€ '000		2017 UK	2017 Germany	2017 Switzerland	2016 UK	2016 Germany	2016 Switzerland
Defined benefit obligations at the end of the fiscal year		**213,608**	**121,442**	**90,167**	**213,851**	**121,191**	**96,217**
Salary trend + 0.5 percentage point	Change (absolute):	2,254	29	180	2,334	38	289
	Change (relative):	1.06 %	0.02 %	0.20 %	1.09 %	0.03 %	0.30 %
Salary trend – 0.5 percentage point	Change (absolute):	(2,254)	(28)	(180)	(2,334)	(35)	(289)
	Change (relative):	(1.06) %	(0.02) %	(0.20) %	(1.09) %	(0.03) %	(0.30) %
Rate of compensation + 0.5 percentage point	Change (absolute):	16,905	3,794	4,238	15,169	4,088	4,522
	Change (relative):	7.91 %	3.12 %	4.70 %	7.09 %	3.37 %	4.70 %
Rate of compensation – 0.5 percentage point	Change (absolute):	(14,651)	(3,453)	n/a	(15,169)	(3,713)	n/a
	Change (relative):	(6.86) %	(2.84) %	n/a	(7.09) %	(3.06) %	n/a
Life expectancy + 1 year	Change (absolute):	7,889	2,973	2,164	5,834	3,070	2,213
	Change (relative):	3.69 %	2.45 %	2.40 %	2.73 %	2.53 %	2.30 %

The mortality trend is taken into account in the three major pension plans through the use of generation tables. Calculation of the defined benefit obligation with a one-year rise in life expectancy raises the defined benefit obligation of the plans as follows: in the United Kingdom by 3.69 percent (previous year: 2.73 percent), in Germany by 2.45 percent (previous year: 2.53 percent) and in Switzerland by 2.40 percent (previous year: 2.30 percent).

The calculation of sensitivities was, as part of an observation performed on a ceteris paribus basis, based on changing an assumption, whereas all other assumptions remain unchanged, whereby dependencies between the assumptions are ruled out. The method for calculating sensitivities is identical to that for calculating the net pension obligation.

The defined benefit plan expense recognised in comprehensive income comprises the amounts contained in consolidated net income and in other comprehensive income:

€ '000	2017	2016
Current service cost	8,046	7,808
Net interest cost	3,427	3,630
Past service cost	0	(1,832)
Administrative costs and taxes related to plan management	719	617
Defined benefit plan expense recognised in consolidated net income	**12,192**	**10,223**
Actuarial (gains) / losses	1,949	59,071
Return on plan assets (excl. interest income based on discount rate)	(11,002)	(16,208)
Disposal of subsidiaries	0	(33)
Income / expense relating to defined benefit plans recognised in other comprehensive income	**(9,053)**	**42,830**
Defined benefit plan expense recognised in comprehensive income	**3,139**	**53,053**

The net interest expense that arose from applying the discount rate to the balance of defined benefit obligation less plan assets (net pension obligation) was presented under finance costs.

The expense recognised in consolidated net income was contained in the following items of the income statement:

€ '000	2017	2016
Cost of sales	2,806	3,039
General and administration expenses	1,945	437
Selling expenses	1,964	1,146
Research and development expenses	2,050	1,971
Finance costs	3,427	3,630
Defined benefit plan expense recognised in consolidated net income	**12,192**	**10,223**

Asset-liability matching strategies

At LEONI, the key benefit commitments are, in accordance with the Company's Articles of Association, furnished with a benefit reserve that is suited in its nature to funding the benefit payments when they are due and in the required amount. In the case of the German pension plan this is done exclusively by means of qualifying life insurance policies that are synchronised in their terms and amounts with the expected benefit payments. In the case of the pension plans in the United Kingdom and Switzerland, the boards of the independent trusts ensure adherence to the investment strategies. These strategies are aimed at minimising potential investment risks, having sufficient funds available at short notice to serve the benefit payments due and at generating a return that is in line with the market over the long term. Assessments of the investment portfolio are regularly conducted together with independent, outside specialists in the fields of asset investment and actuarial policies to review the attainment of strategic targets and for the boards on that basis to take investment decisions.

The breakdown of plan assets in the various classes is presented in the table below:

	2017		2016	
	€ '000	%	€ '000	%
Equity instruments	57,311	21.5	69,189	26.6
Debt instruments	33,967	12.8	70,283	27.0
Property	34,803	13.1	32,925	12.7
of which: prices not quoted on an active market	*18,814*	*7.1*	*18,277*	*7.0*
Securities funds	78,929	29.7	27,273	10.5
Qualifying insurance policies	39,981	15.0	37,289	14.4
Other plan assets	17,754	6.7	15,551	6.0
of which: prices not quoted on an active market	*11,891*	*4.5*	*10,668*	*4.1*
Cash and cash equivalents	3,344	1.3	7,335	2.8
Total plan assets	**266,089**	**100.0**	**259,845**	**100.0**

The plan assets from qualifying insurance policies stemmed almost exclusively from the reinsurance policies in Germany. Apart from the class comprising cash and cash equivalents, the assets of all other classes stated involved the plan assets of the pension plans in the United Kingdom and Switzerland, and broke down as follows:

2017	**UK**		**Switzerland**	
	€ '000	%	€ '000	%
Equity instruments	34,394	23.4	22,917	29.8
Debt instruments	3,969	2.7	29,998	39.0
Property	18,814	12.8	15,989	20.8
of which: prices not quoted on an active market	*18,814*	*12.8*	*0*	*0.0*
Securities funds	78,929	53.7	0	0.0
Other plan assets	10,730	7.3	7,024	9.1
of which: prices not quoted on an active market	*10,730*	*7.3*	*1,161*	*1.5*
Cash and cash equivalents	146	0.1	991	1.3
Total plan assets	**146,982**	**100.0**	**76,919**	**100.0**

2016	**UK**		**Switzerland**	
	€ '000	%	€ '000	%
Equity instruments	50,976	35.7	18,213	23.5
Debt instruments	31,842	22.3	38,441	49.6
Property	18,277	12.8	14,648	18.9
of which: prices not quoted on an active market	*18,277*	*12.8*	*0*	*0.0*
Securities funds	27,273	19.1	0	0.0
Other plan assets	10,281	7.2	5,270	6.8
of which: prices not quoted on an active market	*10,281*	*7.2*	*387*	*0.5*
Cash and cash equivalents	4,141	2.9	930	1.2
Total plan assets	**142,790**	**100.0**	**77,502**	**100.0**

The equity instruments in the United Kingdom and Switzerland comprised investments in equity funds and direct investments. In each case the funds included equities both based in the country and foreign ones. The debt instruments held in the United Kingdom and Switzerland involved both national and foreign corporate and government bonds. Investment in property in the United Kingdom and Switzerland was transacted exclusively by way of open-ended property funds. The securities funds in the United Kingdom involved diversified growth funds or liability-driven investments (LDIs). The other plan assets in the United Kingdom included investments in funds in which the portfolios comprised foreign utility and transport infrastructure organisations.

The breakdown of plan assets by the stated investment classes corresponds to the targeted investment classes set out in the statutes of the pension plans. The trustee continuously monitors the investment strategy especially for the plan in the United Kingdom. The objective is to ensure the best possible congruity with respect to long-term structure and interest rate as well as inflation sensitivities between pension obligations and the plan assets (liability-driven investments). During the year under report, a shift was made in the target allocation away from equity and debt instruments and towards securities funds, which are expected to provide targeted hedging of the inflation and interest rate risk.

LEONI did not make any own use of plan assets.

The contributions to plan assets amounted to € 9,455 k and were projected at € 8,265 k for the subsequent financial year.

A breakdown of pension payments (excluding compensatory effects of payouts from the plans assets) was presented as follows:

Pension payments made	€ '000
2016	14,724
2017	**16,079**
Expected pension payments	€ '000
2018	13,976
2019	14,394
2020	15,719
2021	15,599
2022	17,646
2023 – 2027	85,932
Expected pension payments until 2027	**163,266**

The slight increase in pension payments in 2017 is due to unplanned payouts from the plans assets in the United Kingdom where the beneficiaries have had the option since 2015 of transferring their pension entitlements into another, primarily defined-contribution pension plan outside the LEONI pension plan. The size and extent of these transfers cannot be meaningfully estimated for future periods because of lack of experience.

The average, weighted Macaulay duration of benefit obligations was 20 years in the United Kingdom and 14 years in both Germany and Switzerland.

Some non-German companies provide defined contribution plans. In Germany and other countries state plans were also recognised under defined contribution plans. The total cost of such contributions amounted to € 88,403 k in the financial year (previous year: € 73,521 k).

26 | Equity

Share capital

The share capital in the amount of € 32,669 k (previous year: € 32,669 k), which corresponded to the share capital of LEONI AG, is divided into 32,669,000 (previous year: 32,669,000) no-par-value shares.

Additional paid-in capital

As in the previous year, the additional paid-in capital amounted to € 290,887 k.

Statutory reserve

As in the previous year, the retained earnings included the statutory reserve of LEONI AG in the amount of € 1,092 k, which is not available for distribution.

Authorised capital

The Board of Directors is authorised to increase the share capital by up to € 16,334.5 k on or before 10 May 2022 with the Supervisory Board's approval by once or in partial amounts issuing up to 16,334,500 new bearer shares, each with a pro-rated share of € 1.00 in the share capital, on a cash or non-cash basis. Shareholders must be granted a right to subscribe. However, shareholders at the Annual General Meeting entitled the Board or Directors, with the approval of the Supervisory Board, to rule out shareholders' subscription rights in cases specified in the Articles of Association.

Contingent capital

Furthermore, the Annual General Meeting on 07 May 2015 authorised the Board of Directors to issue convertible bonds and/or warrant-linked bonds until 6 May 2020. This involved a contingent increase in share capital by up to € 6,534 k. The contingent capital increase is only to be performed to the extent that option and/or conversion rights are exercised, or that the holders and/or creditors obliged to convert have met their conversion obligation, or so far as the Company exercises its right under such instruments either entirely or partially to grant shares in the Company instead of paying the cash amount due and provided no other forms of fulfilment are used.

Dividend payment

A dividend for the 2016 financial year of € 16,335 k was paid out in fiscal 2017, equating to a payout of € 0.50 per share entitled to dividend.

Dividend proposal

The Board of Directors will propose to shareholders at the Annual General Meeting to pay out from the fiscal 2017 distributable profit of LEONI AG, amounting to € 46,278 k as determined under the German Commercial Code (HGB) and the German Stock Corporation Act (AktG), a dividend of € 45,737 k and to carry the remainder of € 541 k forward. This corresponds to a payout of € 1.40 per share entitled to dividend.

27 | Contingencies and other obligations

Lease obligations

The Group leases property, plant and equipment that did not qualify as finance leases under IFRS, and these are therefore classified as operating leases. Leasing expenses amounted to € 38,422 k in the financial year (previous year: € 32,002 k). The future (undiscounted) minimum rental payments on non-cancellable operating leases are:

Fiscal years	€ '000
2018	34,623
2019	29,330
2020	24,857
2021	22,803
2022	18,459
as of 2023	15,177
Total	**145,249**

Purchase order commitments

Purchase order commitments for property, plant and equipment as well as intangible assets amounted € 51,356 k on the balance sheet date (previous year: € 29,595 k).

Litigation and claims

Individual LEONI companies are involved in litigation or could be involved in further litigation, which could entail claims for compensation or other claims. Appropriate amounts with respect to such claims and, where applicable, claims against the insurers were recognised.

As reported, several civil proceedings in the form of class action lawsuits have been initiated against LEONI and other wiring systems manufacturers in the United States and Canada since October 2011 due to alleged breaches of competition law. LEONI was able to conclude all these proceedings in the 2016 and 2017 financial years without any acceptance of liability by way of settlement agreements. In the USA, there are now just a few proceedings pending involving individual claimants, which, from today's perspective, are likely to have far less impact than the hitherto concluded proceedings. LEONI therefore expects to be able to conclude these outstanding proceedings as well in the near future.

In November 2015, the Brazilian competition authority initiated proceedings against a LEONI company as well as other wiring system manufacturers, presumably in connection with the cartel proceedings before the European Commission that were already concluded in 2013. The authority is investigating alleged breaches of Brazilian competition law. LEONI is cooperating with the responsible authorities; the possibility of a fine payment is not ruled out. Corresponding provision was made in the 2017 financial statements.

In July 2017, LEONI AG was presented with the complaint of a shareholder before the District Court of Nuremberg-Fürth asking for the resolution passed at the Annual General Meeting concerning the election of Dr.-Ing. Klaus Probst as a member of the Supervisory Board to be revoked. The Company has thoroughly analysed the complaint together with its legal advisers. Based on the available information, LEONI currently believes that the legal challenge is unfounded. A judgement has not yet been pronounced.

In October 2017, another shareholder applied to the District Court of Nuremberg-Fürth for a decision on the composition of LEONI AG's Supervisory Board ('status proceedings'). The shareholder initiates such status proceeding nationwide. The applicant considers that the co-determined Supervisory Board of LEONI AG should not have six members on each of the shareholder and employee sides, but rather ten members on each side. He bases this view on the fact that – contrary to continual jurisprudence and existing practice – the threshold numbers of employees on which the size of the co-determined Supervisory Board depends are such that the staff of foreign LEONI Group companies worldwide should be included. The District Court of Nuremberg-Fürth has not yet reached a verdict.

With respect to the alleged breaches of the law in connection with having taken over employees in France, LEONI will continue to defend itself and still expects to be able to refute the allegations and to bring these proceedings to a successful conclusion.

Other than the above, there have not been any and there are currently no pending lawsuits or court proceedings that have any major impact on LEONI's business.

28 | Risk management and financial derivatives

Credit risk
All customers that conclude business with the Group on a credit basis are subject to credit screening. Regular analysis of receivables and the structure of the receivables facilitates ongoing monitoring of the risk. Accounts receivable management is organised in a decentralised way but is controlled by head office, which sets conditions by means of the existing guideline for Group-wide accounts receivable management.

There were no indications on the reporting date that trade receivables, which are neither impaired nor overdue, would not be settled.

The table below shows the breakdown by region of receivables from customers:

in percentage points	2017	2016
EMEA	**48**	**46**
thereof: Germany	8	8
Great Britain	6	5
Hungary	5	5
Italy	4	3
Romania	3	2
Others	22	22
Asia	**34**	**37**
thereof: China	24	27
South Korea	3	2
India	2	2
Others	5	6
Americas	**18**	**17**
thereof: USA	14	14
Others	4	3

The following table shows the size categories of receivables from customers on the balance sheet date:

	2017 %	2017 total share in %	2016 %	2016 total share in %
Largest customer	9	9	7	7
Second largest customer	7	7	7	7
Third to fifth largest customer	4 – 5	14	4 – 6	14
Other customers	< 4	70	< 4	72

Information on the due dates of trade receivables is presented in Note 11.

21 percent (previous year: 26 percent) of all receivables were covered, with insurance limits, by a Group master policy with a credit insurer or other local credit insurers. Insurance excess amounts were disregarded in determining the total amount insured. The amount actually insured was consequently slightly below this percentage. 49 percent (previous year: 45 percent) of the non-insured receivables involved customers that are exempt from contractually compulsory cover. The customers exempt from contractually compulsory cover were mainly major companies in the automotive as well as electronic/electrical engineering sectors. For 30 percent (previous year: 29 percent) of total receivables there was no cover from a credit insurer. The table below shows the breakdown of insured and non-insured receivables from customers:

%	2017	2016
Receivables (insured)	21	26
exempt from compulsory cover	49	45
no covers	30	29

The insured subsidiaries must apply for credit insurance limits to the credit insurer for all receivables from customers that are not exempt from compulsory cover and that exceed the limits specified in the existing guideline. The following specific conditions apply: LEONI has an obligation to declare exposure to the credit insurers for all receivables from customers greater than € 50 k. A cover limit can also be obtained for smaller receivables. Consignment stores and manufacturing risks are covered by blanket insurance. The credit insurance policy reimburses 90 percent of the insured amount. Measurement and monitoring with respect to impairment of the non-insured receivables is supported among other things by the credit screening carried out by the credit insurer and other service providers.

The subsidiaries that were not insured will be integrated in the master policy so far as this makes sense from the aspect of the principal customer base and provided there are no regional or political reasons on the part of the credit insurer against inclusion. The subsidiaries that cannot be integrated are to be covered via local credit insurers. Internal credit limits are set for major customers that are exempt from mandatory cover and other non-insured customers. Limits are applied for without delay, on a decentralised basis and are monitored by head office accounts receivable management.

For selected customers, true sale factoring serves as a further tool to reduce the risk of default. Customers with good credit ratings are also included.

Liquidity risk

The Group monitors its current liquidity situation on a daily basis. Monthly, currency-specific, rolling liquidity planning for respective periods of at least twelve months is used to control future liquidity requirement. The planning takes into consideration the terms of investments and financial assets (e.g. receivables, other financial assets) as well as the expected cash flows from business activity. In addition, we analyse our existing finance based on our medium-term planning, which we revise annually. We initiate suitable measures in good time so far as there is any change in borrowing requirement.

The Group's objective is to ensure funding in the respectively required currency. Flexibility is maintained by using overdrafts, loans, leases, factoring, reverse factoring and capital market instruments. A wide variety of financial instruments is available to LEONI on the capital market, from banks and among suppliers without the need for an external rating, financial covenants or other collateralisation.

To ensure liquidity, there were on the balance sheet date credit lines from first-rate banks amounting to € 536,938 k (previous year: € 575,942 k) with terms up to 22 months. These credit lines were drawn via current accounts and fixed deposits in the amount of € 86,776 k (previous year: € 37,148 k). Together with the short-term proportion of long-term loans, current liabilities to banks amounted to € 225,409 k (previous year: € 84,499 k).

The table below shows the contractually agreed (undiscounted) interest and principal payments pertaining to the primary financial liabilities as well as the derivative financial instruments with negative fair values:

2017 € '000	Carrying amount 31/12/2017	Cash flow 2018	Cash flow 2019	Cash flow 2020 – 2022	Cash flow starting 2023
Non-derivative financial liabilities					
Trade payables	(909,414)	(908,322)	(1,092)		
Liabilities to banks	(256,596)	(228,489)	(31,214)	(218)	(252)
Liabilities on bills of exchange and other financial debts	(1,596)	(1,596)			
Borrower's note loans	(333,128)	(31,202)	(53,939)	(250,006)	(12,720)
Other financial liabilities	(82,062)	(71,662)	(6,400)	(4,000)	
Derivative financial liabilities					
Currency derivatives without a hedging relationship	(4,040)	96,379	9,342		
		(97,458)	(12,579)		
Currency derivatives in connection with cash flow hedges	(6,953)	249,357	11,341		
		(253,515)	(11,318)		

2016 € '000	Carrying amount 31/12/2016[1]	Cash flow 2017	Cash flow 2018	Cash flow 2019 – 2021	Cash flow starting 2022
Non-derivative financial liabilities					
Trade payables	(772,034)	(772,034)			
Liabilities to banks	(215,658)	(88,070)	(104,037)	(31,548)	(325)
Liabilities on bills of exchange and other financial debts	(25)	(25)			
Borrower's note loans	(396,805)	(70,903)	(31,200)	(253,943)	(62,722)
Other financial liabilities	(68,918)	(68,630)	(288)		
Derivative financial liabilities					
Currency derivatives without a hedging relationship	(9,185)	136,448		9,342	
		(142,781)		(12,782)	
Currency derivatives in connection with cash flow hedges	(18,969)	302,680	31,207		
		(320,060)	30,597		

[1] *Prior-year figures adjusted*

All instruments held on the respective balance sheet date and for which payments were already contractually agreed were also included. Foreign currency amounts were in each case translated at the spot rate on the reporting date. The variable interest payments pertaining to the financial instruments were determined based on the interest rates fixed most recently prior to the respective balance sheet date. Financial liabilities repayable at any time are always allocated to the earliest period. In the case of the currency derivatives, both the cash outflow and the cash inflow are presented in the table above for the purpose of transparency.

Non-Deliverable Forwards (NDFs) were signed to hedge amounts in currencies that are not freely convertible. This form of foreign currency transaction involves fulfilment upon maturity being based not on handling the cash flows in the corresponding currencies, but in the form of a settlement payment.

Interest rate risks

We use interest rate derivatives, among other means, to avoid the risk of changes in interest rates. Such contracts are signed exclusively by LEONI AG.

An interest rate swap was entered into for the borrower's note loan in the amount of € 25,000 k newly taken out in November 2013; in the same amount and with the same term to hedge the risk of changes in values. LEONI AG receives fixed interest on the nominal amount for the interest rate swap and pays a variable interest rate including a margin. The interest rate swap hedges the fair value of the borrower's note loan. The residual term is two years and ten months, and the EURIBOR was agreed as the reference interest rate for one year. The reduction in the interest rate swap's fair value excluding accrued interest (clean fair value) by € 384 k (previous year: € 283 k) was netted as an expense in the financial result with the corresponding positive amount from measurement of the borrower's note loan. There was no ineffectiveness.

The changes in market value of the interest rate derivatives totalled € 384 k in the financial year (previous year: € 283 k), which, as in the previous year, were recognised in full in the income statement.

We regard the counterparty risk as being very small because all derivative contracts were signed with national and international commercial banks that have first-class ratings. Counterparty risk is subject to regular monitoring.

Interest rate sensitivity

Consolidated earnings depend on the level of market interest rates. Any change in this level would impact on the Group's earnings and equity. The analysis we carry out covers all interest-bearing financial instruments that are subject to the risk of changes in interest rates. Risks of changes in interest rates that impact on other comprehensive income did not have to be considered.

When calculating the sensitivity of the interest rates we assume a parallel shift in the yield curve. The upward shift comes to 50 basis points; the downward shift comes to just 25 basis points because of the currently low level of interest rates. A rate of zero interest is applied as the floor. With respect to the currencies that are key to us in this respect, the shift impacts as follows on the income statement:

2017		€ '000
Changes in interest, earnings	+0.50%	(0.25)%
CNY	347	(174)
EUR	(540)	0

2016		€ '000
Changes in interest, earnings	+0.50%	(0.25)%
CNY	501	(251)
EUR	(540)	0

Currency risks

Although we conduct business mainly in euros or in the local currency of the respective country, we are also exposed to currency risks due to the globalisation of the markets.

In the Group's holding company, LEONI AG, the Corporate Finance department deals with the resulting currency risks in collaboration with and based on the conditions set by the currency committee with respect to limits and terms. Hedging transactions are executed in line with the existing underlying transactions as well as the planned transactions.

Selection of the hedging instrument to be used is based on regular, in-depth analysis of the underlying transaction to be hedged. Most of the hedging transactions are in pounds sterling, Chinese yuan, Mexican pesos, Polish zloty, Romanian leu and US dollars. The objective is to limit the impact of exchange rate variation on net income. Apart from the actual hedging transactions, we primarily take advantage of the option of netting foreign currency items within the Group to hedge our operating business activity. As a further currency-hedging measure, as a matter of principle we finance our foreign subsidiaries in their respective functional currencies by way of refinancing in the corresponding currency.

On the balance sheet date, there were currency-hedging transactions amounting to € 743,974 k (previous year: € 715,630 k), maturing within 22 months. The total market value of forward exchange transactions existing as of the balance sheet date was negative € 3,873 k (previous year: negative € 25,165 k). Forward exchange transactions amounting to € 396,241 k (previous year: € 379,946 k) met the conditions for hedge accounting (cash flow hedge). The ones that met the conditions for hedge accounting were all completed in the 2016 and 2017 financial years. Their total fair value of negative € 3,357 k (previous year: negative € 17,795 k) was recognised in other comprehensive income. The cash flow from the underlying transactions is expected in the 2018 to 2019 financial years. The changes in fair value recognised in other comprehensive income are derecognised via the income statement at the time the underlying transaction takes effect.

The amounts recognised in other comprehensive income in the context of hedge accounting came to € 4,315 k in the financial year (previous year: negative € 23,802 k). A negative amount of € 10,525 k (previous year: negative € 15,355 k) was derecognised via the income statement as shown in the table below.

€ '000	2017	2016
Sales	(2,034)	(6,777)
Cost of sales	(8,338)	(7,467)
Other operating income / expenses (Inefficiency)	(153)	(1,111)
Total	**(10,525)**	**(15,355)**

The currency hedging transactions, as well as our interest-rate-hedging transactions, were signed with first rate commercial banks, meaning that there was no significant counterparty risk either. This area is also subject to regular monitoring.

There were no risks related to financial instruments on the balance sheet date that resulted in any noteworthy risk concentration.

Exchange rate sensitivity

Changes in exchange rates that are by prudent judgement essentially possible would affect consolidated earnings due to the fair values of the monetary assets and liabilities. Additional factors would arise that would affect equity due to change in fair value in the context of cash flow hedge accounting. We consider the risk of changes in interest rates arising from the currency derivatives to be immaterial, which is why it is not included in the assessment.

The table below is based on the exchange rates as at the balance sheet date. It illustrates the impact arising, from the perspective of the Group companies concerned, from appreciation or devaluation of the foreign currencies to be taken into account by 10 percent either way versus the respective functional currency. Comprehensive income per currency therefore also includes the impact arising from appreciation or devaluation of the euro for those Group companies where the functional currency is one of those stated in the table.

2017		€ '000
Changes in exchange rates, equity	+ 10 %	(10) %
EGP	1,883	(1,540)
USD	(3,450)	2,823
CNY	3,014	(2,467)
RON	20,082	(16,431)
GBP	1,889	(1,545)
Changes in exchange rates, earnings	+ 10 %	(10) %
EGP	(88)	72
USD	3,687	(3,006)
CNY	(918)	751
RON	(192)	157
GBP	(1,193)	977

2016		€ '000
Changes in exchange rates, equity	+ 10 %	(10) %
EGP	2,210	(1,808)
USD	(3,591)	2,938
CNY	1,913	(1,566)
RON	17,641	(14,434)
GBP	4,575	(3,743)
Changes in exchange rates, earnings	+ 10 %	(10) %
EGP	(70)	57
USD	227	(184)
CNY	101	(76)
RON	(726)	594
GBP	(1,299)	1,064

Risks related to raw material prices

Business within the Wire & Cable Solutions division is sensitive to changes in raw materials prices, especially of copper, but also gold and silver. For this reason, purchase prices for gold, silver and especially copper are hedged by way of future transactions to cover the usual future procurement volume. Such commodity future transactions are signed within ordinary business activity and as part of purchasing activity for required raw materials and therefore need not, in line with IAS 39, be accounted for as financial derivatives. Commodity future transactions that are settled in cash are recognised as derivatives, changes in the fair value of which are recognised in the cost of sales. The risks arising from these derivatives are of minor significance to the Group.

Capital management

The primary objective of LEONI's capital management is to ensure that it maintains a strong credit rating, a good equity ratio and appropriate gearing to support its business and increase shareholder value.

The Group manages its capital structure and makes adjustments based on the change in underlying economic conditions. To maintain and adjust its capital structure, the Group can make adjustments to dividend payouts to shareholders, repay capital to shareholders or issue new shares. In order to have as broad a range of funding options as possible, LEONI aims to seek approval during its Annual General Meeting for all anticipatory resolutions. LEONI controls its capital with gearing. Gearing is defined as the ratio of net financial debts to equity.

LEONI expects a sustained equity ratio of at least 35 percent. Due to fluctuation in elements of other comprehensive income that cannot be influenced, which may for example be caused by actuarial measurement of pension obligations or differences due to currency translation, the equity ratio could temporarily also drop below this figure. With respect to gearing, a figure below 50 percent is the target to be met on a lasting basis. During periods of acquisition this ratio may be temporarily exceeded. In principle, the aim is that capital spending on organic growth that exceeds the market average can be generated from operating cash flow and that reducing financial liabilities is possible.

€ '000	**2017**	**2016** [1]
Debt	591,320	612,487
less cash and cash equivalents	(185,084)	(208,913)
Net financial debts	406,236	403,574
Equity	1,023,598	917,164
%		
Gearing	**40 %**	**44 %**

[1] *Prior-year figures adjusted*

At the end of fiscal 2017, gearing stood at 40 percent (previous year: 44 percent) which, given virtually unchanged net financial liabilities, is attributable to the 12 percent increase in equity.

Overview of financial instruments

The tables below show financial instruments held in the Group on 31 December 2017 and in the previous year:

€ '000	Category in accordance with IAS 39	Amounts recognised in balance sheet according to IAS 39					
		Carrying amount 31/12/2017	**Amortised cost**	**Cost**	**Fair Value recognised in equity**	**Fair Value recognised in profit or loss**	**Fair Value 31/12/2017**
Assets							
Cash and cash equivalents	LaR	**185,084**	185,084				**185,084**
Trade receivables	LaR	**626,379**	626,379				**626,379**
Long-term trade receivables from development contracts	LaR	**60,535**	60,535				**60,535**
Other financial receivables	LaR	**35,476**	35,476				**35,476**
Other non-derivative financial assets							
Available-for-Sale financial assets	AfS	**1,115**		1,115			**1,115**
Derivative financial assets							
Derivatives without a hedging relationship	FAHfT	**4,323**				4,323	**4,323**
Derivatives with a hedging relationship	n/a	**4,755**			3,596	1,159	**4,755**
Total equity and liabilities							
Trade payables	FLAC	**909,414**	909,414				**909,414**
Liabilities to banks	FLAC	**256,596**	256,596				**257,796**
Borrower's note loans	FLAC	**333,128**	333,128				**341,590**
Other financial liabilities	FLAC	**83,658**	83,658				**83,658**
Derivative financial liabilities							
Derivatives without a hedging relationship	FLHfT	**4,040**				4,040	**4,040**
Derivatives with a hedging relationship	n/a	**6,953**			6,953		**6,953**
Of which aggregated by categories in accordance with IAS 39:							
Loans and Receivables (LaR)	LaR	**907,474**	907,474				**907,474**
Available-for-Sale financial assets (AfS)	AfS	**1,115**		1,115			**1,115**
Financial Assets Held for Trading (FAHfT)	FAHfT	**4,323**				4,323	**4,323**
Financial Liabilities Measured at Amortised Cost (FLAC)	FLAC	**1,582,796**	1,582,796				**1,592,458**
Financial Liabilities Held for Trading (FLHfT)	FLHfT	**4,040**				4,040	**4,040**

€ '000	Category in accordance with IAS 39	Carrying amount 31/12/2016	Amounts recognised in balance sheet according to IAS 39 Amortised cost	Cost	Fair Value recognised in equity	Fair Value recognised in profit or loss	Fair Value 31/12/2016
Assets							
Cash and cash equivalents	LaR	**208,913**	208,913				**208,913**
Trade receivables	LaR	**558,300**	558,300				**558,300**
Long-term trade receivables from development contracts	LaR	**53,344**	53,344				**53,344**
Other financial receivables	LaR	**27,137**	27,137				**27,137**
Other non-derivative financial assets							
Available-for-Sale financial assets	AfS	**1,116**		1,116			**1,116**
Derivative financial assets							
Derivatives without a hedging relationship	FAHfT	**2,872**				2,872	**2,872**
Derivatives with a hedging relationship	n/a	**2,893**			1,349	1,544	**2,893**
Total equity and liabilities							
Trade payables	FLAC	**772,034**	772,034				**772,034**
Liabilities to banks	FLAC	**215,658**	215,658				**219,229**
Borrower's note loans	FLAC	**396,805**	396,805				**409,923**
Other financial liabilities	FLAC	**68,943**	68,943				**68,943**
Derivative financial liabilities							
Derivatives without a hedging relationship	FLHfT	**9,185**				9,185	**9,185**
Derivatives with a hedging relationship	n/a	**18,969**			18,969		**18,969**
Of which aggregated by categories in accordance with IAS 39:							
Loans and Receivables (LaR)	LaR	**847,694**	847,694				**847,694**
Available-for-Sale financial assets (AfS)	AfS	**1,116**		1,116			**1,116**
Financial Assets Held for Trading (FAHfT)	FAHfT	**2,872**				2,872	**2,872**
Financial Liabilities Measured at Amortised Cost (FLAC)	FLAC	**1,453,440**	1,453,440				**1,470,129**
Financial Liabilities Held for Trading (FLHfT)	FLHfT	**9,185**				9,185	**9,185**

[1] *Prior-year figures adjusted*

Due to the short terms of the cash and cash equivalents, trade receivables and other current receivables, the fair values largely correspond to the carrying amounts.

The cash and cash equivalents do not include any amounts that were set aside as collateral security in bilateral agreements.

The fair values of other non-current receivables maturing after more than one year correspond to the present values of payments relating to the assets, in each case taking into account the current interest parameters that reflect market and partner-related changes in terms.

Trade liabilities and other liabilities usually mature in the short term; the amounts on the balance sheet represent approximations of their fair value.

The fair values of liabilities to banks, the borrower's note loans and the other non-current financial liabilities are determined as the present values of the payments relating to the liabilities based on the respectively applicable yield curves and taking into account the Group-specific margins. For this reason, the fair values are to be allocated to hierarchy level 3.

A trend in financial liabilities is presented in the table below:

€ '000	**Short term**	**Long term**	**Total**
31/12/2016	**150,345**	**462,143**	**612,488**
Non-cash changes			
New borrowing	101,527	770	102,297
Repayment	(105,516)	0	(105,516)
Non-cash changes			
Reclassification	125,257	(125,257)	0
Effect of currency translation	(8,391)	(670)	(9,061)
Measurement effects	(230)	(39)	(269)
Change in scope of consolidation	(8,619)	0	(8,619)
31/12/2017	**254,373**	**336,947**	**591,320**

Derivative financial instruments

The detailed breakdown of the fair values of the derivative financial instruments and their nominal values was as follows on the balance sheet date:

€ '000	31/12/2017 Nominal value	31/12/2017 Fair value	31/12/2016 Nominal value	31/12/2016 Fair value
Assets				
Currency contracts	350,967	7,121	195,853	3,164
Forward exchange transactions				
CNY	5,264	106	27,488	337
GBP	64,843	968	39,673	860
MXN	29,855	1,883	8,403	88
PLN	22,724	384	16,412	85
RON	41,680	114	24,433	99
USD	140,497	2,754	36,225	417
Others	46,104	912	43,219	1,278
(thereof hedge accounting)	*129,191*	*3,596*	*32,509*	*1,349*
Derivative interest rate contracts	25,000	1,159	25,000	1,544
Interest swaps	25,000	1,159	25,000	1,544
(thereof hedge accounting)	*25,000*	*1,159*	*25,000*	*1,544*
Commodity future transactions	17,935	799	15,203	1,057
Total equity and liabilities				
Currency contracts	393,007	10,992	519,777	28,154
Forward exchange transactions				
CNY	40,106	540	32,478	468
GBP	52,908	835	90,362	4,660
MXN	59,513	3,474	68,059	6,667
PLN	1,796	17	25,125	115
RON	169,418	2,439	159,718	2,144
USD	18,641	168	74,723	4,232
Others	50,625	3,519	69,312	9,868
(thereof hedge accounting)	*267,050*	*6,953*	*347,437*	*18,969*

The fair values of the forward exchange transactions were based on current reference rates observable on the market and taking into consideration forward premiums or discounts. LEONI takes account of the risk of non-fulfilment by business partners as well as the risk of non-fulfilment on the part of the Group by determining correction values, known as credit value adjustments (CVAs) or debt value adjustments (DVAs), based on applying a premium / discount. The fair values of the interest rate hedging instruments (interest swaps and interest collars) were based on discounted future cash flows. The applicable market interest rates and volatilities were used for the maturities of the financial instruments.

Net results of the financial instruments

The net results of the financial instruments by measurement category were as follows:

	Net result		thereof impairment losses	
€ '000	2017	2016	2017	2016
Loans and Receivables (LaR)	(21,328)	3,566	(1,499)	(2,537)
Derivatives (HfT)	6,159	(21,439)	0	0
Financial Liabilities measured at Amortised Cost (FLAC)	3,892	16,295	0	0
Total	**(11,277)**	**(1,578)**	**(1,499)**	**(2,537)**

Offsetting of financial instruments

LEONI had derivative assets and derivative liabilities vis-à-vis various financial institutions that do not fulfil the offsetting criteria under IAS 32.42. Accordingly, these derivative financial instruments were presented separately in the statement of financial position. However, the concluded master contracts do contain offsetting agreements in the case of insolvency.

The overview below presents the corresponding figures:

31/12/2017 € '000	Gross figures	Netting	**Net figures**	Offsetting agreements	**Net figures**
Other financial assets					
Derivatives	8,279	0	**8,279**	(4,928)	**3,351**
Other financial liabilities					
Derivatives	(10,993)	0	**(10,993)**	4,928	**(6,065)**

31/12/2016 € '000	Gross figures	Netting	**Net figures**	Offsetting agreements	**Net figures**
Other financial assets					
Derivatives	4,709	0	**4,709**	(4,709)	**0**
Other financial liabilities					
Derivatives	(28,157)	0	**(28,157)**	4,709	**(23,448)**

29 | Measurement of fair value

The measurement of the fair values of assets and liabilities by hierarchy levels was as follows:

31/12/2017 € '000	Prices quoted on active markets (step 1)	Valuation methods where all principal parameters are based on observable market data (step 2)	Valuation methods where all principal parameters are *not* based on observable market data (step 3)	Total
Assets measured at fair value				
Derivative financial assets				
Derivatives without a hedging relationship	799	3,524	0	**4,323**
Derivatives with a hedging relationship	0	4,755	0	**4,755**
Liabilities measured at fair value				
Derivative financial liabilities				
Derivatives without a hedging relationship	0	4,040	0	**4,040**
Derivatives with a hedging relationship	0	6,953	0	**6,953**

Neither in the fiscal year under report nor in the previous one was there any movement between the individual levels.

31/12/2016 € '000	Prices quoted on active markets (step 1)	Valuation methods where all principal parameters are based on observable market data (step 2)	Valuation methods where all principal parameters are *not* based on observable market data (step 3)	Total
Assets measured at fair value				
Derivative financial assets				
Derivatives without a hedging relationship	1,057	1,815	0	**2,872**
Derivatives with a hedging relationship	0	2,893	0	**2,893**
Liabilities measured at fair value				
Derivative financial liabilities				
Derivatives without a hedging relationship	0	9,185	0	**9,185**
Derivatives with a hedging relationship	0	18,969	0	**18,969**

30 | Earnings per share

Basic earnings per share are calculated as follows:

		2017		2016[1]	
		Total amount	Earnings per share	Total amount	Earnings per share
		€ '000	€	€ '000	€
Numerator:	Income before taxes attributable to equity holders of the parent company	201,888	6.18	53,644	1.64
	Consolidated net income attributable to equity holders of the parent company	145,022	4.44	10,705	0.33
Denominator:	Weighted average number of shares outstanding	32,669,000		32,669,000	

[1] *Prior-year figures adjusted*

As in the previous year, the number of shares outstanding on 31 December 2017, of 32,669,000, corresponded to the number of shares issued. As in the previous year, there was no dilution effect in the financial year under report.

31 | Auditor's professional fees

The following expenses were recognised in the financial year for work performed by the auditors appointed to audit the financial statements and consolidated financial statements as at 31 December 2017:

€ '000	2017	2016
Audit	1,442	1,051
Tax consulting services	321	921
Other assurance services	31	96
Other payments	16	762
Total	**1,810**	**2,830**

32 | Personnel expenses and employees

€ '000	2017	2016
Wages and salaries	860,709	793,047
Social-security contributions, expenses for pensions and retirement and fringe benefits	197,851	178,289
	1,058,560	**971,336**

The latter item includes the following retirement benefit expenses:

€ '000	2017	2016
Net periodic pension cost	12,192	10,223
Costs of defined contribution plans	88,403	73,521
	100,595	**83,744**

Annual average number of employees:

	2017	2016
Salaried staff	13,747	13,001
Wage earners	69,724	63,866
	83,471	**76,867**

The Group employed 86,340 people on the balance sheet date (previous year: 79,037), of which 81,753 worked outside Germany (previous year: 74,667).

Other information

33 | Transactions with related parties

The compensation for management in key positions within the Group comprises the compensation for active members of the Board of Directors and the Supervisory Board.

The compensation for members of the Board of Directors breaks down as follows:

€ '000	2017	2016
Benefits due in the short term	4,139	1,905
Benefits due in the long term	3,994	(580)
Post-employment benefits	562	533
Payments for premature contract termination	1,137	679
	9,832	**2,537**

The short-term benefits included, along with the fixed compensation, a variable component of € 2,025 k (previous year: € 77 k). The other benefits due in the long term comprise the medium-term and long-term compensation components. The long-term compensation component is computed based on the Company's economic value added (EVA) and the market performance of its share, and is shown in a bonus account. An amount is paid out annually from this bonus account up to a cap, 50 percent of which members of the Board of Directors must invest in LEONI shares and which must be retained for a period of 50 months. Poor business performance will reduce the bonus account (penalty rule), which can drop to nil. The expense for the long-term compensation component in fiscal 2017 was € 1,877 k (previous year: € 66 k); the reversal of provisions provided income of € 0 k (previous year: € 646 k). Also included is a settlement payment of € 1,138 k for the premature termination of Dieter Bellé's contract (previous year: € 679 k for Dr Frank Hiller). The receipts of the members of the Board of Directors pursuant to Section 314 (1) no. 6a of the German Commercial Code (HGB) totalled € 5,526 k (previous year: € 2,412 k).

The compensation for members of the Supervisory Board in the year under report totalled € 1,563 k (previous year: € 1,475 k). The basic principles of the compensation system and the receipts of individual members of the Board of Directors and Supervisory Board members are presented in the management report.

Compensation for employee-representative members of the Supervisory Board
The employee representatives on LEONI AG's Supervisory Board received compensation based on their service contracts at LEONI. LEONI's related expenses were € 490 k (previous year: € 408 k). On 31 December 2017, there were liabilities in the amount of € 52 k (previous year: 38 k) pertaining to service contracts with employee-representative members of the Supervisory Board.

Compensation for former members of the Board of Directors

The receipts in the financial year of former members of the Board of Directors and their surviving dependants amounted to € 738 k (previous year: € 633 k). There are pension obligations (DBO) vis-à-vis former members of the Board of Directors and their surviving dependants in the amount of € 14,401 k (previous year: € 15,202 k).

Joint ventures and associates

The Group had business relationships with joint ventures during the financial year. Transactions with these related parties result from normal trade in goods and services and were concluded on standard market terms. The extent of these business relationships with related entities and persons is presented in the following table:

€ '000	2017	2016
Trade receivables	8,725	3,326
Trade liabilities	1,319	1,124
Income from disposals and services	9,220	11,281
Purchases and services obtained	1,960	1,788
Interest income from short-term loans	0	93

This includes primarily the business relationships with the joint venture in Langfang, China.

Other relationships with related parties

Prof. Dr Christian Rödl was appointed as a member of the Supervisory Board on 22 December 2015. He is the managing partner of all companies of the Rödl & Partner Group, which provided services for the LEONI Group. The business relationship between the Group and the Rödl & Partners Group was terminated in the middle of fiscal 2016. In the previous year, services were provided in the amount of € 15 k and, on 31 December 2016, there were liabilities to these companies in the amount of € 1 k. All consulting and other services sourced were invoiced on standard market terms.

Ms Ingrid Hofmann was a member of the Supervisory Board from 12 May 2011 until 11 May 2017. Ms Hofmann is managing partner of I.K. Hofmann GmbH, a temporary employment business with subsidiaries in Austria, Czechia, Switzerland and the United States from which LEONI sourced services. These services were invoiced on standard market terms. In fiscal 2017, services were, until the time of Ms Hofmann's departure, sourced from this temporary employment company amounting to € 431 k (previous year: € 658 k) and there was a liability to the company on 31 December 2017 of € 0 (previous year: € 16 k).

Dr Werner Lang has been a member of the Supervisory Board since 16 May 2012. He is managing director of Lang Verwaltungsgesellschaft mbH and thereby of MEKRA Lang GmbH & Co. KG, Ing. H. Lang GmbH & Co. KG, Lang Technics GmbH & Co. KG as well as Grundstücksgesellschaft Lang GbR. In the 2017 financial year, LEONI sold product to MEKRA Lang GmbH & Co. KG. in the amount of € 1,673 k (previous year: € 1,608 k). On the balance sheet date, there were liabilities to this company in the amount of € 92 k (previous year: € 114 k). The goods were supplied on standard market terms.

There were no other reportable transactions with related parties.

34 | Declaration pertaining to the German Corporate Governance Code pursuant to Section 161 of the German Stock Corporation Act (AktG)

In December 2017, the Board of Directors and the Supervisory Board issued the updated declaration of conformity pursuant to Section 161 of the German Stock Corporation Act and made this available to shareholders on a permanent basis by publishing it on the internet (www.leoni.com). The Declaration of Conformity is also included in the Corporate Governance report, which is published in the 2017 Annual Report.

35 | Events after the balance sheet date

There have been no particular events that might have had a material effect on the Group’s financial position or performance since the balance sheet date.

Nuremberg, 23 February 2018

LEONI AG
The Board of Directors

Bruno Fankhauser Karl Gadesmann Martin Stüttem

Scope of consolidation

	Ownership in %
I. Consolidated companies	
LEONI AG, Nuremberg, Germany	
LEONI Kabel GmbH, Nuremberg [1]	100
Haarländer GmbH, Roth [1]	100
KB Kabel Beteiligungs-GmbH, Nuremberg	100
LEONI Cable Assemblies GmbH, Roth [1]	100
LEONI Draht GmbH, Nuremberg [1]	100
LEONI elocab GmbH, Georgensgmünd [1]	100
LEONI Fiber Optics GmbH, Neuhaus-Schierschnitz [1]	100
LEONI HighTemp Solutions GmbH, Halver [1]	100
LEONI Kerpen GmbH, Stolberg [1]	100
LEONI protec cable systems GmbH, Schmalkalden [1]	100
LEONI Special Cables GmbH, Friesoythe [1]	100
j-fiber GmbH, Jena [1]	100
j-plasma GmbH, Jena [1]	100
LEONI Bordnetz-Systeme GmbH, Kitzingen [1]	100
LEONI Kabelsysteme GmbH, Neu-Ulm [1]	100
LEONI CIA Cable Systems S.A.S., Gellainville, France	100
LEONI Furas S.L., Barcelona, Spain	100
LEONI Italy S.r.l., Felizzano (Alessandria), Italy	100
LEONI Kabel Polska sp. z o.o., Kobierzyce, Poland	100
LEONI Kablo ve Teknolojileri Sanayi ve Ticaret Ltd. Sirketi, Mudanya, Turkey	95
LEONI Slovakia spol. s.r.o.,Trencin, Slovakia	100
LEONI Schweiz AG, Däniken, Switzerland	100
LEONI Studer AG, Däniken, Switzerland	100
Adaptricity AG, Zürich, Switzerland	67
LEONI Tailor-Made Cable UK Ltd., Chesterfield, Derbyshire, United Kingdom	100
LEONI Temco Ltd., Cinderford, Gloucestershire, United Kingdom	100
LKH LEONI Kábelgyár Hungária Kft., Hatvan, Hungary	100
neumatic cz, s.r.o., Mírová pod Kozákovem, Czech Republic	100
LEONI Wiring Systems Arad S.R.L., Arad, Romania	100
LEONI Wiring Systems France S.A.S., Montigny le Bretonneux, France	100
LEONI Wiring Systems Pitesti S.R.L., Sat Bascov, Romania	100
LEONI Wiring Systems RO S.R.L., Bistrita-Nasaud, Romania	100
LEONI Systems Spain, S.L.U., Santa Perpetua/Barcelona, Spain	100
LEONI Wiring Systems U.K. Ltd., Newcastle-under-Lyme, Staffordshire, United Kingdom	100
TOV LEONI Wiring Systems UA GmbH, Stryi, Ukraine	100
LEONI Wiring Systems Viana Lda., Viana do Castelo, Portugal	100
Leonische Portugal Lda., Lugar de Sao Martinho, Guimaraes, Portugal	100
OOO LEONI RUS, Zavolzhye, Russia	100
LEONI Wiring Systems Southeast d.o.o., Prokuplje, Serbia	100
LEONI Wiring Systems S.R.L., Chisinau, Moldova	100

	Ownership in %
LEONI Fiber Optics, Inc., Williamsburg, Virginia, USA	100
LEONI (S.E.A.) Pte. Ltd., Singapore	100
LEONI Cable Maroc SARL, Aïn Sebâa, Casablanca, Morocco	100
LEONI Cable (China) Co., Ltd., Changzhou, China	100
LEONI Cable, Inc., Rochester, Michigan, USA	100
LEONI Cable S.A. de C.V., Cuauhtémoc, Chihuahua, Mexico	100
LEONI Cable de Chihuahua S.A. de C.V., Cuauhtemoc, Chihuahua, Mexico	100
LEONI Elocab Ltd., Kitchener, Ontario, Canada	100
LEONI Engineering Products & Services, Inc., Troy, Michigan, USA	100
LEONI Cable Solutions (India) Pvt. Ltd., Pune, India	100
LEONI Wire, Inc., Chicopee, Massachusetts, USA	100
LEONI Wire & Cable Solutions Japan K.K., Nagakuteshi, Japan	100
LEONI Middle East FZE, Dubai, United Arab. Emirates	100
LEONI Automotive do Brasil Ltda., Itú, Saõ Paulo, Brazil	100
LEONI Electrical Systems (Shanghai) Co., Ltd., Shanghai, China	100
LEONI Wiring Systems (Tieling) Co., Ltd., Tieling City, China	100
LEONI Wiring Systems Tunisia SARL, M'Saken-Sousse, Tunisia	100
LEONI Wiring Systems (Changchun) Co., Ltd., Changchun, China	100
LEONI ZhengAo Automotive Wire Harness Co., Ltd., Wuhan City, China (formerly: Wuhan Hengtong Automotive Wire Harness Co., Ltd., Wuhan City, China)	51
LEONI Wiring Systems Ain Sebaa S.A., Aïn Sebâa, Casablanca, Morocco	100
LEONI Wiring Systems Bouskoura S.A., Bouskoura, Casablanca, Morocco	100
LEONI Wiring Systems Berrechid S.A., Bouznika, Morocco	100
LEONI Wiring Systems de Durango S.A. de C.V., Chihuahua, Mexico	100
LEONI Wiring Systems Egypt S.A.E., Nasr City, Kairo, Egypt	100
LEONI Wiring Systems, Inc., Tucson, Arizona, USA	100
LEONI Wiring Systems Mexicana S.A. de C.V., Hermosillo, Mexico	100
LEONI Wiring Systems de Yucatán S.A. de C.V., Merida, Mexico	100
LEONI Wiring Systems de Paraguay S.R.L., Asunción, Paraguay	100
LEONI Wiring Systems (Pune) Pvt. Ltd., Pune, Maharashtra, India	100
LEONI Wiring Systems Korea, Inc., Busan (Jisa-dong), Korea	100
LEONI Electrical Systems (Jining) Co., Ltd., Jining, China	100
LEONI Electrical Systems (Penglai) Co., Ltd., Penglai, China	100
II. Associated companies and joint ventures	
Wiring Systems Division	
Intedis GmbH & Co. KG, Würzburg, Germany	50
Intedis Verwaltungs-GmbH, Würzburg, Germany	50
LEONI Furukawa Wiring Systems S.A.S., Montigny le Bretonneux, France	50
Langfang LEONI Wiring Systems Co., Ltd., Sanhe downtown, China	50

[1] Companies that make use of the exemption under Article 264, Section 3 of the German Commercial Code.

Independent auditor's report

To LEONI AG

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of LEONI AG, Nuremberg, and its subsidiaries (the Group), which comprise the consolidated income statement , the consolidated statement of comprehensive income and the consolidated statement of cash flows for the fiscal year from 1 January 2017 to 31 December 2017, the consolidated statement of financial position as of 31 December 2017, the consolidated statement of changes in equity for the fiscal year from 1 January 2017 to 31 December 2017, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of LEONI AG for the fiscal year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the consolidated corporate governance statement contained in section 1.7 of the group management report or the non-financial statement contained in section 5.4 of the group management report.

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 at 31 December 2017, and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017, 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 non-financial statement referred to above.

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 of 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 fiscal year from 1 January 2017 to 31 December 2017. 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 test of goodwill, intangible assets and property, plant and equipment

Reasons why the matter was determined to be a key audit matter:
In addition to the prescribed annual impairment tests of goodwill and intangible assets with indefinite useful lives, impairment testing is required for other intangible assets as well as property, plant and equipment if triggering events occur.

The carrying amount of goodwill, intangible assets and property, plant and equipment is material (40 % of total assets) and the impairment test requires significant judgment, such as the estimation of future cash inflows by the executive directors as well as the discount rate that has been used and is therefore subject to significant uncertainty. In light of this, the impairment testing of goodwill, intangible assets and property, plant and equipment was a key audit matter.

Auditor's response:
The subsidiaries' business plans were consolidated by division and reviewed and approved by the Board of Directors and the Supervisory Board in a multi-step process. We examined the processes and controls associated with the review and approval of the business plan as the basis for the impairment tests. We involved our valuation specialists to reperform the calculation and test the method used in the valuation model and to derive the WACC and the main assumptions used to calculate future cash flows. In deriving the WACC, we especially analyzed whether the peer group is substantiated by financial market data and the executive directors' qualitative estimates, evaluated the consistency of financial market data with external sources and verified the clerical accuracy. We compared the future cash flows used in the calculation with the current five-year plan, which was approved by the executive directors and endorsed by the Supervisory Board, comparing it with general and industry-specific market expectations.

Our audit procedures did not lead to any reservations relating to the calculation of potential impairment of goodwill, intangible assets or property, plant and equipment.

Reference to related disclosures:
Please refer to the disclosures made in note 1 ("Principles of consolidation as well as summary of key accounting and valuation methods", in the sections "Measurement of fair value", "Goodwill" and "Key judgments, estimates and assumptions"), note 17 ("Impairment testing of property, plant and equipment as well as intangible assets") and note 18 ("Goodwill") in the notes to the consolidated financial statements for information provided by the Company regarding the impairment tests performed.

2) Income taxes – recognition and measurement of deferred tax assets

Reasons why the matter was determined to be a key audit matter:
Deferred tax assets are material for the consolidated financial statements of LEONI AG. Evaluating the appropriateness of recognition and the measurement of deferred tax assets requires LEONI to use judgment to evaluate tax matters and make estimates regarding future tax results, against which unused tax losses can be offset. In light of this, the evaluation of the appropriateness of recognition and the measurement of deferred tax assets was a key audit matter.

Auditor's response:
We examined in particular the underlying processes and controls in place for the tax group of LEONI AG for the complete recognition and measurement of deferred taxes.

As part of our substantive audit procedures for the recognition and measurement of deferred taxes arising from temporary differences and tax loss carryforwards, we compared the loss carryforwards as of the beginning of the fiscal year against the tax assessment notices on a spot test basis, assessed whether the loss for the current fiscal year was calculated in accordance with tax law and compared the tax forecasts with the business plan approved by the executive directors, taking into consideration the rollforward of differences between the tax accounts and the commercial statement of financial position and the non-deductible operating costs and the applicable country-specific tax laws for the use of loss carryforwards. We incorporated internal specialists into the audit team, as this requires specialist tax knowledge. Our audit procedures did not lead to any reservations regarding the recognition and measurement of deferred taxes by the executive directors.

Reference to related disclosures:
Please refer to the disclosures made in note 1 ("Principles of consolidation as well as summary of key accounting and valuation methods", in the sections "Income taxes" and "Key judgments, estimates and assumptions") and in note 9 ("Income taxes") in the notes to the consolidated financial statements for information provided by the Company regarding the recognition and measurement of deferred tax assets.

3) Purchase price allocation of the business combination with Wuhan Hengtong Automotive, China

Reasons why the matter was determined to be a key audit matter:
In fiscal year 2016, 51 % of shares in Wuhan Hengtong Automotive were purchased and a preliminary purchase price allocation commenced. The purchase price allocation was concluded in fiscal year 2017 and the prior-year figures were adjusted to the results of the final purchase price allocation.

Significant judgment has to be used for the purchase price allocation. The completeness and measurement of the acquired intangible assets in particular is highly dependent on the executive directors' judgment and therefore associated with significant uncertainty and for this reason was a key audit matter.

Auditor's response:
We compared the identification of assets and liabilities with the provided documents and information on the business provided. With regard to the measurement of the fair value of the acquired assets and liabilities performed by the executive directors and their external advisors, we compared the future cash flows used in the calculation with the budget accounting of the companies acquired.

We involved our valuation specialists to reperform the calculation and test the method used in the valuation model and to derive the WACC and the main assumptions used to calculate future cash flows.

Our audit procedures have not led to any reservations regarding the purchase price allocation of Wuhan Hengtong Automotive.

Reference to related disclosures:
Please refer to the information provided by the Company regarding the purchase price allocation of Wuhan Hengtong in note 4 ("Acquisitions and disposals of subsidiaries") and note 6 ("Other operating income and other operating expenses").

Other information

The executive directors or as the case may be the Supervisory Board are responsible for the other information. The other information comprises:

- the consolidated non-financial statement
- the remaining sections of the annual report, except for the audited consolidated financial statements and group management report as well as our Independent auditor's report
- the statement on corporate governance pursuant to Sec. 315d HGB and the corporate governance report pursuant to no. 3.10 of the German Corporate Governance Code and
- the responsibility statement pursuant to Sec. 297 (2) Sentence 4 HGB of the consolidated financial statements and the responsibility statement pursuant to Sec. 315 (1) Sentence 5 HGB of the group management report.

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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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 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.
Furthermore

- 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 group auditor by the Annual General Meeting on 11 May 2017. We were engaged by the Supervisory Board on 2 June 2017. We have been the group auditor of LEONI AG without interruption for at least 31 years.

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).

The audit fees stated in the table in paragraph (31) of the notes to the consolidated financial statements also include the review of the half-year financial report and the review of an interim financial report for a subgroup.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Mr Udo Schuberth.

Nuremberg, 23 February 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Schuberth	Schütz
Wirtschaftsprüfer [German Public Auditor]	Wirtschaftsprüfer [German Public Auditor]

Responsibility statement

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 Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Nuremberg, 23 February 2018

The Board of Directors

Bruno Fankhauser   Karl Gadesmann   Martin Stüttem

ADDITIONAL INFORMATION

The Board of Directors and the Supervisory Board will propose to shareholders at the Annual General Meeting to pay a dividend of € 1.40 per share for fiscal 2017, which would be a payout of about 32 percent of net income to shareholders. This works out to a 2.2 percent dividend yield based on the share price at the end of 2017.

Extract from the financial statement of LEONI AG

LEONI AG income statement

€ '000 01/01/ – 31/12/ under HGB	2017	2016
1. Sales revenues	108,952	98,397
2. Own work capitalised	1,043	882
3. Other operating income	33,621	79,857
4. Cost of materials Cost of purchased services	(49,544)	(53,321)
5. Personnel expenditure:		
a) salaries	(36,419)	(25,479)
b) social security contributions and expenditure for retirement benefits and support payments	(4,750)	(4,151)
6. Amortisation of intangible investment assets and depreciation of property, plant and equipment	(7,639)	(5,650)
7. Other operating expenses	(66,344)	(104,141)
8. Income from profit transfer agreements	46,830	29,256
9. Income from financial loans	22,248	23,050
10. Other interest and similar income	9,045	7,507
11. Writedowns on investments	(23,164)	(10,377)
12. Expenses due to loss assumption	(18,106)	(36,329)
13. Interest and similar expenses	(16,072)	(14,596)
14. Income taxes	(1,891)	(2,782)
15. **Earnings after taxes**	**(2,190)**	**(17,877)**
16. Other taxes	(31)	(703)
17. **Net loss / income**	**(2,221)**	**(18,580)**
18. Earnings brought forward from the previous year	999	1,914
19. Reversal / transfer to other retained earnings	47,500	34,000
20. **Retained income**	**46,278**	**17,334**

LEONI AG balance sheet

€ '000	under HGB	2017	2016
Assets	**Intangible assets**	18,258	14,514
	Property, plant and equipment	2,586	3,206
	Shares in affiliated companies	488,824	488,824
	Loans to affiliated companies	608,587	503,474
	Investments	1,097,411	992,298
	Fixed assets	**1,118,255**	**1,010,017**
	Accounts receivable and other assets	310,733	485,264
	Cash and cash equivalents	84,725	67,989
	Current assets	**395,459**	**553,254**
	Deferred charges	**4,342**	**3,633**
	Total assets	**1,518,056**	**1,566,904**
Equity and liabilities	**Equity** (contingent capital € 6,534 k)	**491,402**	**509,957**
	Pension plans and similar obligations	17,447	16,093
	Tax provisions	241	700
	Other provisions and accruals	30,928	17,461
	Provisions and accruals	**48,616**	**34,254**
	Debt	**538,860**	**564,258**
	Other liabilities	**439,178**	**458,435**
	Total equity and liabilities	**1,518,056**	**1,566,904**

Appropriation of profits

Retained earnings for fiscal 2017 determined under the German Commercial Code (HGB) amount to .... **46,278,277.11 €**

We propose to pay from this distributable profit a dividend of € 1,40 per dividend-bearing no-par-value share, which is a total of € .... **45,736,600.00 €**
to be paid out and
and the remainder .... **541,677.11 €**
to be carried forward.

Nuremberg, 23 February 2018

LEONI AG
The Board of Directors

Ten-year overview

under IFRS			2017
Sales	Group	€ '000	**4,922,807**
	EMEA (without Germany)	%	**41.5**
	Germany	%	**27.7**
	Americas	%	**15.2**
	Asia	%	**15.6**
	Germany	%	
	Europe (without Germany)	%	
	Rest of world	%	
	Wire & Cable Solutions	%	**37.8**
	Wiring Systems	%	**62.2**
Expenses	Cost of materials	€ '000	**2,880,569**
	Cost of materials	% of sales	**58.5**
	Personnel expenses	€ '000	**1,058,560**
	Personnel expenses	% of sales	**21.5**
	Depreciation and amortisation	€ '000	**149,524**
	Depreciation and amortisation	% of sales	**3.0**
Earnings	EBITDA	€ '000	**374,809**
	EBIT	€ '000	**225,285**
	EBIT margin	% of sales	**4.6**
	Income / loss before taxes (from continuing operations)	€ '000	**200,346**
	Net income / loss	€ '000	**143,923**
Cash flow[1]	Free cash flow	€ '000	**11,065**
Balance sheet	Property, plant and equipment, intangible assets, goodwill	€ '000	**1,263,505**
	Reinvestment rate	%	**188.2**
	Net debt	€ '000	**406,236**
	Equity	€ '000	**1,023,598**
	Equity	% of balance sheet total	**32.7**
	Return on equity (ROE)	%	**14.1**
	Return on capital employed (ROCE)	%	**14.1**
Employees	Employees [as per 31 December]		**86,340**
	employed abroad	%	**94.6**
Share	Market capitalisation 31 December	€ million	**2,038.2**
	Consolidated net income / loss per share	€	**4.44**
	Dividend per share	€	**1.40**[2]
	Dividend yield	%	**2.2**[2]

[1] Changed measurement from 2016
[2] Subject to approval by shareholders at the Annual General Meeting
[3] Prior-year figures adjusted

	2016[3]	2015	2014	2013	2012	2011	2010	2009	2008
	4,431,322	4,502,940	4,103,434	3,917,886	3,809,007	3,701,487	2,955,671	2,160,117	2,911,964
	40.8	39.9	39.0	40.6	42.9	46.8	46.5		
	28.3	25.5	27.0	27.8	27.0	28.8	31.8		
	15.8	16.4	15.1	14.7	15.1	12.8	11.2		
	15.1	18.2	18.9	16.9	15.0	11.6	10.5		
								34.4	31.4
								42.0	44.6
								23.6	24.0
	39.3	40.7	41.5	40.8	42.1	45.3	44.7	43.3	48.1
	60.7	59.3	58.5	59.2	57.9	54.7	55.3	56.7	51.9
	2,554,381	2,675,797	2,436,320	2,354,687	2,294,370	2,238,455	1,738,408	1,253,333	1,767,181
	57.6	59.4	59.4	60.1	60.2	60.5	58.8	58.0	60.7
	971,336	925,453	816,751	766,038	730,873	669,119	607,687	530,663	596,194
	21.9	20.6	19.9	19.6	19.2	18.1	20.6	24.6	20.5
	151,094	147,029	123,392	120,992	116,202	107,045	110,282	111,457	110,229
	3.4	3.3	3.0	3.1	3.1	2.9	3.7	5.2	3.8
	230,247	298,356	305,897	284,137	354,094	344,186	241,006	(4,862)	165,913
	79,153	151,327	182,505	163,145	237,892	237,141	130,724	(116,319)	55,684
	1.8	3.4	4.4	4.2	6.2	6.4	4.4	(5.4)	1.9
	54,799	125,859	150,719	131,220	199,326	196,250	89,599	(157,309)	15,760
	11,518	77,269	115,060	105,896	157,049	155,959	67,246	(138,081)	5,197
	(27,494)	(5,194)	(37,878)	36,788	86,211	119,204	46,785	1,783	(4,530)
	1,167,442	1,131,546	1,040,410	940,455	917,691	837,693	809,617	796,567	839,423
	139.5	168.3	174.9	139.2	132.7	128.4	93.5	73.4	143.7
	403,574	321,565	316,200	256,990	249,169	233,922	444,558	495,367	533,225
	917,164	996,328	917,755	827,597	783,972	737,481	481,160	369,126	447,688
	31.1	35.1	34.4	34.5	32.9	31.8	23.8	21.0	24.2
	1.3	7.8	12.5	12.8	20.0	21.1	14.0	(37.4)	1.2
	5.1	10.0	13.7	13.4	20.9	24.0	13.9	(12.0)	5.4
	79,037	74,018	67,988	61,591	59,393	60,745	55,156	49,822	50,821
	94.5	94.1	93.7	93.1	93.0	93.4	93.2	92.4	91.7
	1,105.8	1,190.6	1,613.7	1,774.9	932.7	841.2	978.6	485.6	385.8
	0.33	2.36	3.51	3.23	4.80	4.99	2.26	(5.04)	0.17
	0.50	1.00	1.20	1.00	1.50	1.50	0.70	0.00	0.20
	1.5	2.7	2.4	1.8	5.3	5.8	2.1	0	1.5

Glossary

A	**Alternative drive technologies**	Power engine with hybrid, electric or fuelcell technology
	Ambient Assisted Living	Products and systems that enable the aged or people with disabilities to live an independent life
	Asset deal	Purchase of all the economic goods of a company
	Asset tracing	Identifying, tracking and recovering assets
B	**Big Data**	Analysis of data sets that are so large or complex that traditional data processing methods are inadequate to deal with them
C	**Capital employed**	Non-interest bearing assets less non-interest bearing liabilities
	Capital goods industry	Branches of industry that make products to manufacture others; for example, the mechanical engineering and electro-technical industries
	Cash flow	Balance of cash inflow and outflow; key figure for assessing financing resources
	Compliance	Adherence to legal requirements and corporate guidelines
	Corporate Governance	Responsible business management
	Coverage	Regular monitoring of a company by financial analysts
	CSR – RUG	Corporate Social Responsibility – Guidelines Implementation Law
	Cybercrime	Crime using computers
D	**D & O insurance**	Covers the cost of compensation claims made against a business's directors and key managers (officers)
	DEL quote	Copper price quote (Deutsche Elektrolyt-Kupfer-Notierung = German electrolyte copper quote)
	Demographic change	Change in the age structure of a society
	Derivatives	Financial instruments whose price or value depends on the prices of other merchandise
	Digitalization	The process of converting analogue signals into a digital format so as to electronically save or process them
	Due diligence investigation	Thorough investigation of risks, e.g. when buying or disposing of businesses
E	**EBIT**	Earnings before interest and taxes
	EBIT margin	EBIT / sales
	Economic Value Added (EVA)	Increase in enterprise value taking the cost of capital into consideration
	EMEA	Europe, Middle East and Africa
F	**Factoring**	Sale of receivables
	Financial covenants	Provisions included in a loan agreement
	Forward exchange transactions	Hedging transactions to reduce the risks of exchange rate fluctuations
	Free cashflow	Performance of operating cash flow taking capital expenditures into consideration
	Frugal innovation	Simple, cost-effective innovations for use in emerging countries
G	**Gearing**	Ratio of net debt to equity
	Global trends	Future social developments
	Glocalisation	Adaptation of a standardised product line to local requirements and stipulations
	Green Technology	Environmentally compatible and sustainable technologies for generating renewable energy as well as for reducing energy and resource consumption
H	**Hedge accounting**	Reporting of various financial instruments that are in a hedging relationship
	Hybrid cable	Cable that combines differing individual cables (e.g. power and data cables)

I	**iEVC**	illuminated Electrical Vehicle charging Cable (illumination indicates charge status for electric and hybrid vehicles)
	Impairment tests	Review of the value of asset items
	Industry 4.0	Digital networking of production with the help of state-of-the-art IT and communications technology
	Intelligent cables and systems	Cables and cable systems with additional functions that, for example, improve the safety, uptime or the efficiency of the application
	Internal Control System (ICS)	Principles and procedures to ensure the efficiency of Corporate Governance, the reliability of accounting and adherence to pertinent legal requirements
J	**Just-in-sequence delivery**	Delivery in the required sequence
	Just-in-time delivery	Delivery in the required time
L	**Leverage**	Ratio of net financial liabilities to equity
M	**Market segment**	Area of application for LEONI products and solutions
	Mission statement	Formal summary of the Company's aims and values
	Monte-Carlo-Simulation	Simulation method based on multiple trial runs using random variables
N	**Net financial liabilities (Net financial debts)**	Financial liabilities less cash and cash equivalents
O	**oneLEONI**	Strategic approach to transformation in the LEONI Group
P	**Power over Ethernet**	Power supply via an Ethernet cable
R	**Restructuring expenses**	Spending on the reorganisation or closure of a facility, especially on severance payments
	Return on Sales	EBIT/Sales
	Reverse factoring	Factoring agreement to pre-finance supplier liabilities
	ROCE	Return on capital employed
S	**Scope of consolidation**	Totality of the companies that belong to a group and are included in the consolidated financial statements
	Segment	Division
	Smart grid	Intelligent power grid
	Strand	Combination of several single wires
T	**True Sale Factoring**	Complete sale of receivables including risk overhang
U	**UN Global Compact**	The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption
	Urbanisation	Increasing urban development
W	**WACC**	Weighted Average Cost of Capital
	Wiring system	A vehicle's network of electrical/electronic cables including components
	Working capital	Net current assets (inventories plus trade receivables less trade liabilities)

Forward-looking statements

This report contains forward-looking statements that are based on management's current assumptions and estimates concerning future trends. Such statements are subject to risk and uncertainty that LEONI cannot control or precisely assess. Should imponderables occur or assumptions on which these statements are based prove to be incorrect, actual results could deviate considerably from those described in these statements. LEONI assumes no obligation to update forward-looking statements to adjust them to events following publication of this report.

Rounding differences may for arithmetical reasons occur in the tables, charts and references versus the mathematically precise figures (monetary units, percentages, etc.).

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