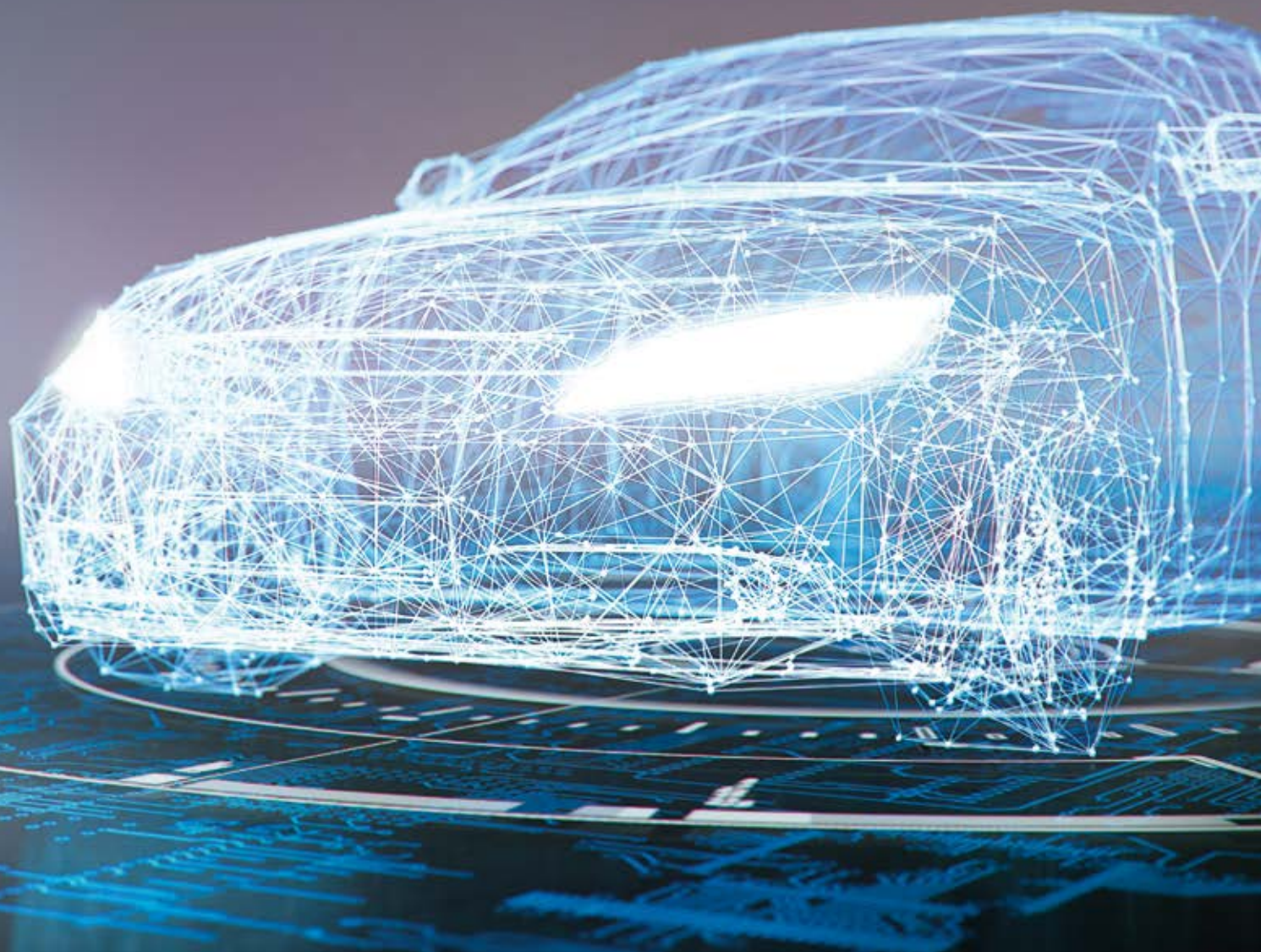




Technology with Vision

ANNUAL REPORT

2016/2017

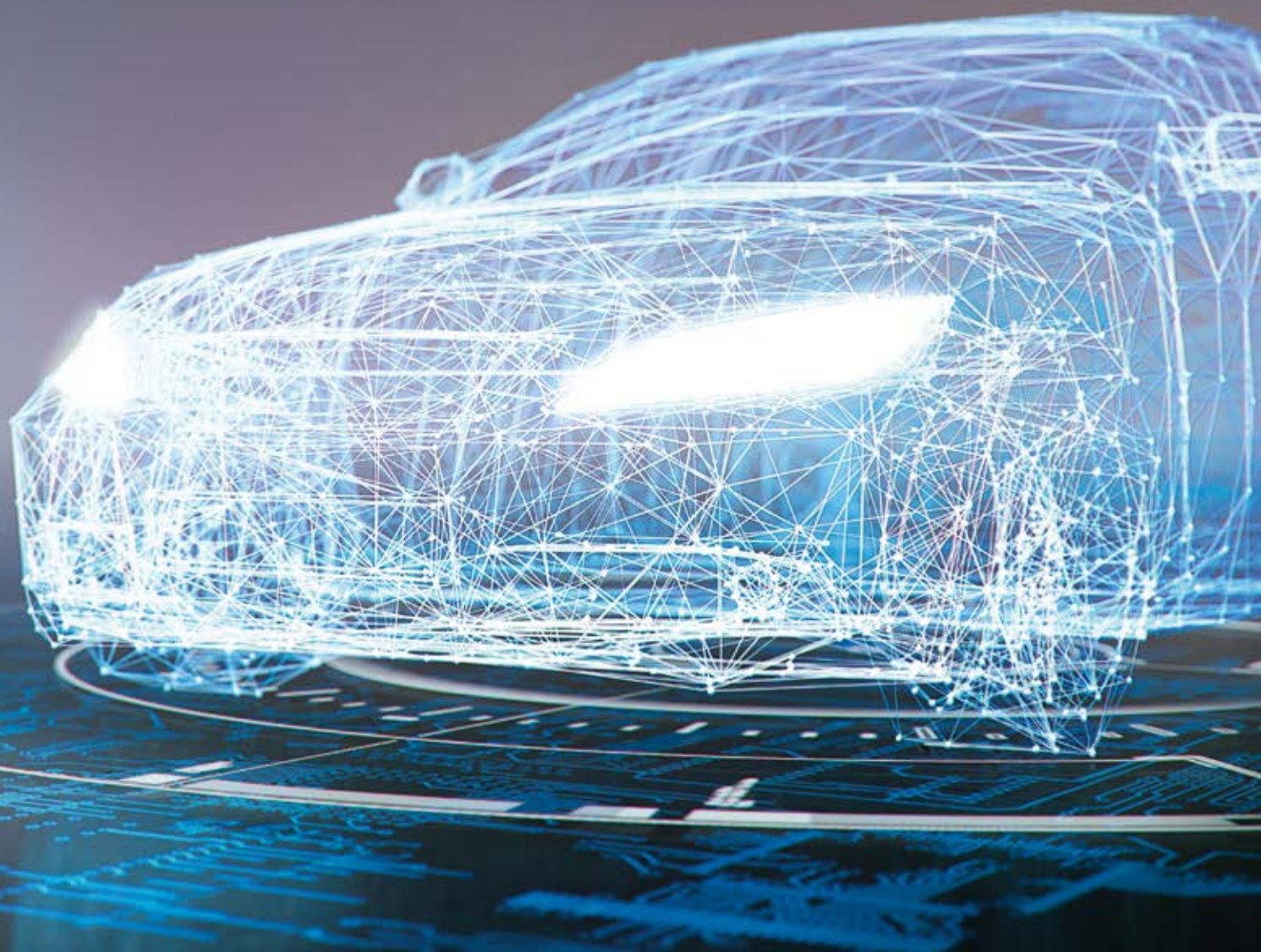


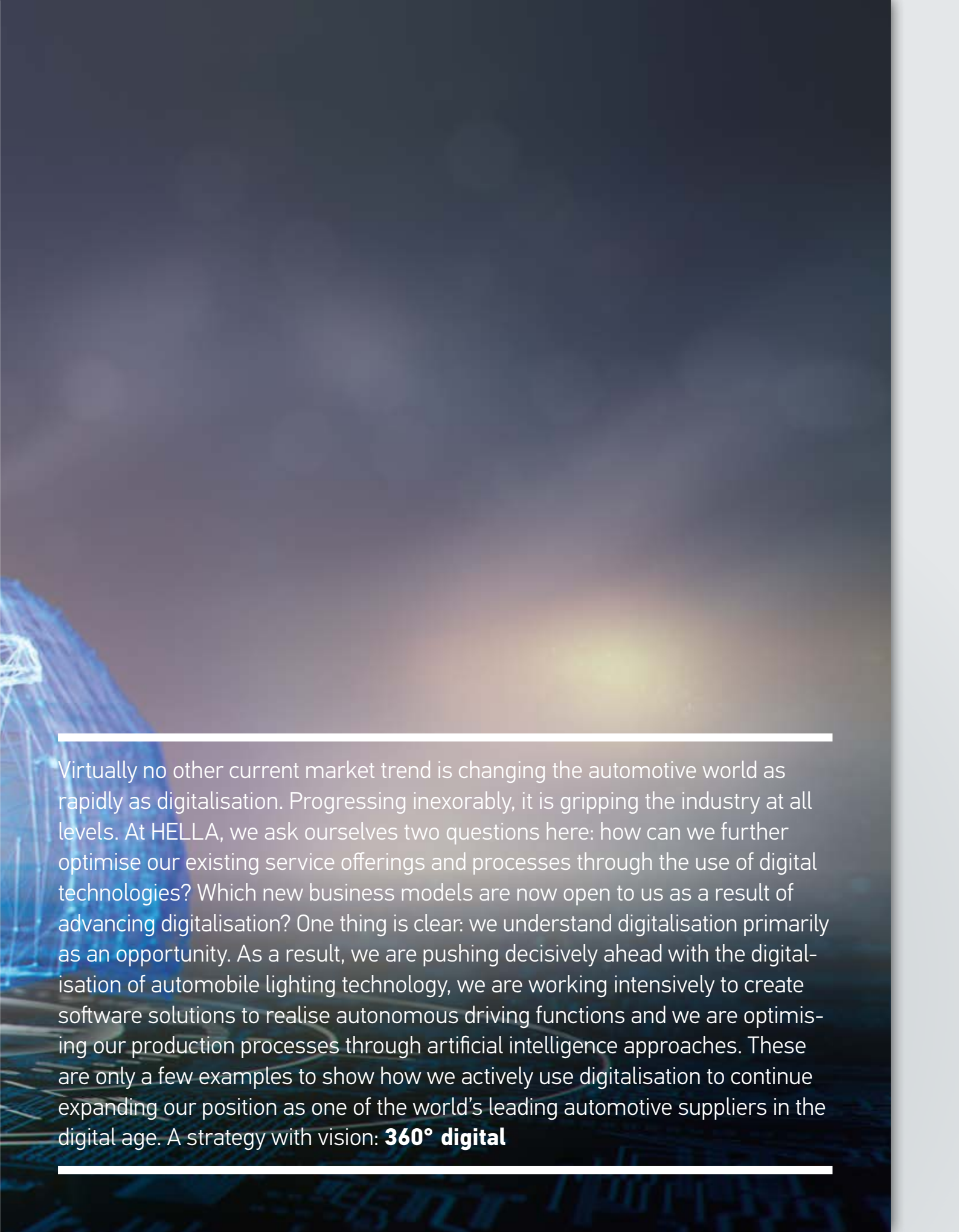


Technology with Vision

ANNUAL REPORT

2016/2017





Virtually no other current market trend is changing the automotive world as rapidly as digitalisation. Progressing inexorably, it is gripping the industry at all levels. At HELLA, we ask ourselves two questions here: how can we further optimise our existing service offerings and processes through the use of digital technologies? Which new business models are now open to us as a result of advancing digitalisation? One thing is clear: we understand digitalisation primarily as an opportunity. As a result, we are pushing decisively ahead with the digitalisation of automobile lighting technology, we are working intensively to create software solutions to realise autonomous driving functions and we are optimising our production processes through artificial intelligence approaches. These are only a few examples to show how we actively use digitalisation to continue expanding our position as one of the world's leading automotive suppliers in the digital age. A strategy with vision: **360° digital**

4.3%

CURRENCY AND PORTFOLIO-ADJUSTED SALES GROWTH

SALES
in € million

2015/2016 € 6,352 million
2016/2017 € 6,585 million

3.7%
Change compared to prior year

€ 6,585
million

2016/2017

BUSINESS DEVELOPMENT

HELLA continued on its profitable growth path in the fiscal year 2016/2017. Currency and portfolio-adjusted sales growth increased by 4.3%, while reported sales rose by 3.7% to € 6.6 billion. Adjusted earnings before interest and taxes improved by 12.0% to € 534 million and the adjusted EBIT margin by 0.6 percentage points to 8.1%. The Automotive segment in particular contributed to the increase in sales and earnings.

ADJUSTED EARNINGS BEFORE INTEREST AND TAXES (ADJUSTED EBIT)
in € million

476 **+12%** 534

2015/2016

2016/2017

in % of sales

7.5% **+0.6 percentage points** 8.1%

2015/2016

2016/2017

EARNINGS BEFORE INTEREST AND TAXES (EBIT)
in € million

420 **+21%** 507

2015/2016

2016/2017

in % of sales

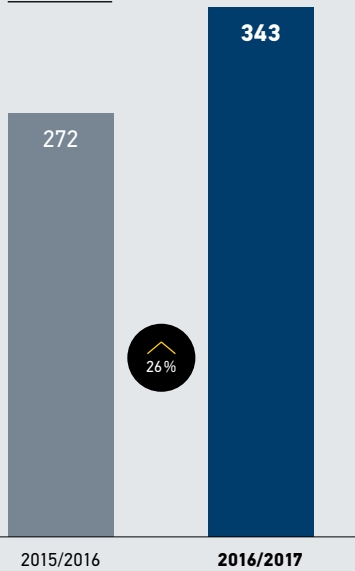
6.6% **+1.1 percentage points** 7.7%

2015/2016

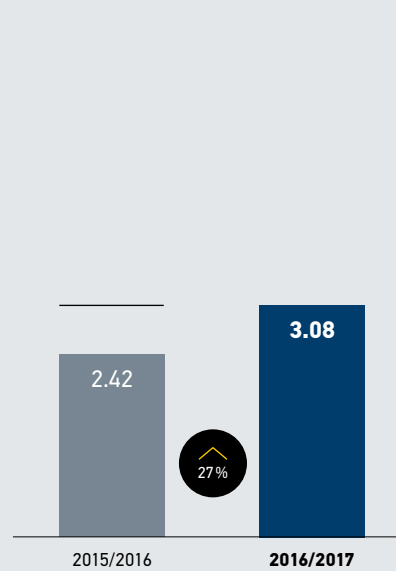
2016/2017

EARNINGS FOR THE PERIOD

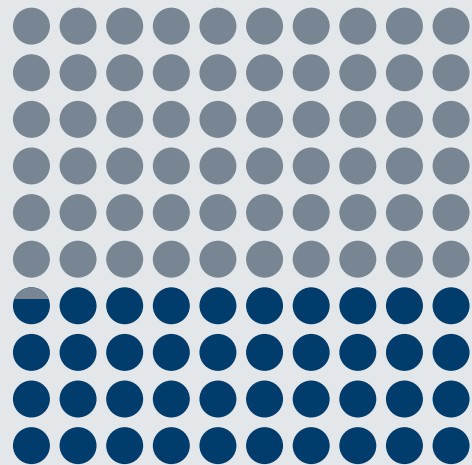
in € million and change compared to prior year in %

**EARNINGS PER SHARE**

in € and change compared to prior year in %

**NET CAPITAL EXPENDITURE****EQUITY RATIO**

as at 31 May 2017



39.5%

SEGMENT SALES

in € million and change compared to prior year in %

AUTOMOTIVE**AFTERMARKET****SPECIAL APPLICATIONS****PERMANENT EMPLOYEES****NET FINANCIAL DEBT/EBITDA**

as at 31 May 2017

0.3x

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Foreword



Dr. Jürgen Behrend
Managing General Partner

Dr. Rolf Breidenbach
President and CEO, Business Division
Electronics, Purchasing, Quality,
Legal and Compliance

Ladies and Gentlemen,

HELLA is one of the technology and innovation leaders in the automotive industry. From this strong position, we successfully continued our path of profitable growth in fiscal year 2016/2017 and generated consolidated sales of € 6.6 billion. This means that sales rose by 4.3 per cent on a currency- and portfolio-adjusted basis. Taking these special items into account, reported consolidated sales show an increase of 3.7 per cent. In the second half of the fiscal year in particular, we were able to achieve the pick-up in growth momentum we had expected and increased reported sales by about 6.1 per cent compared to the previous year.

The improvement in profitability was even more pronounced. In particular due to the high level of efficiency of several complex new production ramp-ups, we increased our adjusted earnings before interest and taxes by 12.0 per cent to € 534 million and our adjusted EBIT margin by 0.6 percentage points to 8.1 per cent.

The basis for this sustained success is formed by two main aspects: firstly, our innovative product solutions serving the core markets of the automotive industry such as autonomous driving, electrification, digitalisation and individualisation and secondly, our approximately 38,000 employees worldwide working for HELLA every day. We are especially grateful to them.

Automotive business drives sales and earnings performance

In fiscal year 2016/2017, the main sales driver was the Automotive segment, which increased by 3.8 per cent. As a result of several successful new production roll-outs, the segment recorded an increase in growth momentum, especially in the second half of the year. HELLA is benefiting equally from innovative lighting and electronics solutions. The comprehensive roll-out of technologically sophisticated LED headlamps as well as the launch of new electronic components for application in energy management and battery sensor technology are but two examples.

Thanks to numerous operational improvements, particularly in regard to new production roll-outs, we also increased profitability in the Automotive segment. Adjusted EBIT rose by 13.8 per cent and the adjusted operating result margin rose by 0.7 percentage points to 8.8 per cent, contributing significantly to increased profitability at the Group level. ➤



38,000 employees worldwide are the basis of our success.

**“
We now
generate more
than 30 percent
of our sales
in the growth
regions
of the Americas
and Asia.”**

With sales growth of 3.7 per cent, trading in spare parts and accessories as well as business in garage equipment also made a significant contribution to our solid result for the year. Adjusted for the sale of the business segments Industries and Airport Lighting, sales in the Special Applications segment in fiscal year 2016/2017 also performed robustly growing by 5.2 per cent.

Strong growth in international core markets

HELLA's profitable growth path is supported by a positive performance in all major international core markets. With sales up by 13 per cent, business in North, Central and South America in particular developed especially well in the past fiscal year. Our sales in the Asia/Pacific/Rest of World region also increased by around 7 percent compared to the previous year. HELLA now generates more than 30 per cent of its total sales in the growth regions of the Americas and Asia. Sales in Europe remained stable at the prior year's high level, improving by around 1 % compared with the prior fiscal year.

Due to the high demand for innovative lighting and electronics solutions, the targeted expansion of international production capacities is, among many other initiatives, a central cornerstone of our profitable growth path. We will be gradually doubling the production capacities of our electronics plant in Shanghai and building new production sites in Lithuania and Mexico in order to meet the growing demand for HELLA products.

Financial freedom for entrepreneurship

Investing in the expansion of our global network is possible not least because of our solid financial policy, which we also pursued in the past fiscal year. Our equity ratio is still around 40 per cent and gives us the necessary freedom for entrepreneurial action with a long-term orientation.

As in previous years, we want to involve our shareholders in the success of the company. At the Annual General Meeting in September 2017, we will therefore be proposing a distribution of 30 per cent of the net profit for fiscal year 2016/2017 to our shareholders. This corresponds to a dividend of € 0.92 per share this year, which equates to a total of € 102 million. Around 70 percent of the surplus will thus remain within the Company and provide support for the solid financing of our long-term profitable growth path.

Leveraging industry change and digitalisation

The automotive sector is undergoing major changes. Based on a solid entrepreneurial foundation and the clear strategic orientation, HELLA wants to actively shape these changes on its path into the automotive future. Thanks to our business portfolio and our strong culture of innovation, we are in a good position to participate in the main market trends of the automotive industry.

For example, HELLA offers software components for camera-based, assisted and automated driving, and has launched a battery management system for lithium-ion batteries that is specifically developed for full-hybrid and electric vehicles and is the first to be released on the market. With the integration of a liquid crystal display (LCD) into an LED headlamp, HELLA recently also reached a new milestone in automotive lighting technology and further advanced the digitalisation of light. This opens up entirely new opportunities for us to improve light management further and to offer additional functions to make driving even safer and more comfortable.

Digitalisation is playing an increasingly important role both in the market and internally. HELLA has already taken important steps. More than ever, it will be important for us to continue to expand our digital competencies continuously and at a fast pace as innovation is shifting from the actual hardware to the software sector. HELLA has all the prerequisites as an innovation and technology leader to continue from a strong position to shape the mobility of tomorrow. From this foundation, we are firmly convinced that we will continue our path of profitable growth in the long term.

Lippstadt, August 2017



Dr. Jürgen Behrend
Managing General Partner



Dr. Rolf Breidenbach
President and CEO



We have all the prerequisites as an innovation and technology leader to participate in the creation of the mobility of tomorrow.



THE HELLA MANAGEMENT BOARD

at the global lead plant for automotive lighting technology at the company headquarters in Lippstadt. This is where innovative headlamps and the latest generation of rear combination lamps come off the line.

Dr. Werner Benade
Business Division
Aftermarket &
Special Applications

Markus Bannert
Business Division
Lighting

Dr. Rolf Breidenbach
President and CEO, Business
Division Electronics,
Purchasing, Quality,
Legal and Compliance



Dr. Jürgen Behrend
Managing General
Partner

Stefan Osterhage
Human Resources,
Information Technology
and Logistics

Bernard Schäferbarthold
Finance and Controlling

Dr. Matthias Schöllmann
Sales Automotive



AT A GLANCE
The HELLA Share

Initial stock market quotation	11 November 2014
Ticker symbol	HLE
ISIN	DE000A13SX22
SIN	A13SX2
Share class	No-par value ordinary bearer shares
Market segments	Prime Standard (Frankfurt Stock Exchange) Regulated market (Luxembourg Stock Exchange)
Index	MDAX

€222,222,224
NOMINAL CAPITAL

111,111,112
NUMBER OF SHARES ISSUED

€5.02 billion
MARKET CAPITALISATION
on 31 May 2017

 €46.26 HIGHEST PRICE in fiscal year 2016/2017	 €27.73 LOWEST PRICE in fiscal year 2016/2017
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AVERAGE DAILY TRADING VOLUME
in fiscal year 2016/2017

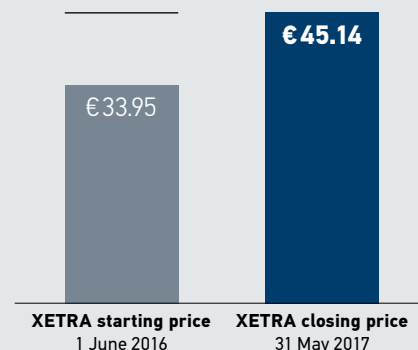
€5.67 million
153,667 shares

2016/2017

HELLA SHARE

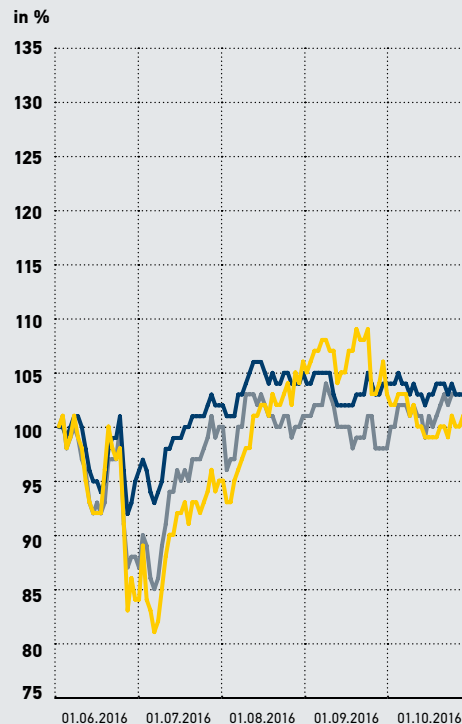
In the fiscal year 2016/2017 the HELLA share price recorded a positive performance. Starting from a price of around €34, the share reported a gain of some 33% and ended the fiscal year with a XETRA closing price of €45.14. The price trend thus exceeded the market performance. During the same period, the DAXsector Automobile rose by around 9% while the MDAX closed with gains of 21%.

PERFORMANCE OF THE HELLA SHARE
in fiscal year 2016/2017 and compared to the index



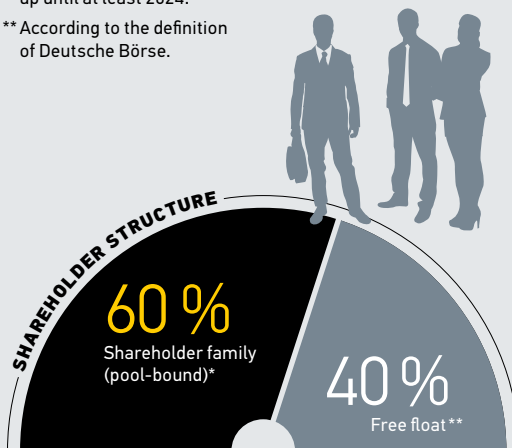
HELLA SHARE

Price development in the reporting period compared to selected indices (indexed on 1 June 2016)



* 60% of the shares are subject to a pool agreement up until at least 2024.

** According to the definition of Deutsche Börse.



€0.92

is the amount of **DIVIDEND** per share the annual general meeting will be asked to approve in 2017

+33%

HELLA SHARE

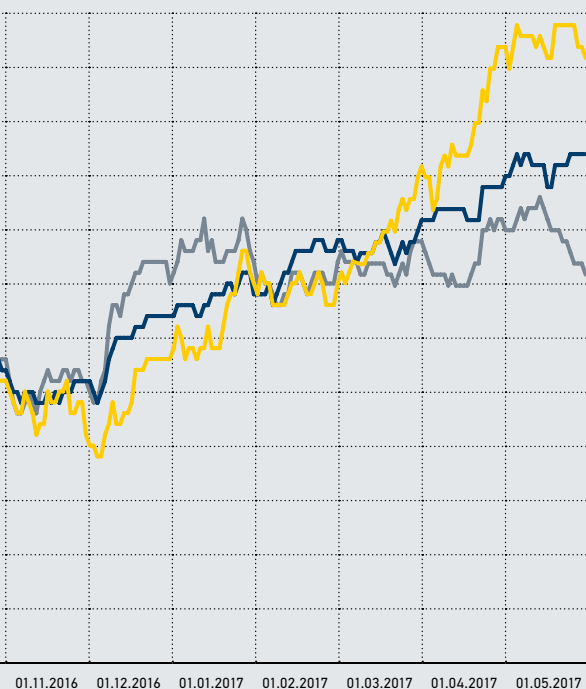
+21%

MDAX

+9%

PRIME AUTOMOTIVE

MDAX Prime Automotive HELLA



€ 102 million

is the **TOTAL AMOUNT**
DISTRIBUTED AS DIVIDEND

LOOKING BACK AT OUR EQUITY MARKET YEAR

BRIGHT CAPITAL MARKET SETTING DESPITE UNCERTAINTIES

The capital markets reported a positive performance during the reporting period (1 June 2016 to 31 May 2017). Thus, the MDAX recorded gains of 21 % during the HELLA fiscal year 2016/2017. The shares of German automobile stocks, the DAXsector Automobile (hereinafter referred to as Prime Automotive), closed the reporting period with a rise of 9 %.

Triggered by political risks (outcome of the Brexit referendum in the UK and of the presidential elections in the USA), the financial markets were characterised by uncertainty and volatility during the first half of the fiscal year, in particular. An expansionary central bank policy and robust economic figures led to a recovery on the markets while the Prime Automotive stocks responded with significant price drops in the wake of the Brexit vote.

The equity markets had a positive start to the second half of the fiscal year. This trend was supported by the prospect of economic policy measures by the new US administration, by a market-friendly outcome of the elections in France and the Netherlands and by the persistently good economic development in Europe.

HELLA SHARE PRICE PERFORMANCE EXCEEDS MARKET DEVELOPMENT

During the period of the fiscal year 2016/2017, the HELLA share recorded a rise of 33 % and thus outperformed the MDAX indices and the Prime Automotive sector index. After the HELLA share recorded a decline in the wake of the consolidation phase on the capital markets at the start of the fiscal year 2016/2017, the general equity market recovery, together with the publication of the results for the fiscal year 2015/2016 on

11 August 2016, led to a positive performance of the HELLA share during the first quarter in the fiscal year 2016/2017. But the HELLA share trended lower up until the end of the first half-year. Among other things, this was caused by a sector-specific underperformance of almost all German automotive suppliers. At the start of the second half of the fiscal year, the HELLA share embarked on a prolonged share price recovery. The price rise was supported by the publication of the financial results for the second quarter in January 2017. Following a short-lived sideways movement, the HELLA share, also supported by the release of the financial results for the third quarter in early April, began a steady upwards trend until shortly before the end of the reporting period.

LIQUIDITY OF THE HELLA SHARE

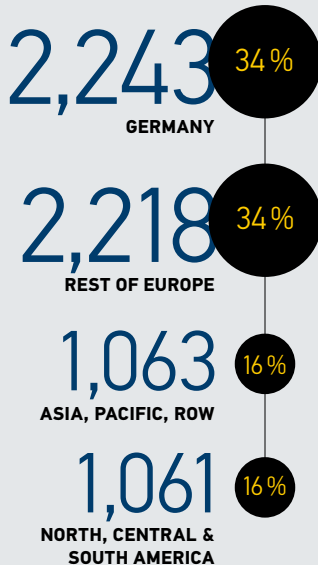
The share's liquidity substantially increased compared with the fiscal year 2015/2016. In the reporting period, the average daily XETRA trading volume was around 154,000 shares compared with 140,000 in the prior year. An exceptionally high trading volume was recorded in the second quarter of the fiscal year. In the course of two private placements, on 1 February 2017 and on 23 May 2017, around 2.2 million and 2.3 million shares, respectively, were placed. The shares are from holdings of the shareholder family that are not tied to the pool and formed part of the free float.

AVERAGE GROWTH
in the last six fiscal years

SALES
7.3%
per year

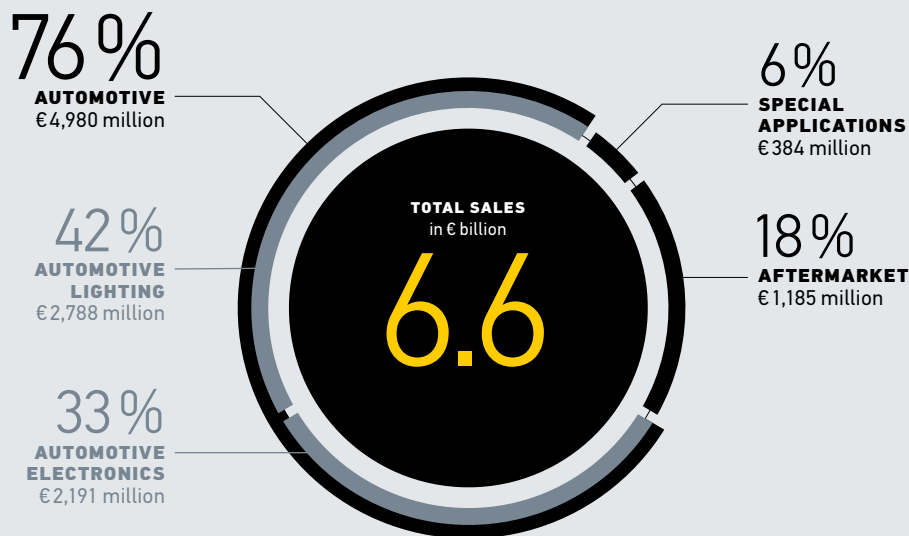
ADJUSTED EARNINGS BEFORE INTEREST AND TAXES (ADJUSTED EBIT)
8.8%
per year

SALES BY REGION BASED ON THE HEADQUARTERS OF HELLA'S CUSTOMERS
Fiscal year 2016/2017 (in € million) and in % of consolidated sales



INVESTMENTS IN RESEARCH AND DEVELOPMENT
9.7%
of sales

EXTERNAL SALES BY BUSINESS SEGMENT
Fiscal year 2016/2017



AUTOMOTIVE LIGHTING

In the business division Lighting, HELLA develops and produces headlamps, rear combination lamps, signal lamps and interior lights plus lighting electronics components for almost all of the well-known automobile manufacturers worldwide. Through its cooperation with premium original equipment manufacturers, HELLA has established a particularly strong position, especially in the area of innovative lighting products. The volume segment is also very successfully served by HELLA. A key focus of the business division Lighting is currently the development of high-definition headlamps. Using several hundreds of thousands of individually controllable points of light allows for a much higher resolution and thus more precise control of light distribution.

AUTOMOTIVE ELECTRONICS

Our electronics solutions help to make vehicles safer, more efficient and more comfortable. Our range of services in the Electronics business division includes technologies for driver assistance, energy management systems, body electronics, sensors and actuators as well as systems for power steering. For example, HELLA offers software components for camera-based, assisted and automated driving, and has launched a battery management system for lithium-ion batteries that is specifically

developed for full-hybrid and electric vehicles and this is the first of its kind to be released on the market.

AFTERMARKET

The Aftermarket business segment is based on three pillars: in the independent aftermarket we are one of the most important partners in the spare parts trade as well as in independent garages in Europe, offering more than 40,000 spare parts, wear parts and accessory parts as well as a comprehensive range of services. HELLA is also a wholesaler in Northern and Eastern Europe. These activities are complemented by the business activities with high-grade garage equipment, such as vehicle data equipment as well as professional diagnostic tools and garage devices, which enable specialist vehicle repair and maintenance at the garage.

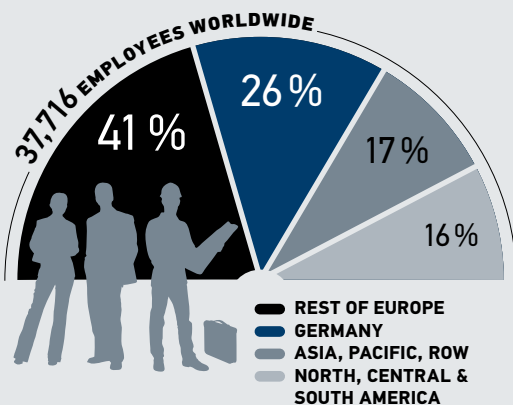
SPECIAL APPLICATIONS

With its Special Applications business segment, HELLA is expanding its core business to other industries. In the Special Applications segment, we develop, manufacture and distribute lighting and electronics products for special vehicles, such as construction equipment, and agricultural machinery, buses and trailers and caravans, as well as for the marine sector, using our extensive technological expertise in the automotive sector.

2016/2017

SHORT PROFILE

HELLA is a family-run company listed on the stock market and one of the 100 largest German industrial companies. As one of the top 40 automotive suppliers worldwide, HELLA specialises in innovative lighting systems and vehicle electronics and is also an established provider in the European aftermarket. In the fiscal year 2016/2017, the HELLA Group achieved sales of € 6.6 billion and currently has around 38,000 employees at more than 125 sites in some 35 countries.



6,764

EMPLOYEES
worldwide work in research
and development at HELLA

**HELLA GROUP
AT A GLANCE****ATTRACTIVE
BUSINESS PORTFOLIO**

HELLA has been a partner to the automotive industry and automotive parts trade for more than 100 years. The company, headquartered in Lippstadt (Germany), was founded in 1899. The business portfolio comprises three segments: Automotive, Aftermarket and Special Applications. The Automotive segment is split into two business divisions, Lighting and Electronics. Within these business divisions, HELLA develops, produces and distributes vehicle-specific solutions for automobile manufacturers and other automotive suppliers throughout the world. In the Aftermarket business segment, HELLA combines the trading of automotive parts and accessories with workshop equipment in the independent replacement parts market. In the Special Applications business segment, we incorporate our lighting technology and electronic core expertise into applications for special purpose vehicles.

TECHNOLOGICAL EXCELLENCE

Research and development are part of HELLA's DNA and are therefore an essential foundation on which our competitive strength is built. One in every five employees works in this area. Research and development expenses in fiscal year 2016/2017 accounted for 9.7% of consolidated sales. More than 90% of the expenses are accounted for by the Automotive business segment. The main focus here is on the development of innovative technologies for the key market trends within the automotive industry, e.g. autonomous driving, energy efficiency and electrification, digitalisation and individualisation.

LEADING MARKET POSITION

We want to count ourselves among the leading providers in the markets in which we are active. Our consistent focus on technology and innova-

tion leadership is helping us achieve this goal. As a result, HELLA is one of the world's leading suppliers of sophisticated LED headlamps, is the world market leader in 24-GHz radar sensors and a leading international manufacturer of intelligent battery sensors.

**GLOBAL POSITIONING AND
CUSTOMER PROXIMITY**

HELLA has a global presence. This ensures our proximity to our customers and enables us to leverage growth opportunities globally. The success of this positioning is reflected in our sales distribution. In fiscal year 2016/2017, we generated around one third of our sales with customers in the growth regions of Asia/Pacific and North, Central and South America, another third with customers in our home market Germany, and the remaining third with customers from other European countries.

**COMPREHENSIVE
PARTNER NETWORK**

We rely on a strong network of partners. This means that HELLA works together with a number of industry partners in different forms of cooperation in order to successfully develop new technologies and markets. Our equity-accounted joint ventures alone generated total sales of € 3.6 billion in the 2016/2017 fiscal year, effectively contributing € 52 million to our consolidated net profit.

COMMITTED EMPLOYEES

Our employees are the basis of our success. At the end of the 2016/2017 fiscal year, we employed around 38,000 permanent employees worldwide. Approximately a quarter of these are employed in Germany. The remaining 75% work at HELLA's international locations, particularly in China, India, Eastern Europe, the USA and Mexico.

Highlights of the fiscal year

- August 2016
- August 2016
- October 2016
- October 2016
- November 2016
- December 2016
- January 2017
- February 2017
- March 2017
- March 2017
- March 2017
- April 2017

ON THE BIG STAGE

HELLA exhibits at AUTO Shanghai 2017, one of the world's biggest and most important motor shows. Around 1,500 visitors came to the HELLA stall and were impressed by the large number of innovative product solutions addressing the key market trends of electrification and energy efficiency, digitalisation, autonomous driving and individualisation. China has long since become one of the most important automotive markets for HELLA. The company has been active on the Chinese market since 1980, and from the early 1990s with its own production facilities.

1,500

VISITORS

NEW HEADLAMP DIMENSION

As part of a research project HELLA, working in collaboration with other project partners, has developed and constructed a headlamp based on a liquid crystal display (LCD). The new LCD headlamp projects a total of 30,000 pixels onto the road. The light pattern can thus be adjusted to different driving situations in an intelligent and infinitely variable manner in real time. With the development of liquid crystal HD technology, HELLA continues to push ahead with the digitalisation of light. The new technology is expected to be first used from 2020.



FAMILY-FRIENDLY COMPANY

HELLA is among the 100 most important, family-run companies in Germany. This is the result of a study conducted on behalf of Stiftung Familienunternehmen (Foundation for Family Businesses). The Managing General Partner of HELLA, Dr. Jürgen Behrend, accepted the award at the company's headquarters in Lippstadt.



EXCELLENT QUALITY

Customers honour HELLA for outstanding quality. HELLA has received the Daimler Supplier Award 2016 from Daimler for outstanding quality services during the start-up phase of the innovative HD84 headlamp of the new Mercedes-Benz E-class and during its high-quality series production. HELLA has also been recognised by the Ford Motor Company, receiving the Ford World Excellence Award in the quality category for the first time.



NEW DEVELOPMENT CENTRE

HELLA is opening a new development centre for automotive lighting technology in Sindelfingen. The new facility near Stuttgart will help service the growing demand for innovative lighting solutions and it acknowledges the strong presence of the automotive industry in southern Germany.





RADAR SENSORS NUMBER TEN MILLION

At the electronics plant in Hamm, the ten millionth 24 GHz radar sensor comes off the production line. More than 120 vehicle series are already equipped with this radar technology, making HELLA one of the world's leading suppliers. In addition, HELLA in collaboration with partners has developed a new sensor generation based on the 77 GHz technology that will allow the precise 360° recognition of the vehicle's surroundings required for automated parking, in particular. The market launch of the new sensor is scheduled for 2020.



INDIVIDUAL LIGHT SIGNATURE

With the slogan "Think modular" HELLA presents the new "Shapeline" lighting series at the International Motor Show for Commercial Vehicles in Hanover. The new series will allow manufacturers to assemble lighting systems on a modular principle. Rear and brake lights, direction indicators and position lights are available in many different shapes and can be combined flexibly. This means that manufacturers of commercial vehicles are able to create an individualised and, above all, consistent look for every vehicle series, large or small.



EXPANSION OF E-COMMERCE

HELLA is further expanding its e-commerce activities in the Aftermarket segment. The acquisition of iParts, the leading online shop for auto parts in Poland, aims to strengthen the company's own e-commerce activities and speed up further expansion. HELLA itself has been represented in Poland's online trading since 2015 with the UCANDO brand.

REVOLUTION THROUGH HOLOGRAPHIC TECHNOLOGY

Working together with Covestro, one of the world's largest polymer producers, HELLA has developed a new design for vehicle signal lighting on the basis of holographic technology. The vehicle's rear end consists of a three-part light, each part of which is equipped with holographic technology. The holographic foil is illuminated from behind using LED light sources and reflectors. This creates a 3D effect, just as if the elements were floating freely in the air. A world premiere from HELLA and Covestro.



VISIT FROM THE PIONEER

HELLA welcomes Nobel Prize winner Shuji Nakamura at the company's headquarters in Lippestadt. Working in collaboration with two other scientists, Nakamura developed the blue light emitting diode in the early 1990s. This successful research gave rise to the ability to produce white light using LEDs in combination with luminescent material. For this, the scientists were awarded the Nobel Prize for Physics in 2014.

SOCIAL COMMITMENT

The HELLA staff supports regional charitable projects in various fundraising campaigns. For example, the Christmas Campaign 2016 was initiated under the aegis of the works council. The proceeds of the campaign went to "Aktion Lichtblicke" to support families suffering hardship. Moreover, the staff supports several social projects in the immediate vicinity of the plant with the "Cent Donation" campaign.

THE WORKSHOP'S FRIEND

HELLA, as the Workshop's Friend, supports independent workshops throughout the entire repair process - ranging from the acceptance of a vehicle and vehicle diagnostics, including the identification of errors and parts, to online repair assistance and technical advice. The aim is to make the workshop process even faster and more profitable in future.

16
17





360° DIGITAL

The world around us consists of billions of individual bits of data, and they are driving it towards the future. HELLA is taking advantage of the opportunities provided by digitalisation in order to help shape the mobility of tomorrow with vision and through the use of wide-ranging ideas.

360° DIGITAL: a tour of the digital HELLA world.

360° DIGITAL

SHINING DATA

Digitalisation is changing automotive lighting technology. HELLA is at the forefront of this development. The most recent milestone: the development of a headlamp with liquid crystal HD technology, allowing fully adaptive light distribution in real time.

16

SOFTWARE AS A PRODUCT

HELLA Aglaia is one of the world's leading suppliers of intelligent visual sensor systems. In a conversation, Managing Director Kay Talmi talks about the relevance of computer vision for autonomous driving and new software-based business models.

22

A QUESTION OF TRAINING

In a pilot project, HELLA is premiering methods of artificial intelligence in the form of "deep learning" in production to additionally improve quality and efficiency. A visit to the electronics plant in Hamm, Germany.

26

CHANGE THE RULES OF THE INDUSTRY

Digitalisation is breaking up established market structures and is changing entire industries. If you want to be successful in this environment, you have to be prepared to break new ground. This is what HELLA is doing, as the examples from Lippstadt, Berlin and Silicon Valley show.

32



360°

HELLA BRINGS LCD TO FRONT LIGHTS

A marvellous material: on the one hand liquid yet with the structure of crystals. These properties have made liquid crystals the most important raw material for screens. HELLA is now embarking on the next step with the development of an LCD headlamp: the first generation of high-resolution lighting systems that combine digitally controlled LEDs with a liquid-crystal display is to be launched in 2020.

Shining data

Digitalisation arrived in automotive technology a long time ago – and HELLA has been at the forefront of this development right from the start. How does the lighting expert position itself in this environment? How is HELLA driving digital light forward? And how did the first LCD headlamp research project develop?

T

There was a time when the options were limited. There was only one light source in the headlamp for low beam and high beam. You could either switch a light on or off, turn up or turn down the headlamp. Two options, usually a function operated manually. This or something like this was the basic scenario in automotive lighting technology for decades, a choice between zero and one. There was nothing in between. Until new light sources became available and additional sensor systems were integrated into the vehicle, thereby turning everything upside down.

The latest-generation headlamps are intelligent, high-resolution and multi-functional; the numerous light sources inside the headlamps can be controlled individually via software. This

means that light distribution can be adapted in an optimum way to traffic, weather and road conditions. Adaptive high beam assistants automatically ensure that oncoming traffic or cars ahead are not dazzled, through camera monitoring and a precise dimming of individual light sources, while the rest of the vehicle's surroundings remains fully illuminated. Dynamic light guidance, moreover, allows bends to be better illuminated and traffic signs to be lit glare-free.

"We are in the midst of digitalising automotive lighting", says Kamislav Fadel. A Bulgarian by birth, he is Executive Board member of the Lighting business division at HELLA and responsible for global lighting development. "This opens up entirely new opportunities for us to improve light management further and to offer additional functions to make driving even safer and more comfortable." The merger of vehicle lighting and driver assistance systems is progressing inexorably. The time when it was simply a question of switching on and switching off is thus moving rapidly into the historical rear-view mirror.

HELLA's light tunnel, opposite the company headquarters in Lippstadt. A kind of simulated night-time road, the largest of its kind in Europe with a length



We are in the midst of digitalising automotive lighting. This is opening up entirely new possibilities for additionally improving lighting control and designing new lighting functions.

*Kamislav Fadel,
Member of the Executive
Board, Business
Division Lighting, Head of
Lighting Development*

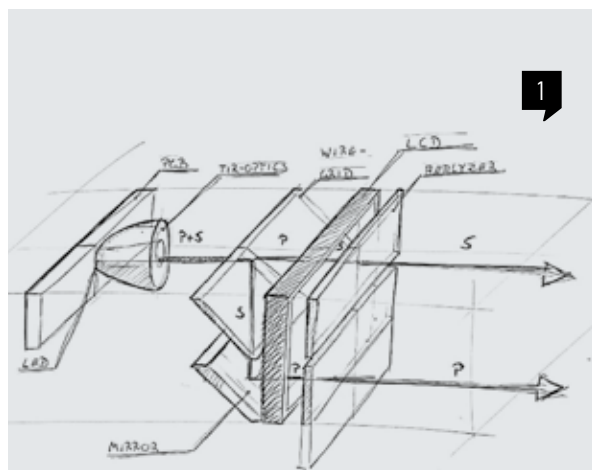
of 140 metres. Michael Kleinkes, who is responsible for the lighting technology development at HELLA, walks across a zebra crossing which high-power beam projectors project onto the street of the otherwise completely darkened light testing facility. This kind of zebra crossing could, for example, give night-time pedestrians a signal to cross the street. A conceivable scenario in the case of partially or fully autonomous vehicles.

"Whether such a function will actually be viable will not least of all depend on the statutory framework", says Michael Kleinkes. The physicist, holder of a Ph.D., uses the zebra crossing function to present the latest technological innovation which HELLA recently unveiled in collaboration with other partners. An LCD-based headlamp system. And indeed, the functions projected onto the road for testing are razor-sharp and feature a great deal of adjustability. The next milestone in digital lighting technology. >

The digitalisation of light is not a revolution. It is an evolutionary, gradual process which HELLA has steadily helped advance. Back in the early 1990s, when xenon head-lights became ready for series production, the lighting expert took the first steps, integrating electronic control units into the vehicle light – a novelty on the market at the time, from today’s perspective a precursor of digital light. From then on the functionalities increased step by step, the systems became more complex. In 2003 the Daimler E-Class was the world’s first vehicle to feature the dynamic bend and cornering light developed by HELLA. In 2009, the first camera-based system went into series production, followed by the first glare-free high beam light in the Volkswagen Touareg in 2010 and the first Matrix LED headlamp in the Audi A8 in 2013. In 2016, the even higher-resolution HD84 headlamp in the current Mercedes Benz E-class was added. All world premieres in automotive lighting technology.

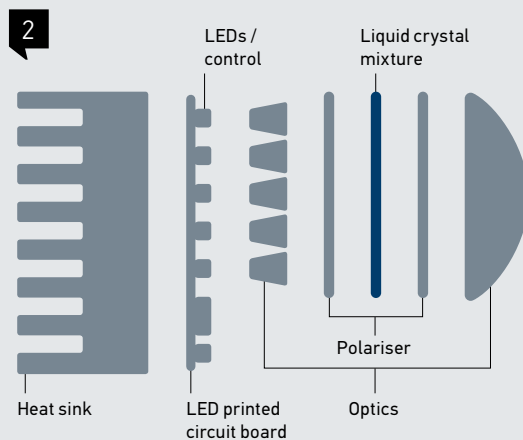
“HELLA owes its innovation leadership, especially in the digital light area, to a comprehensive system competence,” says Michael Kleinkes. “From the headlamp to the control units and the imaging software that delivers the object data back to the headlamp control system - everything comes from a single source with us. The fact that we take innovative technologies from the original idea and make them ready for series production is a unique selling point on the market today.”

It was rapid progress in four different technological areas that made the digitalisation of automotive light in the automo-



From the drawing board to the final product

Liquid crystal HD technology has been integrated in a headlamp for the first time. The technology is used in home entertainment, for example, and with its high resolution and detail it offers entirely new possibilities for automotive lighting technology.



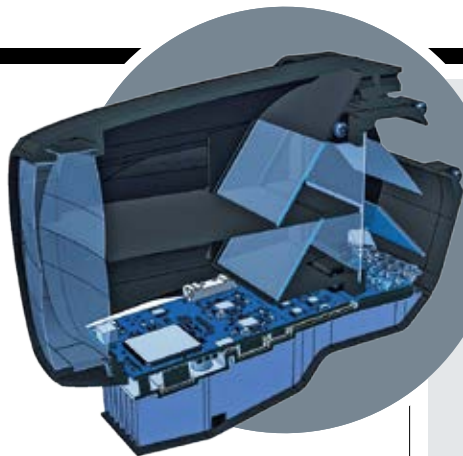
A multi-layered technology

From the heat sink to the LED light source and the liquid crystal display: the new headlamp consists of perfectly compatible modules. Different partners with specialist knowledge helped in its development.

tive sector possible: the tapping of new light sources (from halogen and xenon to LED or laser), the actuators for adjusting and pivoting light modules, increasingly powerful electronic control units and interfaces between electronics and headlamps and the sensor systems which today allow the geometry of the vehicle’s surroundings to be detected via cameras and radar while driving, to evaluate it and to control light distribution accordingly. On top of this, the innovation momentum in the area of processor technology made similar advances. Ever faster microprocessors and supercomputers became available; without which real-time processing of the huge volume of data from the vehicle’s surroundings would have been impossible.

“Currently, various new technological possibilities are emerging to increase the resolution of lighting systems and, hence, to implement new functions for improving road safety,” says Fadel. “We have considered every one of these new technologies in detail. As part of a comprehensive requirement and analysis process we finally reached the conclusion that we should prioritise LCD-based headlamp systems over other options.”

Why LCD? Compared with the other three digital-based technologies that play a role in HELLA’s development activities (see box on the right-hand side), a liquid crystal display illuminated by LED light sources offers a large number of decisive advantages. Thus, the prototype of an LCD-based headlamp developed as part of a research project is able to project up to 30,000 pixels onto the road.



3

Overview of digital lighting technologies

In the course of the digitalisation of light HELLA looks at various different technological approaches. The four most important ones are:

μAFS

Adaptive front-lighting system with multi-pixel LED chip. Each of the around 1,000 pixels per light source can be individually controlled. Moderate resolution, hence limited number of functionalities.

Laser scanner

A mirror is used to direct a laser light beam to a special phosphorous plate. Promising, but still relatively far from being ready for series production.

Digital mirror device

A strong LED light source illuminates a chip with more than 500,000 micro-mirrors. Problem: can only be used for limited areas.

LCD

LED light is directed through a liquid crystal display. The crystals can be shifted, thus the light's polarisation direction can be turned. Respectively over 50,000 pixels, extremely precise projections.

4



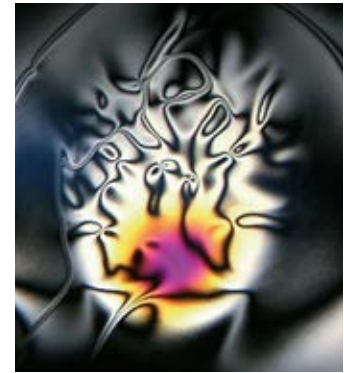
For the future, the number of pixels is to be increased to over 50,000. The question that had to be clarified together was this: can the combination of LEDs and a liquid crystal display, such as those we know from flat-screen TV sets for example, be used to design a headlamp which can master all different kinds of driving situations in an intelligent, infinitely variable and targeted manner? And which at the same time is superior to the established premium headlamps as far as its resolution and functionalities are concerned?

Let there be light

During the project term of around three years the drafts gradually became more specific. It was then not a big step from 3D rendering of the headlamp (image 3) to the test-ready prototype (image 4).

LCD in the headlamp: research project successfully completed

Use of liquid crystal displays in the headlamp - can it be done? The question was still an open one when HELLA in April 2014 together with Porsche, Merck and other partners launched a project sponsored by the German Ministry of Education and Research and explored the potential of the technology. The result is impressive: liquid crystal HD technology is expected to be deployed in the first series project in 2020.



“At HELLA, the idea driving development is always this: what is the benefit of an innovation to the final consumer? What is the benefit for the automotive customer?” says Fadel. “After all, the criterion is not the plethora of what has become technologically feasible. Ultimately, the market only benefits from functionalities if they are meaningful.”

These are primarily applications that enhance the safety and comfort of drivers: intelligent, glare-free high beam light, pedestrian road markings or the projection of pedestrian crossings, protection zones for cyclists, warnings or navigation symbols. ➤



We owe our innovation leadership, especially in the digital light area, to a comprehensive system competence. From the headlamp to the control units and image processing software — everything comes from a single source with us.

Dr. Michael Kleinkes, Head of Lighting Technology Development

“It is precisely these functions and many more that can best be realised on the basis of innovative LCD technology,” adds Michael Kleinkes. And we are able to visualise virtually every idea of a new function via high-performance projectors in our light testing facility and to assess the parameters of the function. This gives us a very important advantage in the market.”

The liquid crystal HD technology is expected to be first used from 2020. Further automobile business models will broaden the picture: “function on demand” models and options for software updates and upgrades, individualisation and user ID concepts which should enable us to take lighting functions and preferences with us into third-party vehicles via a smartphone app in the future.

“The time horizon we have in mind for such developments is around five to ten years,” says Kamislav Fadel. “Trends such as autonomous driving, virtual reality, artificial intelligence and the Internet of Things already play a major role for us now. All things considered, we are only at the start of the era of digital light.” ○



A new dimension in headlamps:

LCD technology permits fully adaptive, intelligent light distribution. As a result, (in addition to optimum, even illumination, image 1) numerous new functions can be realised, such as navigation instructions (2) or signals to pedestrians (3).





In the HELLA light testing facility in Lippstadt

new light functions can be visualised and assessed under conditions that closely mirror reality — a very decisive advantage on the market.



360°

HELLA AGLAIA ENSURES ALL-ROUND DIGITAL VIEW

Managing Director Kay Talmi at the new head office of HELLA Aglaia in Berlin-Tempelhof. Its technological leadership has been expanded, ever since the company that specialises in the function development of intelligent visual sensor systems became a HELLA subsidiary in 2006. The latest milestone: a modular system for camera software which enables customers to combine functions flexibly.

Software as a product

The Ullstein House in the Tempelhof suburb of Berlin.

An 80-metre-high brick building constructed in the 1920s that has recently become HELLA Aglaia's head office. With over 300 employees, the company is one of the world's leading suppliers of intelligent visual sensor systems. In a conversation, Kay Talmi talks about the relevance of computer vision for autonomous driving, new software-based business models and the particular role played by the Berlin location in HELLA's global network.

K

Kay Talmi, we are holding this conversation in your new office. What was the reason for relocating within Berlin?

Kay Talmi: Over the last ten years, HELLA Aglaia has grown from around 30 employees to some 300. At the moment, we are recruiting up to seven new employees each month. Looking ahead over the coming years, we could have a head count of as much as 500. Quite simply, we needed more space. However, the immediate surroundings are far more important for us. Our new location in Tempelhof is a veritable hot spot for Berlin's digital economy and will doubtlessly also spur our development additionally.

“**We have developed a completely new business model for camera software.**”

*Kay Talmi,
Managing Director,
HELLA Aglaia*

What are the main drivers behind this rapid growth?

We are moving away from assisted and towards autonomous driving. This is a continuous process that will unfold in several stages. Camera-based detection functions play a crucial role in all these stages. And this is precisely where our key skills lie. Indeed, Aglaia has been exploring this area very closely ever since its foundation in 1998. In 2006, it became a wholly owned subsidiary of HELLA. Its first series-production order was for the development of a front camera for an American original equipment manufacturer. In 2009, we decided to focus solely on the provision of software in the camera business. Looking back, this absolutely proved to be the right decision. Since then, we have developed various ready-for-series-production systems for original equipment manufacturers in conjunction with a major hardware supplier.

In this way, we have been able to accumulate unique expertise in camera-based assistance systems with a clear focus on software over many years.

Now you have launched an entirely new approach in front-camera software.

What makes this approach so special?

We have developed an entirely new business model entailing an open software system that customers can assemble in accordance with their own requirements. Put simply, our software system is not tied to any particular hardware. Instead, it can be implemented flexibly on different semiconductor producers' platforms. As well as this, customers are able to freely combine software components using our model as a basis. This means that, in addition to HELLA components, they can also use proprietary or third-party solutions. New functions can be conveniently added by means of a software update. If, for example, the customer requires a further application that is already available in addition to a pre-installed one, such as light control or lane, traffic-sign, pedestrian or object detection, this can be retrofitted to the system.

This approach sounds vaguely reminiscent of an app store of the type used with smart phones or tablets.

Obviously, the comparison only goes so far but you are not wrong in saying this. We are implementing a type of building-block system with our product, giving our customers almost limitless flexibility. >

“ We have been able to accumulate unique expertise in camera-based assistance systems with a clear focus on software over many years.

Kay Talmi, Managing Director, HELLA Aglaia

What other systems have been shaping the market until now?

Generally speaking, producers supply their chips with fully pre-integrated functions. This means that customers are always forced to accept the entire software package. If you want to update later on, say, to add a new traffic sign that was not included in the original package, you have no choice but to wait for the next-generation product. HELLA, by contrast, offers dynamic change and flexibility with its new product.

What has the response to HELLA's new product been like to date?

Market reaction is decidedly favourable. We have won our first main contract and expect to supply a German premium vehicle manufacturer in 2019 and certainly by 2020 at the latest. I am convinced that our philosophy of separating hardware from software will find our customers' approval. Products with unchangeable software will be replaced by optional models, flexible architectures and building blocks of the type that HELLA is

already offering. We are in the process of setting up suitable sales and licensing models. At the same time, we don't want to offer our software solely for passenger vehicles but also for trucks and for construction and agricultural machinery.

How would you describe the upcoming development steps culminating in self-driving vehicles? What technological challenges must be addressed?

In the case of the lowest two levels, i.e. assisted driving, the main challenge facing us today is to supply cost-efficient solutions suitable for integration in high-volume vehicle segments and meeting the requirements of the 2018 Euro-NCAP programme. To achieve this goal, we are making use of conventional imaging processes that allow us to utilise cost-optimised hardware platforms. From 2018, the Euro-NCAP programme provides for four main functions, which we are able to implement with our software modules: traffic sign recognition, lane recognition, light assistant and pedestrian and obstacle detection.

2018 is not far off.

What does the future hold in the ensuing years?

The situation changes with automated or autonomous driving, that is from Level 3. These driving situations cannot be addressed using conventional processes due to the complexity involved. Approaches offering the necessary understanding of the situation are required to make autonomous driving possible in urban traffic, for example, with all its road users, road signs, intersections and traffic lights. This understanding can only be provided by processes based on artificial intelligence.

Does this mean that artificial intelligence will advance to become a key competence for HELLA Aglaia?

Yes, it most definitely does. In the medium term, this may result in a radical change in the programmers' professional profile and, hence, also in the way we work. If self-teaching processes gain in importance, developers will no longer be asking "How do I solve a problem?" but, "how do I offer the software the best input





About Kay Talmi:

After studying computer science at the Technical University of Berlin, Kay Talmi initially worked freelance on several software projects before he set up his company Vision Pearls in 1998.

Talmi joined Aglaia in 2004, where he soon assumed overall responsibility for development. He has been Managing Director of HELLA Aglaia since 2009.

so that it can solve the problem itself?”. Against this backdrop, we at HELLA Aglaia want to strengthen our role as software specialists within the HELLA Group. To give one example, we are currently in the process of transferring the skills that we have amassed in artificial intelligence to other parts of the HELLA Group, such as production.

Looking forward over the next few years, what agenda do you have?

Over the next few years, we will primarily be facing challenges and system requirements arising from autonomous driving and working on developing our “software-as-a-product” business model. For this reason, we have our own self-driving vehicle here in Berlin. We are controlling it via software so that we can already explore the content and functions that will be relevant in five to ten years’ time and determine the software components that will be required.

What advantages do you have from being based in Berlin?

Berlin is an ideal place for HELLA to attract and retain talents from all around the world. It is an attractive city offering a high quality of life. What is more, we have here an ecosystem of digital startups meeting international standards as well as excellent universities that are producing highly qualified programmers and developers. This provides us with an ideal basis for remaining at the vanguard in our efforts to actively and creatively shape tomorrow’s mobility. ○

A question of training

Digitalisation is encompassing almost all steps along the automotive value chain. In a pilot project, HELLA is premiering methods of artificial intelligence in the form of “deep learning” for the production of electronic components to additionally improve quality and efficiency. A visit to the pilot plant in Hamm, Germany.

H

Her eyes light up even today when she talks about the potential offered by this new technology. Progress, efficiency and precision - these were the first thoughts that entered her head when she heard about it. Stefanie Trottenberg is head of production of internal Factory 5 at HELLA's electronics plant in Hamm. “This is exactly what I found so fascinating about this project from the outset,” she says smiling.

The plant in Hamm is rich in tradition but simultaneously also the most modern electronics facility in the global HELLA network. Opened in 1961, it is the global electronics lead plant. Production processes are designed and global quality standards for HELLA are defined at this site with a total floor area of 22,000 square metres. It is also where numerous innovative electronics solutions are produced: various control units, radio transmitter keys as well as systems and components for driver assistance and efficient energy management.

In her position as internal factory manager, Trottenberg is responsible for the control units for electric power steering, the steering control module, SCM for short. HELLA is one of the global market leaders in this area, up to five million electronic control units a year can be produced at the plant. >

A team from HELLA Aglaia did not programme the system. Rather, they trained it with countless sample thermal images. Coaching continued until the system had developed an algorithm allowing it to now tell whether a weld had been performed correctly or not.





360°

“DEEP LEARNING” IN PRODUCTION

Laser-welding is a particularly demanding task in the production process. Checking almost 8,000 welds in eight-second intervals in the course of a shift is a challenge for the human eye. This makes the quality check error-prone. HELLA uses a thermal imaging camera and artificial intelligence to optimise this step.



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Progress, efficiency and precision – this trio is what “deep learning” in the production phase is all about.

*Stefanie Trottenberg,
Head of Production at Internal Factory 5 of the HELLA
electronics plant in Hamm*

They reduce fuel consumption and CO₂ emissions compared with hydraulic power steering.

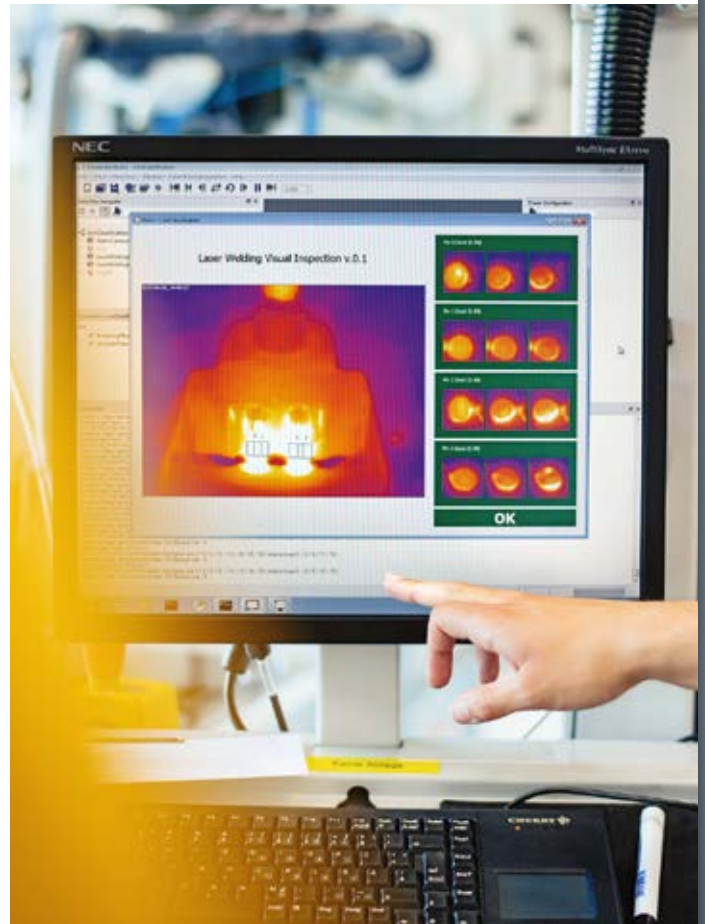
The production of SCM units is particularly complex and demanding. There is a large number of parts and most of the production steps are fully automated. The components comprise sensitive high-performance technology. Delivering the highest possible safety and quality standards to the customer is both a commitment and a challenge. Some of the assemblies are produced in clean rooms. Those entering the production workshops have to be grounded using ESD strips on their shoes in order to avoid possible electrostatic discharge on components or assemblies.



The production of control units for electric power steering is particularly complex and demanding. Most of the production steps are fully automated. Stefanie Trottenberg and Dr. Jens Gedicke formed a work group tasked with considering ways of bridging the automation gap.

Production is always particularly challenging when pre-assembled module parts are “married” to each other on various lines, as engineers refer to the process. One particularly complex assembly step takes place when the two final main parts are welded by a laser and must then be checked. “Quality checks are usually performed by means of fully automatic checking systems at most places along the line,” explains Stefanie Trottenberg. However, she adds that this is not possible here as simple camera systems are not able to reliably determine whether a weld exhibits any errors or not. “That’s why we had to implement a human sight check at this place and disrupt the automation line,” she says. “This is a tedious and difficult process that adversely affects the efficiency of our production. After all, products may occasionally still be defective even if the sight control does not show any errors.”

Trottenberg, who holds a degree in mechanical engineering, was not prepared to accept this compromise. “Nothing’s impossible” - this engineering philosophy has been a source of motivation for her throughout her entire career. Problems are there to be solved. This prompted the forming of a work group within the plant tasked with considering ways of bridging the automation gap. “As the quality of a weld can be readily detected during the cooling process, we quickly decided to use a thermal imaging camera,” says Dr. Jens Gedicke, technology expert for laser welding at HELLA and head of the work group. In addition, as was to become clear later, the pictures taken



In real time images of the weld taken by a thermal imaging camera are displayed on the monitor. The pictures show the heat at the four welding points. Some welds are in order. Others are not. And the system is able to tell the difference.

by the thermal imaging camera could be combined with a deep learning approach. In this way a sub-form of artificial intelligence entered the production chain.

And, indeed, the second step did not take long to eventuate. No sooner had they come up with the idea of using a thermal imaging camera than Gedicke and Trottenberg received unexpected support from Berlin: HELLA Aglaia had developed a self-learning software system. “We were pretty sure that this was a suitable solution for our problem,” remember Trottenberg and Gedicke. “A system that only has to be trained with a sufficient number of thermal images to independently learn whether a weld is OK.”

HELLA Aglaia has been developing camera software since the end of the 1990s. ➤



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The preliminary results are so promising that we are already looking into the possibility of transferring the application to other production lines.

*Dr. Jens Gedicke,
Technology Expert in Laser Welding*

The software systems on which HELLA Aglaia is currently working help driverless cars to detect their surroundings. Visual sensors identify pedestrians and cyclists, traffic signs, vehicles ahead and approaching, transferring the data they collect to the control system. In most cases, this involves a “deep learning” application, i.e. an artificial neural network. The systems are trained manually by entering sample images until a suitable algorithm is generated as a basis for making future decisions.

But back to Hamm. A tour of the factory reveals, in particular, just how automated it is. Dozens of robot arms grab components, insert printed circuit boards and other components. Finally, a continuous furnace heats the assembly in order to harden the adhesive. As soon as this has been done, the assembly is transferred to the final production stage, welding. The “marriage” takes place inside a unit illuminated red in the interior. The thermal imaging camera, the digital system’s eye, is inconspicuous.



The Hamm facility is the electronics lead plant in the global HELLA network. Production processes are designed and global quality standards for HELLA are defined here. Hamm is also where various control units, radio transmitter keys as well as systems and components for driver assistance and efficient energy management are produced.

There is a computer beneath the unit above which a screen can be seen. Every eight seconds a new assembly, a new welding process. The laser does its work, it welds in four places, the laser beam shines brightly behind the plexiglass screen for only a fraction of a second. A dozen thermal images are displayed on the monitor in real time, all taken within a few milliseconds of each other. The images show against a purple background the heat chart of the welding process. Some welding points are "in order", others are not. This can be seen by the distribution of heat.

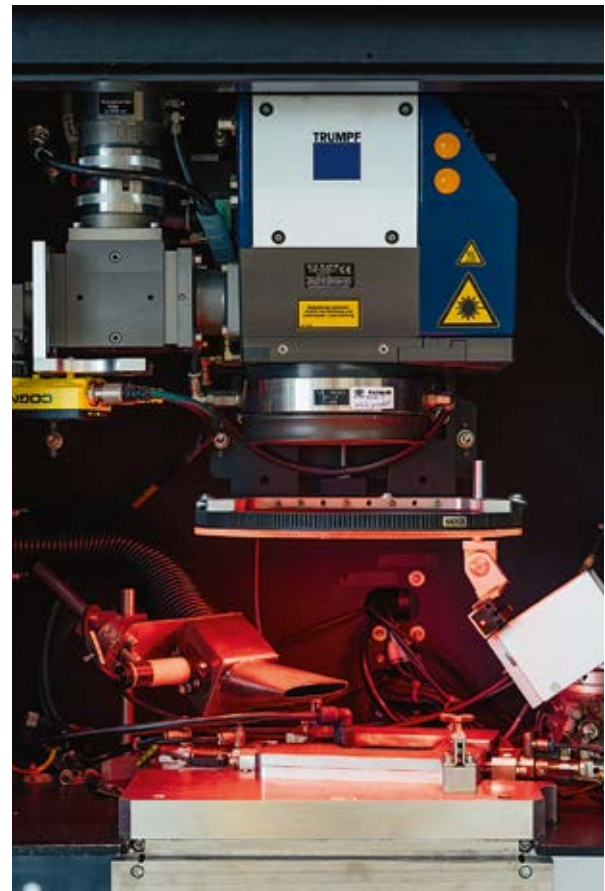
And this is where "deep learning" steps in. A team from HELLA Aglaia did not programme the system. Rather, they trained it with countless sample images of these temperature charts. Coaching continued until the system had developed an algorithm allowing it to distinguish between "OK" and "not OK". This software system has now been in use at the electronics plant in Hamm for a good six months, initially in a pilot project. "However, the preliminary results are so promising that we are already in the process of looking into the possibility of transferring the application to other production lines," says Geddicke.

Around 5,000 items of information are collected and stored during the production of an SCM unit, providing enormous potential for "deep learning". "Things really take off when we implement such systems at various points along the production line and network them with each other," says Geddicke. "This allows correlations

to be detected that are otherwise hidden from human view as they are concealed beneath too many layers of data." This makes it possible, for example, to detect conditions which in isolation are not problematic but cause errors as soon as they coincide. "As a result, we are able to identify faulty parts a good deal earlier and thus lower our quality costs even further," he adds. "Although we still have a long road ahead of us until it is fully realised, but it is definitely what production will look like in the future." ○



HELLA is one of the world's leading suppliers of control units for electric power steering. They reduce fuel consumption and CO₂ emissions compared with hydraulic power steering.



Change the rules of the industry

Digitalisation is rewriting the rulebook for markets and business models. It is breaking open established market structures and is changing entire industries. This also applies to the automotive business. If you want to be successful in this environment, you have to be prepared to break new ground. This is what HELLA is doing, as the examples from Lippstadt, Berlin and Silicon Valley show.

LIPPSTADT **HELLA Globe:** i-Circle

A Monday evening in HELLA Globe. The company's own hotel and conference centre is not far from its head office in Lippstadt. This is where around 30 HELLA executives and experts from different areas meet once a month for an innovation circle, i-circle for short. John Bessant, Professor of Innovation and Entrepreneurship at Exeter University, guides the attendees through the programme. He sees himself as more of an impulse generator. The forum aims to realise a cross-functional exchange on innovation issues, experience and ideas without any fixed expectations regarding the result.

Today's topic: the future of the market for passenger car spare parts. Dominik Hess, Managing Director of HELLA subsidiary UCANDO, has travelled to Lippstadt just for this event. The subsidiary has been based in Berlin since 2014 and specialises in online trading in automotive spare parts for end customers. Its focus is primarily on the Polish market. At the same time, UCANDO is pushing ahead with the overarching development of digital solutions in wholesale.

"With the technological options available to us today, we have to look at and map the entire value chain on the aftermarket in a completely new way," says Hess. One everyday example: the brake pads are worn and have to be replaced. The car owner notices the defect, makes an appointment with the work-

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With the technological options available to us today, we are able to look at the entire value chain on the aftermarket in a completely new way.**

*Dominik Hess,
Managing Director UCANDO*



360°

BRILLIANT IDEAS

With digitalisation the opportunities just grow. All the more important, then, to identify attractive innovations at an early stage and implement them systematically. Networking can help here. This is because brilliant ideas usually spring up when different kinds of people come together. For HELLA this is a key approach to the solution in order to take advantage of the opportunities provided by the future.

shop. It orders the spare parts, they are delivered and fitted. A long chain of individual steps, some of which are already digitalised, but as a whole they take time and effort. What if the entire process, even starting before the moment the problem emerges until the delivery of the repaired vehicle to the customer, could be transformed into a process that has been efficiently digitalised from start to finish?

Working together with his team, Dominik Hess is occupied with these very questions. The aim is to develop the range of UCANDO's business activities. In addition to the classic e-commerce business, a suitable service offering including a cost estimate can be drawn up in a nearby workshop and proposed to the customer upon request. The next milestone is an overarching digital service platform which pools HELLA's aftermarket activities in a single digitalised process. This can lead to vehicles being booked in for repairs even before the damage becomes evident. Which might constitute a substantial added value for operators of large car fleets, rental car firms or haulage companies.

Dominik Hess is looking even further into the future: "Another possibility is data glasses for workshop employees, which use image recognition and self-learning systems to stipulate exactly what needs to be done and which automatically order the spare part in the process." Is this a vision of the future? Yes, but at HELLA the i-circle is already discussing this issue in depth. ○



BERLIN

HELLA Ventures: “Incubator” and co-working space

A lower ground floor office in a former substation in Berlin's Prenzlauer Berg district, a listed building that is an example of German industrial architecture. Around fifteen employees work at tables and whiteboards in different teams. The atmosphere is a bit like that found in a small start-up company. This unconventional HELLA Ventures site, which was founded in September 2015, is called the “Incubator”. At a place such as this the automotive supplier occupies itself with disruptive innovations. That is, technologies, products or services that have the potential

to completely change the rules of the game on the market or in terms of user behaviour.

“In the traditional automotive supply business, the ability to plan, efficiency and the weighing of opportunities against risks are the very essence of our corporate and development strategy,” says Timon Rupp, who heads the Berlin Incubator. “To successfully identify disruptive innovations in the market, you have to allow for a substantially greater amount of entrepreneurial risk combined with experimentation at the highest possible technical level. That is what we

do here. This is the only way for us to remain dynamic and agile and to keep up with the increasing pace of innovation, which is being pushed ahead mainly through digitalisation.”

The Incubator acts as a kind of nurturing ground for new start-up companies to be developed from any size and type of idea. This results in innovative software platforms and digital service models, just like new forms of value creation and work organisations. By participating directly in the spin-off of dynamic start-ups, HELLA gains access at an early stage to future automotive high-technology that involves reduced risk exposure for core business fields. On the other hand, if a development result is a better direct fit for the HELLA portfolio, it is transferred internally.

“We benefit from the fact that entrepreneurship is one of HELLA's key corporate values,” says Rupp. “It makes things a lot easier. We cannot master the challenges we face in this dynamic environment unless we have efficient cooperation with other HELLA experts and one that is defined by entrepreneurial spirit.”

One of the main questions is therefore this: What are potential disruptive innovations which might give HELLA a sustained competitive edge in the future? In addition to the necessary flexibility the Incubator needs for its work, Rupp attaches considerable importance to close collaboration with HELLA experts, other start-up companies as well as selected partner universities. Concepts are introduced, discussed and some are discarded in so-called pitching events. However, the most promising ideas are followed up, frequently on a collaborative basis in the co-working space of HELLA Ventures Berlin. ○



**To identify
disruptive
innovations you
have to allow
for a substantially
greater
amount of
risk and ex-
perimentation.
That is what
we do here.**

*Timon Rupp,
Head of the HELLA Ventures
“Incubator” in Berlin*

SILICON VALLEY HELLA Ventures: Venture Capital arm

Sunnyvale, a town with a population of 140,000 in California, right in the heart of Silicon Valley, the epicentre of the current digital industry disruption. This is where HELLA Ventures has been based since October 2015. Here, too, the main concern is the automobile future, new ideas, new business models to be one step ahead of the market.

Jason Waterman is Managing Director of HELLA Ventures. Together with a team of five he is on the lookout for strategic investments. "We are not so much a creative lab which develops and works out new ideas," says Waterman. "Rather, our job is to identify suitable start-up companies which may be of interest to HELLA and to the mobility of tomorrow. Then we make targeted investments." Its focus is on start-ups offering innovative solutions for key market trends in the automotive sector, such as autonomous driving, electrification or cloud services.

There are plenty of opportunities to do so. Especially in Silicon Valley. Pitches, where start-ups present their ideas and plans to a group of potential investors, are almost an everyday occurrence. "The standards of the pitches are at an extremely high level, the presentations and business models are usually very well-founded," says Waterman. The biggest challenge for HELLA Ventures is to filter out attractive investment opportunities early on, before others do.

Networking and speed thus become essential success factors. But the luminous power of the HELLA brand also has a positive impact in the pulsating microcosm that is Silicon Valley. Thus many doors open auto-

**“
Our job is
to identify
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HELLA and
to the mobility
of tomorrow.**

*Jason Waterman,
Managing Director of HELLA
Ventures in Silicon Valley*

matically for HELLA, particularly on account of its high level of technological expertise. This is because technological know-how is a sought-after commodity in Silicon Valley. "Some start-ups come to us specifically because we stand out from pure capital backers thanks to our position as an established technological leader in the areas of lighting and electronics," says Waterman.

Waterman and his team are always looking to join forces with the relevant technology experts from the global HELLA organisation. As soon as a preliminary selection of potential investments has been made on site in Sunnyvale, a systematic

decision-making process kicks in involving representatives from different specialist areas and the HELLA Management Board. "Ultimately, of course, for us quality always comes before speed," comments Waterman. "But we have streamlined the entire process in such a way that we as HELLA are able to invest successfully in young, forward-looking companies even in the fast-moving digital age." One of many paths the company has chosen in order to be one step ahead in the automobile future. ○



Group management report and consolidated annual financial statements of HELLA KGaA Hueck & Co.

Fiscal year 2016/2017

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General information on the HELLA Group

Business model

HELLA KGaA Hueck & Co. is one of the top 40 international automotive suppliers and among the 100 largest German industrial companies. The HELLA Group's business activities are divided into three segments: Automotive, Aftermarket and Special Applications.

The Automotive segment combines the HELLA business activities in original equipment and the corresponding original replacement part business. The Automotive segment is subdivided into two business divisions, Lighting and Electronics, where HELLA develops, produces and sells vehicle-specific solutions for automobile manufacturers and other automotive suppliers throughout the world. The product portfolio of the Business Division Lighting includes business with headlamps, rear combination lamps, signal lights, interior lights, and lighting electronics. The business division Electronics focuses on the product divisions of body electronics, energy management, as well as driver assistance systems and components.

In the Aftermarket segment, HELLA pools trading vehicle parts and accessories and workshop equipment in the independent replacement parts market. Additionally, HELLA acts as a service partner for wholesalers and garages, and operates as a wholesaler itself in Northern and Eastern Europe. These activities are complemented by the range of high-grade garage equipment, such as vehicle data equipment as well as professional diagnostic tools and garage devices, which enable specialist vehicle repair and maintenance at the garage.

In the Special Applications segment, HELLA develops, manufactures and markets lighting technology and electronic products for specialist vehicles such as construction and agricultural machinery, buses, motor homes or the marine sector. In May of the fiscal year 2015/2016, the previous business activities industries and Airport Lighting were disposed

of in the course of optimising the portfolio and transferred in the first quarter of the past fiscal year 2016/2017.

Further information on the business structure of the HELLA Group is available in the company profile starting on PAGE 10.

Goals and strategies

The HELLA Group pursues a strategy across the entire Group that is based on three strategic pillars: the continuous expansion of technological leadership and of the Company's innovative strength, further strengthening of its leading market position on attractive markets throughout the world and ensuring a stable, risk-diversified business and customer portfolio. Its strategic objective is to remain on its profitable growth path. Further success factors enabling HELLA to achieve its overarching objectives are the ongoing strengthening of operational excellence and the Company's network strategy.

In order to secure and further expand its technological and innovation leadership, HELLA has positioned itself strategically along central market trends in the automotive industry: autonomous driving, energy efficiency and electrification, digitalisation and individualisation are particularly significant for HELLA. The huge transition from conventional lighting concepts to high-resolution headlamp systems in lighting technology, which will be software-controlled to a notably greater extent in future, and high demand for driver assistance systems and solutions for automated driving functions as well as energy-efficient technologies or technologies directed at e-mobility open up strategic growth potential for HELLA.

Within this strategic focus, differentiated strategic approaches are pursued in the individual segments for the respective

business activities. In the business division Lighting, HELLA offers all relevant lighting technology products for a vehicle and has steadily expanded its position as one of the technological leaders with numerous innovations for state-of-the-art lighting systems. The business division Electronics operates a focused segment/product line approach along the HELLA core competencies together with regional and global focus areas. In the Aftermarket segment, HELLA is active at all relevant steps along the value chain in replacement part distribution, wholesale, garage equipment and, particularly, diagnostics, offering solutions that specifically address the target group in question. The Special Applications segment takes on the technological concepts, innovations and competencies used in the Automotive segment and transfers and applies them to meet the needs of the respective target group markets in a customer-tailored manner. This relates to both the further rollout of LED lighting systems as well as to the transfer of the electronics competency to the Special Applications segment.

For the Group and the segments, HELLA focuses its strategic objective on market leadership, which, depending on the segment, product line or region, can be achieved in the short, medium or long term. Thus, in the Automotive segment, HELLA pursues the goal of taking market leading positions (top 1 to 3), globally or in specific regions, in the respective market segments relevant for the Company's competitiveness. The most important markets of the segment are Europe, China and the NAFTA area. Furthermore, HELLA also strives to attain a market-leading role in the Aftermarket and Special Applications segments in each of the relevant target group markets and sales regions. The business activities in the Aftermarket focus on the strategically important core market in Europe. International business in Asia/Pacific/Rest of World (Row) and in North, Central and South America supplements this approach. Europe is the core market of the Special Applications business segment.

HELLA pursues the goal of a resilient and risk-diversified business model. This pillar of the corporate strategy consists of several elements: first, the two segments Aftermarket and Special Applications contribute to stable business development, since they provide a counterweight to the volatile automotive business. Compared to the Automotive business, the Aftermarket segment is anti-cyclical. This means that when demand for new vehicles is lower, the need for repairs and replacement parts tends to increase. The product groups in the Special Applications segment are partly subject to different demand cycles. In this way the HELLA Group tries to maintain a balanced and stable business development, which is as independent as possible of

economic fluctuations and market cycles. The validity of this business strategy proved its worth for HELLA at the peak of the global economic crisis during the fiscal year 2008/2009. Secondly, the international footprint of the Company and the associated diversification of its customer portfolio enable it to participate in growth opportunities, for example on the Chinese and North American markets, while at the same time reducing its economic dependency on individual customers and markets. Against this backdrop, the HELLA Group's strategic goal is to continue investing in growth opportunities and in its global presence, particularly in the Automotive segment.

The fundamental strategic focus of the HELLA Group is supported by further success factors. First of all, HELLA is steadily improving its operational excellence in order to safeguard its profitable growth. It achieves this, for example, by optimisation of global production and development capacities and by systematic promotion and further education of its staff. Moreover, HELLA maintains systematic quality management in order to continue reducing the number of customer line returns and non-quality costs further. Secondly, in addition to the HELLA core business, the network strategy is used to take a cooperation approach in which partnerships are forged with other companies, for example, as part of joint ventures. In particular, this is done to gain access to complementary technologies, develop new markets or customer groups and benefit from economies of scale. In this way, the many different joint ventures and company units accounted for using the equity method form part of the HELLA Group's strategic growth trajectory.

Control Systems

MANAGEMENT OF THE HELLA GROUP

The HELLA Group's organisation is managed via a multidimensional matrix. It includes the three segments Automotive, Aftermarket and Special Applications with the business divisions and strategic business segments, the regions North, Central and South America, Asia/Pacific/RoW and Europe as well as the central functions. While the segments and regions are organised as profit centres, the central functions are managed as cost centres, in shared service centres (HELLA Corporate Center) among other things. The segments have chief responsibility for strategic and operational business development. The central functions fulfil a governance and control function for the Group and the segments. In the global network, the German locations in particular assume a leadership role in terms of technological development and the industrialisation of the international locations.

HELLA KGaA Hueck & Co.

HELLA corporate structure	Dr. Jürgen Behrend Managing General Partner		Dr. Rolf Breidenbach President and CEO	
	Business Segment Automotive		Business Segment Aftermarket	Business Segment Special Applications
Sales Automotive Dr. Matthias Schöllmann	Business Division Lighting Markus Bannert	Business Division Electronics Dr. Rolf Breidenbach	Business Division Aftermarket and Special Applications Dr. Werner Benade	
Finance and Controlling Bernard Schäferbarthold	Executive Board: Dr. Michael Babo, Dr. Andreas Brinkhoff, Michael Colberg, Kamilslav Fadel, Dr. Christof Hartmann, Sandra Kießler, John Kuipers, Dr. Ulf Merschmann, Ignacio Moreno Betanzo, Michael Sohn, Matthias Thiemann	Executive Board: Dr. Christian Amsel, Heiko Berk, Dr. Naveen Gautam, Jens Grösch, Michael Jaeger, Ralf Kuhl, Gerold Lucas, Bernd Münsterweg, Frank Petznick, Jörg Weisgerber, Joachim Ziethen	Executive Board: Stefan van Dalen, Dominik Görts, Dr. Andreas Habeck, Violetta Sosna, Dr. Nicolas Wiedmann	
Human Resources, Information Technology and Logistics Stefan Osterhage				
Purchasing, Quality, Legal and Compliance Dr. Rolf Breidenbach				



International HELLA companies

General Partners:

Dr. Jürgen Behrend, HELLA Geschäftsführungsgesellschaft mbH

President and CEO of HELLA Geschäftsführungsgesellschaft mbH

Dr. Rolf Breidenbach (Chair), Markus Bannert, Dr. Werner Benade, Stefan Osterhage, Bernard Schäferbarthold, Dr. Matthias Schöllmann

Chairman of the Supervisory Board

Prof. Dr. Michael Hoffmann-Becking

Shareholder Committee

Manfred Wennemer (Chair), Roland Hammerstein, Dr. Gerd Kleinert, Klaus Kühn, Dr. Matthias Röpke, Konstantin Thomas

As at 24 July 2017

Group management at present consists of Dr. Jürgen Behrend as Managing General Partner and the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH with its President and CEO, Dr. Rolf Breidenbach. Following the resignation of Dr. Behrend at the end of September 2017, responsibility for group management will be assigned solely to the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH, chaired by Dr. Rolf Breidenbach.

Furthermore, Bernard Schäferbarthold took up the post as

Managing Director for Finance and Controlling in the fiscal year 2016/2017 and Dr. Werner Benade was appointed Managing Director of Aftermarket and Special Applications. Bernard Schäferbarthold takes over from Dr. Wolfgang Ollig, who left the company at his own request. Dr. Werner Benade took over the responsibility for the Aftermarket and Special Applications business division from Dr. Rolf Breidenbach, President and CEO of HELLA Geschäftsführungsgesellschaft mbH, who had fulfilled the role temporarily until Dr. Benade took office.

In the segments and business divisions, the respective Executive Boards support the responsible Management Board in operational and strategic management. Entrepreneurial self-responsibility is the basic principle for managing the business at all levels. For important business transactions, the Group Management Board requires the approval of the HELLA KGaA Hueck & Co. Shareholder Committee, which, through this process, co-determines the significant guidelines for business. As the central representative body of the shareholders, the Shareholder Committee is involved on an ongoing basis in monitoring and providing advice to the Group Management Board. Besides this, the Shareholder Committee has responsibility for personnel matters involving the managing directors of HELLA Geschäftsführungsgesellschaft mbH. Along with the Shareholder Committee, monitoring tasks are also performed by the Supervisory Board, which primarily deals with auditing and approving the annual and consolidated financial statements, as well as the interim financial statements. Certain tasks in this context are delegated to the Audit Committee nominated by the Supervisory Board. The Audit Committee primarily audits the financial reports and functional capability of the internal control system and the risk and compliance management system.

Strategic planning and operational budget planning are significant internal control instruments for the Company. Each month, a detailed meeting takes place at the meeting of the Management Board of the HELLA Group and the Executive Boards to discuss the budget and development compared with the previous year; the Shareholder Committee is informed about this. Quarterly and half-year reports are also prepared.

PERFORMANCE INDICATORS

The HELLA Group is managed by the Management Board through key financial and non-financial performance indicators. The four main key financial performance indicators are sales growth, the EBIT margin, return on invested capital (RoIC) and free cash flow (FCF). They were set by the Shareholder Committee for the Group's further operational and strategic development in the fiscal year 2014/2015 and the target values are based on multiple comparative indicators, for example, market conditions and competition, internal performance standards and allocation of resources. Based on the resolution of the Shareholder Committee, the key performance indicators of sales growth and EBIT margin take on great importance compared to the other key financial indicators in the management of the Company. Accordingly, they are the HELLA Group's most important key performance indicators.

In the fiscal year 2015/2016 the Management Board in consultation with the Shareholder Committee developed the control model further. As a major guideline for this, the management indicators have to provide a transparent picture of operational performance. For this reason, in the fiscal year 2015/2016 the EBIT margin was replaced with the adjusted EBIT margin – adjusted for special effects – as one of the key performance indicators. Although this key performance indicator is not defined in the International Financial Reporting Standards, it is reported as additional information by HELLA because it presents the results of operations – independently of exceptional effects which can have an adverse impact on an assessment of the Company's performance – in a more transparent form and facilitates a comparison over time.

In addition, HELLA replaced the sales growth reported in the fiscal year 2016/2017 with the adjusted sales growth as one of the most significant key performance indicators. This was in order to present the consolidated sales development independent of exchange rate fluctuations and other special items. For example, in the fiscal year 2016/2017 the Company booked special items due to the divestment of the Industries and Airport Lighting business activities, which reduced consolidated sales.

In addition to key financial performance indicators, the HELLA Group utilises non-financial performance indicators, primarily in the area of quality. One quality measurement indicator and thus an indicator of customer satisfaction is rate of customer line returns, which is measured as the number of defects identified after delivery per one million parts ("parts per million" - ppm). Key characteristics of the HELLA quality management are ensuring compliance with market-driven standards, durability and reliability with a high degree of user comfort.

Research and Development

Along with operational performance, the exceptional research and development culture at the Company forms the foundation of the ability to compete and the leading market position in many product divisions. More than 90% of our research and development expenses are accounted for by the Automotive business segment. HELLA uses cutting-edge technology to serve central market trends of the automotive industry: autonomous driving, energy efficiency and electrification, digitalisation, and individualisation.

At € 636 million, research and development expenses in the fiscal year 2016/2017 accounted for 9.7% of consolidated sales and were thus 0.1 percentage points below the prior year's level. The ratio of capitalised development costs to

development expenses in accordance with the consolidated income statement came to 8.9 %, after 8.8 % in the fiscal year 2015/2016. Research and development expenses reflect the business strategy oriented towards technological leadership and innovation and the structural expenses incurred as part of the globalisation initiative to strengthen the global HELLA development network. Furthermore, the research and development expenses result from the preparation and implementation of several complex production ramp-ups in the Automotive segment during the past fiscal year.

The number of employees in research and development grew by 6.3% to 6,764 worldwide in the fiscal year 2016/2017. This means that around 18 % of HELLA employees work in research and development. In addition, as part of its research and development activities HELLA also works closely together with external service providers, academic institutes and research facilities.

BUSINESS SEGMENT AUTOMOTIVE

In the Automotive business segment HELLA sustains its innovative strength via high-performance pre-development. As a result of the market trend of digitalisation, for example in the area of innovative lighting technologies, the pooling of lighting and electronics competence is of major importance in the Automotive segment, in particular, as in future, high-resolution lighting systems will be software-based to a notably greater extent and will be controlled without the help of mechanical actuators. Furthermore, in its research and development activities HELLA is working intensively on new production technologies to improve its operational excellence further.

Following the HELLA central strategy, worldwide development is co-ordinated principally from Germany. In contrast, there are local development centres in the large growth regions, which

support regionally specific adaptation on the one hand and also advance independent developments for the relevant markets on the other. In this way, HELLA achieves market-driven customisation of technologies and product designs to meet customer needs.

BUSINESS DIVISION LIGHTING

In the business division Lighting the development of high-resolution lighting systems and the digitalisation of automotive lighting technology remain an overarching trend topic and are steadily gaining in importance. In this connection HELLA pursues a multi-pillar strategy: first, innovative lighting technologies continue to be rolled out in higher-volume vehicle segments by means of modularisation concepts. Secondly, HELLA continues to develop digital lighting systems with so-called high-definition headlamps for the premium segment; these achieve a considerably higher resolution and more exact control of light distribution than before with the help of more than one hundred thousand individually controllable points of light (pixel). Vehicles' external lighting will be controlled by software to a much greater extent in the future so that light distribution can be digitally modulated with individually controllable lighting elements, according to the course of the road, weather and traffic conditions, thus helping to realise new safety-relevant and comfort functions. HELLA will continue its in-depth research and development in this area.

The digitalisation of light also means that the lighting function is decoupled from the headlamp's hardware. The opportunity to make further individualised safety and comfort functions available to customers and final consumers through software updates and upgrades, for example the projection of protection zones around cyclists, results in new development opportunities for lighting functions and further added value potential through new business models.

Research and Development

	2016/2017	2015/2016	+/-
R&D employees	6,764	6,361	6.3%
Expenses in € million			
Automotive	605	592	2.2%
Aftermarket and Special Applications	32	32	- 0.7%
Total	636	623	2.1%
in % of sales	9.7	9.8	

Where sums and percentages in the report have been rounded, differences may arise as a result of commercial rounding.

Alongside the use of LED technology, the research and development activities of HELLA focus on LCD lighting systems, among other things. The prioritisation of LCD technology is the result of a requirements analysis for the optimum presentation of new functions and their effective range in the traffic area. For example, a resolution of more than 50,000 points of light for each headlamp with the simultaneous projection in the full road space and high illuminance allow all security and comfort functions currently identified as relevant to be presented.

In this connection, the fiscal year 2016/2017 saw the successful completion of the "VoLiFa 2020" research project to develop a fully adaptive LCD-based lighting system, which HELLA realised as overall project manager together with its partners Porsche, Merck, Elmos, Schweizer Elektronik AG and the universities of Paderborn and Stuttgart. The research collaboration has also been sponsored by the German Ministry of Education and Research. In addition to LCD systems, HELLA has continued the development work on high-resolution LED light sources, DMD (digital mirror devices) technology and the use of laser light sources.

HELLA is also preparing OLED technologies for series production and is researching holography lighting technology to be used, for example, in signal lighting.

With the opening of a development centre for automotive lighting technology in Sindelfingen, Germany, HELLA further expanded its development capacity in the fiscal year 2016/2017, in line with its network strategy. Moreover, along with its own strong pre-development, HELLA maintains a range of research co-operations. For example, in the fiscal year 2016/2017 a research project on high-resolution LED systems was completed. The project was realised in collaboration with the overall project manager Osram, Daimler AG, Infineon and two Fraunhofer institutes and was sponsored by the German Ministry of Education and Research. Together with the Fraunhofer Application Center for Inorganic Phosphors in Soest, HELLA is continuing the development of a prototype of a high-resolution headlamp with a laser light source as part of the "HipE" project. Moreover, two new collaborations started in fiscal year 2016/2017. The "Smart Headlamp Technology" research project is developing an intelligent headlamp using a hardware-in-the-loop approach, among other things. This allows the headlamp and vehicle environment to be depicted in real time with a suitable simulator. In addition to HELLA, participants in the collaboration include the Fraunhofer Institute for Mechatronic System Design IEM and the universities of Paderborn and Dortmund. The international research project "InterAct", sponsored by the EU, is developing a concept for autonomous vehicles to communicate with non-autonomous road users, i.e. pedestrians, cyclists and

other vehicle operators. In this context, light assumes prominent importance as a communications tool. In addition, HELLA has been jointly operating the L-LAB as a research institute for lighting technology and mechatronics together with the University of Paderborn since 2000. L-LAB was expanded in April 2015 with the addition of the Hamm-Lippstadt University of Applied Science and is exploring current issues relating to vehicle lighting and engaging in application-oriented basic research.

BUSINESS DIVISION ELECTRONICS

As part of the development activities in the business division Electronics, HELLA supports automobile manufacturers and suppliers in the development and implementation of forward-looking functions and technologies along the global market trends of autonomous driving, energy efficiency and electrification, digitalisation and individualisation. In this context, HELLA is pursuing the strategic goal of developing the system understanding further and of developing new components and systems and bringing them to market maturity in accordance with the relevant market trends.

With regard to the market trend of autonomous driving, HELLA further intensified the research and development activities in radar technology and front camera software during the past fiscal year. HELLA is a long-standing market leader in the area of 24 GHz radar narrowband technology, which is primarily used for the rear area of vehicles. In the fiscal year 2016/2017, HELLA prepared the market launch of the fourth generation radar sensors on a 24 GHz basis with an expanded performance of safety functions (e.g. exit wizard). Furthermore, HELLA is currently developing radar sensors on a 77 GHz basis which realise fundamental safety and assistance functions in the front-side area, such as expanded total angle recognition or the recognition of cross traffic in a forward direction. HELLA is also securing its leading market position in radar technology on a sustained basis through strategic collaborations with joint ventures and further partners.

Via its subsidiary HELLA Aglaia, HELLA is furthermore undertaking in-depth research and development work in camera-based driver assistance systems. The strategic focus is on the introduction of an open software system that supports several scalable hardware platforms and enables them to be expanded to include third-party software components and the retrofitting of further driving functions for highly automated driving by means of software updates. The development activities of HELLA Aglaia are also concerned with new technologies, e.g. artificial intelligence, required to realise autonomous driving functions.

Moreover, HELLA is researching and developing sensor solutions in the area of assisted driving, such as the SHAKE sensor

(short for structural health and knock emission), a structure-borne sound sensor for passenger vehicles, which uses piezoelectric sensors in order to, for example, detect even the tiniest damage to a vehicle and thus enables a body control unit to initiate customer-specific functions. This may take the shape of an automated stop function during assisted parking, as soon as the sensor identifies that contact has been made with an obstacle during the parking process. This area is not covered by previous perception of surroundings systems. The modularity of the sensor moreover opens up further areas of application in the immediate vehicle environment which can be realised individually depending on the original equipment manufacturer's requirements. At the end of the past calendar year HELLA embarked on the series development of the sensor for a premium original equipment manufacturer, the start of series production is scheduled for the second half of 2018.

With regard to the market trend of energy efficiency and electrification, HELLA's focus is, among other things, on the electronics of battery management systems for lithium-ion batteries developed specifically for full hybrids and electric vehicles and launched for the first time. Further series development activities by HELLA are geared to high-performance DC-DC voltage transformers that allow safe energy supply across different voltage supply systems. Moreover, among other things HELLA is developing technologies for more efficient thermo and fuel management. For example, in the fiscal year 2016/2017 HELLA completed the development of an electric cooling valve actuator which is used e.g. after an engine cold start in order to optimise the thermal budget and which went into series production in the first quarter of 2017. In addition, the research and development activities of HELLA also continue to provide intensive support to the optimisation of conventional internal combustion engines, for example in the area of vacuum pumps in order to take the strict environmental and climate protection requirements into account.

In the area of individualisation HELLA is amongst other things developing and producing new surface technologies for remote keys and ID transmitters. It is particularly thanks to their high worth, individually tailored to the vehicle interior, that these new surface technologies meet the rising demands of end-customers with regard to quality, unique position and safety.

Furthermore, in the area of air quality management HELLA continues to intensify its research on the development of sensors to measure air quality, particularly with regard to the measurements of the finest particles (PM2.5) in and around the vehicle.

In the business division Electronics HELLA has further expanded the capacity of the international research and development organisation by opening the E-LAB. The E-LAB was established at the end of 2016 and together with university institutes it is working on solutions to long-term trends in vehicle electronics. Moreover, HELLA maintains research co-operations in collaboration with various other partners. In the area of autonomous driving, the "AutoKonf" project carries out redundant monitoring of safety-relevant driving functions while the "KogniHome" project monitors the driver's health. Furthermore, the research alliance "Open Fusion Platform" that is sponsored by the German Ministry of Education and Research is working to create an open data merger platform which supports the inexpensive realisation of autonomous driving functions. The "Connected Driving" project researches fundamental options for communication between vehicles and their surroundings. In the area of energy management, high-voltage charging converters with high energy density are examined and developed further as part of the "HELENE" project.

BUSINESS SEGMENT AFTERMARKET

In the Aftermarket business segment the focus is on trading in spare parts, accessories and garage equipment. This means that less research and development expenses for segment-specific products are incurred when compared with the Automotive segment. In the area of independent replacement part distribution, one focus is on expanding the product portfolio and intensifying the knowledge transfer from business with original equipment manufacturers to independent replacement part distribution. In the business with garage equipment, HELLA covers the full innovation and production process; research and development activities continued to occupy themselves with high-performance diagnostic units; thus one main focus was on expanding the software competence in the business with diagnostics and garage equipment. In wholesale, the research and development activities focus on areas including expansion of the e-commerce operations, for example in connection with a service platform initially tailored for the Danish market, whose subsequent rollout is also planned for the Norwegian wholesale market.

BUSINESS SEGMENT SPECIAL APPLICATIONS

In the Special Applications business segment, HELLA primarily benefits from the transfer of knowledge from the Automotive segment in order to develop and apply new products for manufacturers of special vehicles by using existing basic technologies and product concepts in the lighting and electronics areas. One key theme of the research and development activities of the Special Applications segment is therefore the accelerated introduction of LED technology in the original equipment of specialist vehicles. HELLA is consistently implementing the

accompanying benefits, such as enhanced safety through improved visibility, greater robustness, increased efficiency and design freedom, in various vehicle types, such as tractors, trailers and motorhomes. Besides the continuous development and production of customer-specific front and rear LED lighting, in the fiscal year 2016/2017 HELLA presented the new modular Shapeline series for the first time. It allows the manufacturers of commercial vehicles to create an individual and consistent image. Beyond the Shapeline series, the Special Applications business segment is stepping up the development of modularisation concepts, for example in the area of LED-based work lights for agricultural vehicles, for example for tractors. Furthermore, the development activities of the segment are concerned with the further transfer of the electronics competence, for example in the areas of radar sensors and accelerator pedal sensors. The establishment of a pre-development organisation and further expansion of the development capacity in the Special Applications segment is also a response to the increasing complexity and degree of innovation of products. HELLA also cooperates with a network of other OEM suppliers in developing and equipping a future-oriented concept cabin for agricultural and construction vehicles.

Sustainability

HELLA has committed to responsible use of resources. For HELLA, environmental protection is more than complying with regulations. It is an integral part of the corporate culture in the spirit of sustainability. The HELLA Group therefore strives constantly to improve resource consumption and decrease CO₂ emissions at both the process and product levels. Moreover, sustainable and environmentally friendly management even in the supply chain forms an important part of the HELLA environmental strategy.

In the fiscal year 2016/2017, 90% of HELLA production sites had ISO 14001 environmental management certification. Starting in July 2017, the locations of the HELLA Group will be certified in accordance with the new ISO14001:2015 standard. To integrate further locations into the environmental network in the best possible way in the future, HELLA carries out regional workshops in the growth regions each year, with a particular focus on Mexico and China. In addition, cross-functional internal audits promote mutual networking of the locations and support "good practice transfer". Audits are carried out by specially qualified regional HELLA auditors, who receive theoretical and practical training based on a consistent standard.

Moreover, in the past fiscal year all production sites defined and implemented specific environmental objectives as part of

their environmental programme. In this way HELLA will improve materials and energy efficiency in its plants on a sustained basis and reduce energy consumption and the associated CO₂ emissions further. The HELLA location in Irapuato, Mexico, came second in the Energy Efficiency Awards of the federal state of Guanajuato in December 2016.

- The subsidiary HELLA Fahrzeugteile Austria has optimised its logistics processes. The switch to rail transport generated CO₂ savings of 62,820 kilograms and the target of reducing CO₂ emissions by 50,000 kilograms of CO₂ was overfulfilled.
- The subsidiary HELLA Slovakia Front Lighting s.r.o. has improved, in collaboration with a customer, the transport of goods and the packaging of empties between Slovakia and Germany. The use of a different type of truck and more efficient transport of the empties packaging has led to the number of journeys being halved and 255 tonnes per year in CO₂ savings.

HELLA Plant 2 in Lippstadt/Germany is the only HELLA location subject to EU-wide trading in greenhouse gas emission certificates ("CO₂ certificates"). For the third trading period (from 2013 to 2020), the combustion plant has received an allotment notice for a term of eight years and an allotment of 95,747 certificates at no charge.

In the calendar year 2016, 15,263 tonnes of CO₂ were emitted, the figure is substantially lower compared to previous years. This is due to the replacement of a turbine in May and June 2016 because fewer operating hours were achieved, and the shortfall in energy required had to be made up for with purchases from external energy suppliers. It was possible to settle part of the fee from the allocation of surplus certificates in the second trading period and the free allotment from the third period. The surplus certificates from the second trading period were used up in full with the current fee in April 2017. Due to the general reduction of the free allotment and other factors, these certificates will no longer suffice in the future. The purchase is to be realised in several steps during the corresponding fiscal years. In addition to the purchase of 5,000 certificates in May 2015 another 7,950 certificates were purchased in September 2016. Another purchase is due to take place in summer 2017, which will cover the shortfall of 10,000 certificates.

Moreover, with the continual optimisation of existing products and the development of new ones HELLA effectively contributes to a reduction in energy consumption and vehicle emissions. In this way HELLA supports automobile manufacturers in meeting the European Union's exhaust regulations.

At the moment, the gradual switch of conventional lighting products to LED lighting technology leads to substantial savings potential for passenger vehicles and commercial vehicles alike. They provide the same output while consuming less energy. In the Electronics area, HELLA is working intensively to create energy-efficient solutions, for example for battery management systems, control modules for fuel pumps and DC-DC converters. Furthermore, HELLA is the market leader in intelligent battery sensor technology.

The HELLA supplier code of conduct was sent out to suppliers of the HELLA Group, asking them to confirm in writing that the principles on issues of sustainability, working conditions, health and safety and business ethics it stipulates are complied with by the suppliers themselves and by sub-suppliers and service providers they may employ. Alternatively, these companies can follow their own code of conduct provided that its content is equivalent. In addition, HELLA has expanded its general terms and conditions to include a demand that the Group's suppliers comply with the supplier code of conduct. Compliance with the principles of the HELLA supplier code of conduct is checked during regular supplier audits.

The HELLA Group's reporting on the fiscal year 2017/2018 will comply with the Corporate Social Responsibility Directive Implementation Act which has been adopted by the German parliament.

Human Resources

HELLA employed 37,716 employees worldwide as at the balance sheet date of 31 May 2017. This equates to an increase of 12.0% compared to the prior year. The development is attributable, in particular, to numerous new product start-ups during the fiscal year 2016/2017 and to the transfer of employees from temporary employment agencies. The strongest growth was reported by the regions of Europe excluding Germany and North, Central and South America. The number

of employees in Europe excluding Germany rose by 2,179 (+16.3%) and in North, Central and South America by 1,337 employees (+28.5%). In the region Asia/Pacific/RoW HELLA recruited new personnel; here the number of employees rose by 509 (+8.6%). In Germany, personnel numbers remained stable at the prior year's level.

Permanent staff in the HELLA Group (at 31 May of each year)

2015	31,864 (3.8%)
2016	33,689 (5.7%)
2017	37,716 (12.0%)

HELLA employs temporary staff supplied by personnel services companies in addition to its own permanent workforce, as a result of fluctuating order volumes. To prevent HR management indicators from becoming distorted, staff indicators for the personnel services companies are not included in the management indicators of the Group.

To continue its growth as an innovative technology company HELLA has a permanent need for highly qualified and motivated staff. For this reason, in the past fiscal year HELLA successfully established the "Tell your friend" programme, which was first initiated in the fiscal year 2015/2016. This programme uses bonus systems to motivate existing HELLA employees to promote working for HELLA in their own personal network. Moreover, the launch of the "Kick-start programme" has created the opportunity to join the project management team directly, among other things. Furthermore, the "HELLA International Graduate Programme" for HELLA trainees has been given an international dimension, as a result of which the first three employees in China have begun their training using this global concept. In addition, HELLA grants masters scholarships to up-and-coming talent and focuses on a structured and interdisciplinary induction for new employees following their recruitment.

Permanent employees in the HELLA Group by region

	31 May 2017	+/-	Share
Germany	9,707	0%	25.7%
Rest of Europe	15,568	16.3%	41.3%
North, Central and South America	6,027	28.5%	16.0%
Asia/Pacific/RoW	6,414	8.6%	17.0%
Permanent staff worldwide	37,716	12.0%	100%

To safeguard its competitiveness and as an essential part of its company culture HELLA promotes the further development and qualification of its employees. In the fiscal year 2016/2017 the use of the IT-based personnel development platform "My Talent Compass" was expanded further. In this context Germany saw the rollout not only of performance assessment but also of the "learning management module", and the annual talent review was transferred to the new system. Moreover, the "Global Leadership Academy" concept has established a worldwide programme for the qualification of executives. As a first step, this option is aimed at young executives who are given training on aspects such as communication,

conflict management, team development and personnel management and on other specific issues. Another expansion level of the programme has experienced executives, executives in professional management positions and executives in production as its target group.

HELLA also promotes diversity within the company, both as part of its company culture and in order to further safeguard its market position. For example, a global mentoring initiative for talented women in executive positions was created under the guiding principle of diversity. In this context the first HELLA Women Summit was held in February 2017.

Economic report

General economic conditions

- **Global gross domestic product rises by 3.1% in the calendar year 2016;**
- **European and US economies grow by 1.7% and 1.6% respectively**

Global gross domestic product expanded moderately in the calendar year 2016 and grew by 3.1% compared with the prior year, according to International Monetary Fund (IMF) estimates. This growth was supported in particular by a positive trend in the emerging markets and developing countries, whose growth exceeded that of the industrialised countries by more than 2.0 percentage points. Their economic performance gained momentum especially in the second half of the calendar year 2016. In contrast, flat global trade, the low level of investment and productivity as well as economic and political uncertainties slowed the growth of the international economy.

The economy in the core markets that are relevant for HELLA performed well in the calendar year 2016. With growth of 6.7%, China continued to exceed the global average and remained within the target corridor specified by the Chinese government. At the same time, this is also China's lowest rate of economic growth since 1990. The growth rates in the third and fourth quarters of the calendar year were also at this level compared with the prior year's quarters. The Chinese economy climbed in the first quarter of the calendar year 2017 by 6.9% over the prior year. Private demand, government-backed infrastructure projects and fiscal measures were particularly positive.

European gross domestic product was stable in the calendar year 2016, with GDP growing by 1.7% during this period according to the IMF. With the exception of short-term volatility

on the financial markets, the UK referendum on exiting the European Union held at the end of June 2016 did not generate negative effects initially. According to the Statistical Office of the European Union (Eurostat), economic growth in the Eurozone in both the third and the fourth quarter of the calendar year rose by 1.8% over the prior year quarters and by as much as 1.9% in the first quarter of 2017. Domestic demand, fuelled by low inflation rates and low unemployment in part, as well as investing activities supported by the European Central Bank's expansionary monetary policy, impacted on the economy. The regional structural weaknesses of the labour market and the associated high unemployment in some European countries, together with the high public as well as the private debt burden, reduced economic strength in Europe. The selective economic area of Germany, which increased by 1.8%, largely matched the European level for the year 2016 as a whole. Eurostat stated that the growth rates in the second half of the calendar year 2016 and in the first quarter of 2017 ranged between 1.7% and 1.8%.

According to the IMF, the United States posted an increase of 1.6% in calendar year 2016, with the second half of 2016 performing better than the first. In the US, consumer spending was a supporting factor for the otherwise muted economic situation. This was also helped by the increase in the growing assets of private households and the high level of employment. According to Eurostat, the US economy grew by 2.0% in the first quarter of the calendar year 2017 over the same quarter of the prior year.

HELLA Group sales (in € millions and year-on-year growth in %)

2014/2015	5,835 (9.2%)
2015/2016	6,352 (8.9%)
2016/2017	6,585 (3.7%)

Sector performance

- ▶ **Number of new vehicles produced in the fiscal year 2016/2017 rises by 5.7 %;**
- ▶ **International automotive industry loses momentum in the second half of the year;**
- ▶ **Positive development in China, Europe and North, Central and South America**

During the period of the HELLA fiscal year 2016/2017 (01 June 2016 to 31 May 2017), the number of new vehicles produced worldwide increased by 5.7 % to a total of 94.6 million units (prior year: 89.5 million units) according to IHS Automotive Light Vehicle Production data. The international automotive industry performed slightly better (+7.0 %) in the first six months of the fiscal year but lost momentum in the second half of the year (+4.4 %).

The core markets of Europe, Asia/Pacific and North, Central and South America expanded during the reporting period. With growth of 13 % to 27.4 million units (prior year: 24.3 million), China was an important driver of growth. However, in the second half of the HELLA fiscal year (+5.4 %), China no longer achieved the double-digit growth rates it had reached in the first six months (+21.9 %). The expected gradual elimination at the start of 2017 of the tax incentives that had been introduced in October 2015 led to pre-emptive vehicle purchases, especially in the last months of the calendar year 2016. The Asia/Pacific/Rest of the World (RoW) region reported an overall increase of 8.2 % in new vehicle production to 50.3 million vehicles (prior year: 46.5 million units).

The number of new vehicles produced in Europe rose by 2.7 % over the prior year to a total of 21.9 million units (prior year: 21.3 million). However, the number of new cars produced in the selective German passenger car market fell by 1.1 % to 5.9 million units. Not taking into account the market development in Germany, the increase in new vehicles produced in Europe would have increased by 4.2 % over the prior year.

The automotive industry in North, Central and South America also expanded in the reporting period, with the volume rising

by 1.4 % to 20.8 million new vehicles produced (prior year: 20.5 million). In the first half of the year, the international automotive industry was largely at the prior year level but gained significant momentum particularly in the second half of the HELLA fiscal year 2016/2017 (+2.8 %). The number of new vehicles produced in the selective US market fell slightly compared with the prior year by 1.2 % to 11.8 million units (prior year: 12 million).

Business development and situation of the HELLA Group

- ▶ **Currency and portfolio adjusted sales increases by 4.3 %;**
- ▶ **Accelerated growth in the second half of the fiscal year**

In fiscal year 2016/2017 (1 June 2016 to 31 May 2017), currency and portfolio-adjusted sales for the HELLA Group climbed by 4.3 %. Taking into account negative exchange-rate effects (−0.3 percentage points) and the effects of the divestment of the Industries and Airport Lighting business activities (−0.3 percentage points), reported sales rose by a total of 3.7 % to € 6,585 million. The performance of sales adjusted for currency and portfolio changes and the reported sales growth is therefore within the forecast of mid single-digit percentage growth stated in the 2015/2016 annual report and in the interim financial reporting. The increase in sales throughout the Group was supported in particular by the accelerated growth in the Automotive segment in the second half of the fiscal year.

The markets of Asia/Pacific/RoW, North, Central and South America as well as Europe without Germany were the most important regional growth drivers for the HELLA Group in the fiscal year 2016/2017. The HELLA Group achieved the highest growth rate in North, Central and South America; Group sales here increased by 13.3 % compared to the prior year period to € 1,061 million (prior year: € 937 million). In the Asia/Pacific/RoW region, sales rose by 7.0 % over the prior year to € 1,063 million (prior year: € 993 million). HELLA Group sales in

Adjusted earnings before interest and taxes (adjusted EBIT; in € millions and as a % of sales)

2014/2015	445 (7.6%)
2015/2016	476 (7.5%)
2016/2017	534 (8.1%)

Europe (excluding Germany) grew by 7.7 % compared with the prior year to € 2,218 million (prior year: € 2,059 million). Sales in the selective German market decreased by 5.1 % compared with the prior year to € 2,243 million (prior year: € 2,362 million).

Results of operations

- 🔍 **Significant increase of 12.0 % in adjusted EBIT;**
- 🔍 **Adjusted EBIT margin improves to 8.1 %**

HELLA Group improved its profitability significantly over the prior year. Adjusted earnings before interest and taxes (adjusted EBIT) therefore increased by 12.0 % in the fiscal year 2016/2017 to € 534 million (prior year: € 476 million). As a consequence, the adjusted EBIT margin improved by 0.6 percentage points over the prior year to 8.1 % (prior year: 7.5 %). This development is attributable in particular to a higher gross profit margin.

The prior year's result had been weighed down by restructuring costs in Germany (€ 9 million) and, in particular, costs totalling € 47 million incurred in connection with the loss of the Chinese supplier; by contrast, expenses were incurred in the fiscal year 2016/2017 in connection with the proceedings the European Commission initiated against the HELLA Group due to fines, potential claims for third-party damages and legal expenses (totalling € 16 million) and restructuring measures in Germany (€ 10 million). These proceedings were ended mutually at the start of the fiscal year 2017/2018. Taking these special effects into account, earnings before interest and taxes (EBIT) improved accordingly in the fiscal year 2016/2017 by 20.8 % to € 507 million (prior year: € 420 million). This resulted in a higher adjusted EBIT margin of 7.7 % (prior year: 6.6 %).

The adjusted EBIT margin is therefore at the upper end of the expected range of an adjusted EBIT margin at the prior year level reported in the 2015/2016 annual report and in the interim financial reporting. The better-than-forecast adjusted EBIT

is attributable, in particular, to the performance of new production rollouts in the Automotive segment that was better than expected initially. The HELLA Group had previously assumed adjusted EBIT growth to be in the mid single-digits.

Not taking into account the divested business areas of Industries and Airport Lighting, the adjusted EBIT margin in the past fiscal year would have risen from 7.9 % to 8.3%, which corresponds to an adjusted EBIT of € 548 million (prior year: € 500 million).

Gross profit in the fiscal year 2016/2017 increased compared with the prior year to € 1,812 million in the reporting period (prior year: adjusted € 1,715 million, reported € 1,688 million). Special charges had been incurred in the same period of the prior year due to the loss of a Chinese supplier; no adjustments were made in the reporting period. Accordingly, the gross profit margin in the reporting period was 27.5 % (prior year: 27.0 % adjusted and 26.6 % reported). The improved margin is attributable in particular to the product mix effects, higher utilisation of the global production capacities and operative improvements at the Eastern European plants.

Adjusted earnings before depreciation and amortization, interest and taxes (adjusted EBITDA) increased by 10.1 % over the prior year to € 946 million (prior year: € 858 million). The adjusted EBITDA margin is therefore 14.4 % (prior year: 13.5 %). Reported EBITDA increased by 12.7 % to € 919 million (prior year: € 816 million). This equates to an improved EBITDA margin of 14.0 % after 12.8 % in the previous fiscal year.

Research and development expenses in fiscal year 2016/2017 rose by 2.1 % to € 636 million (prior year: 623 million), meaning that the R&E ratio of 9.7 % is slightly below the prior year level. R&D expenses are attributable to development costs for new projects acquired as well as to capital expenditures in new technologies and product generations.

Distribution expenses in the fiscal year 2016/2017 rose by 2.5 % over the prior year to € 506 million (prior year: € 494 million). The distribution expenses ratio relative to sales is 7.7 % and therefore down slightly on the prior year level of 7.8 %.

Administrative costs rose slightly by 5.4 % over the prior year to € 230 million in the reporting period (prior year: € 218 million). Administrative costs equate to 3.5 % of sales across the Group (prior year: 3.4 %).

The balance of other income and expenses improved slightly in the fiscal year 2016/2017 compared with the prior year to € 15 million (prior year: € 14 million). The balance of other income and expenses in the prior year was weighed down, in particular, by the loss of the Chinese supplier. Special items were booked in the reporting period in connection with the current proceedings by the European Commission and further costs were incurred for the restructuring measures in Germany.

Income from the network of joint ventures and other associates fell slightly over the prior year to € 52 million (prior year: € 53 million). At 10.2 %, the contribution to HELLA Group's earnings before interest and taxes (EBIT) is consequently down on the prior year figure of 12.6 %.

The net financial result in the fiscal year 2016/2017 is € -44 million after € -40 million in the prior year.

Expenses relating to income taxes amount to around € 120 million in the reporting period after € 108 million the year before.

At € 343 million, earnings for the period in the fiscal year 2016/2017 improved significantly by 26.2 % over the prior year (€ 272 million). This equates to a higher return on sales of 5.2 % (prior year: 4.3 %). Earnings per share are therefore € 3.08 after € 2.42 in the prior fiscal year.

Results of operations of the segments

- **Sales in Automotive rise by 3.8 %, adjusted EBIT by 13.8 %;**
- **Aftermarket sales improve by 3.7 %;**
- **Special Applications increase sales by 5.2 % in core business**

Sales in the Automotive segment in the fiscal year 2016/2017 rose by 3.8 % over the prior year to € 5,029 million (prior year: € 4,843 million). The pace of growth in the segment picked up in the second half of the calendar year in particular. In this period, sales in the Automotive segment rose by 7.0 % over the prior year period, compared with a moderate increase of only 0.7 % in the first half of the year in preparation for project start-ups. Growth in the segment was supported above all by the strong demand for innovative lighting solutions and for electronic products, for example in radar technology and energy management.

Growth was also promoted by positive business development in the Asia/Pacific/RoW region and in North, Central and South America, especially in the NAFTA region. Automotive sales in North, Central and South America rose by a total of 14.4 % over the prior year to € 948 million (prior year: € 828 million). In the Asia/Pacific/RoW region, sales in the Automotive segment climbed by 7.9 % to € 858 million (prior year: 795 million). Growth of the Automotive segment in Europe, excluding Germany, picked up especially in the second half-year, so that sales improved by 7.5 % overall in the fiscal year 2016/2017 to € 1,268 million (prior year: € 1,179 million). On the other hand, this segment's sales in the selective German economic region decreased by 4.8 % to € 1,906 million (prior year: € 2,001 million).

Sales by segment for the fiscal years 2016/2017 and 2015/2016 (in € millions and year-on-year growth in %)

	Automotive			Aftermarket			Special Applications		
	2016/2017		2015/2016	2016/2017		2015/2016	2016/2017		2015/2016
Sales with third-party companies	4,980	3.7 %	4,804	1,185	4.9 %	1,129	384	0.5 %	383
Intersegment sales	49		39	38		49	1		1
Segment sales	5,029	3.8 %	4,843	1,222	3.7 %	1,179	385	0.3 %	384

Regional market coverage by customer – HELLA Group

	2016/2017		2015/2016	
	Absolute (in € million)	Relative	Absolute (in € million)	Relative
Germany	2,243	34 %	2,362	37 %
Rest of Europe	2,218	34 %	2,059	32 %
North, Central and South America	1,061	16 %	937	15 %
Asia/Pacific/RoW	1,063	16 %	993	16 %
Consolidated sales	6,585	100 %	6,352	100 %

Regional market coverage adjusted from end customer perspective to HELLA customer perspective for improved comparability to the market benchmark of "IHS light vehicle production".

In the context of the growth momentum that is supported by production rollouts, the Automotive segment stepped up its profitability significantly in the fiscal year 2016/2017 compared with the prior year. The segment's adjusted earnings before interest and taxes (adjusted EBIT) thus increased by 13.8% compared with the prior year adjusted EBIT to € 444 million (prior year: adjusted € 390 million) and made a significant contribution to the improved profitability at the Group level. The increase is attributable, in particular, to the performance of new production rollouts that was better than initially expected. As no adjustments were made in the segment in the reporting period, earnings before interest and taxes rose by 29.5% over the prior year (prior year: reported € 343 million). The EBIT margin in relation to segment sales thus comes to 8.8% after 8.1% (adjusted) and 7.1% (reported) in the prior year.

At the end of the fiscal year 2016/2017, the organisational responsibility for production companies in the Aftermarket segment was assigned to the Special Applications segment, as it represents the original field of activity of these companies more precisely. In order to ensure transparent segment reporting over time, the figures for the reporting period as well as for the prior year of the Aftermarket and Special Applications segments were adjusted to allow for this restructuring.

Segment sales in the Aftermarket segment in the fiscal year 2016/2017 increased by 3.7% over the prior year to € 1,222 million (prior year: € 1,179 million). All of the Aftermarket business segments made a positive contribution to the sales growth during the reporting period. The Aftermarket segment had a stabilising effect on the business performance of the HELLA Group, especially in the first half of the fiscal year 2016/2017.

In the fiscal year 2016/2017, earnings before interest and taxes of the Aftermarket segment fell by 5.0% over the prior year to € 73 million (prior year: € 77 million), due to a higher percentage of purchased parts and increased distribution expenses, so that the EBIT margin was reduced to 6.0% (prior year: 6.5%). Not taking into account the reclassification between Aftermarket and Special Applications, the segment's earnings before interest and taxes would have risen to € 81 million (prior year: € 80 million), equivalent to an EBIT margin of 6.2% (prior year: 6.4%).

Segment sales in the Special Applications segment rose by 0.3% to € 385 million in the fiscal year 2016/2017 (prior year: € 384 million). Business in accessories for trailers and caravans expanded in the fiscal year 2016/2017. Adjusted for the divested business segments of Industries and Airport Lighting, the

Regional market coverage by customer – Automotive

	2016/2017	2015/2016
Germany	38%	42%
Rest of Europe	25%	25%
North, Central and South America	19%	17%
Asia/Pacific/RoW	17%	17%

Regional market coverage adjusted from end customer perspective to HELLA customer perspective for improved comparability to the market benchmark of "light vehicle production".

Regional market coverage by customer – Aftermarket and Special Applications

	2016/2017	2015/2016
Germany	19%	22%
Rest of Europe	61%	58%
North, Central and South America	7%	7%
Asia/Pacific/RoW	13%	13%

Regional market coverage adjusted from end customer perspective to HELLA customer perspective for improved comparability to the market benchmark of "IHS light vehicle production".

remaining business activities in a difficult market environment in the agricultural sector reported robust sales that were up by 5.2%. The second half of the fiscal year was favourable as a result of a cyclical increase in demand.

Earnings before interest and taxes of the segment improved overall in the fiscal year 2016/2017 compared with the prior year period from € 8 million to € 20 million. This increase in EBIT is due in particular to effects arising from the reclassification of the production companies between Aftermarket and Special Applications, as well as to the effects of the divestment and run-off of the Industries and Airport Lighting business activities. This adversely affected the segment result in particular in the second half of the fiscal year 2015/2016 (€ -19 million after € -6 million in the first half-year). The negative effects arising in the fiscal year under review from the disposal of these sub-segments came to € 9 million in the first half of the year and € 6 million in the second half of the fiscal year. Furthermore, costs of € 3 million incurred from relocating a plant to Eastern Europe also had negative implications for the segment result. Based on the segment sales, the EBIT margin of the Special Applications segment thus came to 5.1% after 2.1% in the prior year. Not taking into account the reclassification of production companies, the segment's earnings before interest and taxes would have risen from € 5 million to € 12 million, equivalent to an EBIT margin of 4.0% (prior year: 1.6%).

Financial status

- ▶ **Adjusted free cash flow at € 149 million;**
- ▶ **Ratio of net financial debt to EBITDA is 0.3x**

The finances of the HELLA Group are managed centrally by the parent company. Funding is largely raised centrally and made available to the Group companies as required. HELLA

generally has a long-term funding horizon, which ensures liquidity at all times even in the event of cyclical fluctuations. The investment and funding policies are based on a balanced portfolio. Financial management aims to safeguard the Group's liquidity and creditworthiness.

CAPITAL STRUCTURE

The liquidity position comprising cash and current financial assets rose by € 184 million to € 1,098 million in the fiscal year. Dividends to shareholders and non-controlling interests paid by the Group company came to € 87 million. Current and non-current financial liabilities rose by € 225 million to € 1,377 million.

Net financial debt as the balance of cash and current financial assets less current and non-current financial liabilities climbed by a total of € 41 million to € 278 million. At the reporting date, the ratio of net financial debt to EBITDA stood at 0.3 (prior year: 0.3)

The corporate rating issued by Moody's remains in the investment grade segment at Baa2 with a stable outlook. Moody's last updated its credit opinion in April 2017.

Alongside the financial liabilities shown on the face of the balance sheet, obligations from operating leasing agreements exist but are of minor importance. The present value of the resultant minimum lease payments came to € 63 million at the balance sheet date.

The factoring programme was suspended, so that no receivables were sold as at 31 May 2017. The volume of receivables sold amounted to € 70 million in May 2016.

At present, HELLA essentially employs three financial instruments in the non-current segment:

➤ CAPITAL MARKET BONDS

At the balance sheet date, HELLA had three outstanding capital market bonds with terms of between three-and-a-half and seven years. These comprise a bond of € 300 million maturing in September 2017 and a bond of € 500 million maturing in January 2020 and a bond of € 300 million issued in May 2017 that matures in 2024.

➤ PRIVATE PLACEMENT

A total of JPY 22 billion with a 30-year term was raised in 2002 and 2003. This foreign currency liability is fully hedged against exchange rate fluctuations over its entire term. The liability was valued at € 182 million as at 31 May 2017.

➤ SYNDICATED CREDIT FACILITY

In June 2015, a five-year syndicated credit facility of € 450 million was agreed with a syndicate of international banks. This credit line has meanwhile been renewed for a further year and now expires in June 2022.

LIQUIDITY ANALYSIS

Cash generated from operating activities rose by € 90 million over the prior year to € 713 million. This figure includes payments of € 10 million for restructuring after € 15 million in the prior year. Payments of € 34 million were also incurred in the prior year from the loss of a Chinese supplier.

Cash generated from earnings before interest and taxes before non-cash depreciation and amortisation (EBITDA) increased significantly over the prior year. EBITDA rose by € 104 million to € 919 million.

This sales growth simultaneously was accompanied by an accumulation of working capital. The additional working capital arising from the increase in receivables and other assets climbed by € 125 million, of which € 70 million resulted from the suspension of the factoring programme.

By contrast, inventories rose by € 55 million. Trade payables and other liabilities increased by € 69 million.

Taxes paid net of tax refunds came to € 107 million, down from € 109 million in the prior year.

Cash capital expenditure excluding payments for the acquisition of company shares or the increase or repayment of capital rose by € 102 million to € 649 million. It predominantly comprised maintenance and expansion spending on buildings, machinery, plants and other equipment. HELLA also invested continuously in customer-specific operating equipment,

which is recognised in the Group's non-current assets as economic property on account of the opportunity and risk structure. In view of the considerable up-front investments in such operating equipment, HELLA receives reimbursement payments from customers as an advance on the delivery of parts, which are reported as prepayments within deferred income. These prepayments came to € 132 million in the fiscal year under review (prior year: € 83 million).

Payments for procuring operating equipment are allocated to investing activities in the cash flow statement, whereas cash proceeds from customer reimbursements are assigned to operating activities as prepayments for economic purposes.

Regardless of the economic view taken in the annual financial statements, the cash flow from equipment procurements and customer reimbursements in the internal capital expenditure planning are combined within the net capital expenditure indicator with the remaining cash proceeds and settlements for property, plant and equipment and intangible assets. The reason is that the advanced payment method of the customer reimbursements eases the need for capital expenditure in a closely related time frame and, therefore, is a significant factor in the investment decision. Net capital expenditure rose to € 517 million (7.9 % of sales) in the reporting period, up from € 463 million in the prior year (7.3 % of sales).

Free cash flow before dividends and net capital expenditure on financial assets or shares in associates came to € 69 million, down from € 76 million in the prior year. Adjusted for the restructuring payments (€ 10 million) and the suspension of the factoring programme (€ 70 million), the adjusted free cash flow came to € 149 million (prior year: € 155 million).

The Group received net inflows of € 1 million from investing activities in connection with corporate investments, after net inflows of € 4 million in the prior year. The inflow of funds was mainly a result of the sale of a subsidiary in Ireland. The outflow of funds is due to the further expansion of the e-commerce operations.

Total inflows from financing activities came to € 135 million, after outflows of € 87 million in the prior year. Net new borrowing stood at € 68 million, up from € 9 million in the prior year. HELLA successfully placed a new bond in May 2017. As part of active management of the liquidity available to the Group, € 12 million was received from securities during the reporting year, after € 68 million in the prior year. For liquidity management purposes, capital is usually invested in short-term securities or securities with a liquid market, so that these funds can be made available for potential operating requirements at short notice. A total of € 58 million was paid

in the prior year for the acquisition of further shares in wholesale business in Denmark and Poland.

Dividends of € 86 million (prior year: € 86 million) were paid to the shareholders. Liquidity increased by € 199 million over the prior year to € 784 million. Including current financial assets, which essentially comprise securities of € 315 million (prior year: € 329 million), available funds increased from € 914 million to € 1,098 million. On this basis, HELLA is able to satisfy its payment obligations.

Financial position

► Equity ratio of 39 % at the end of the fiscal year

Total assets grew by a further € 643 million to € 5.6 billion during the fiscal year under review. The high liquidity position of around € 1.1 billion again results in a substantial increase in total assets. The equity ratio stood at 39 % at the end of the fiscal year and was thus slightly below the prior year's level. The increase in total assets resulting from the high liquidity position influences the equity ratio significantly. The statement of financial position was extended due to the new bond issued in May 2017, which will be used to refinance the bond maturing in September 2017. The equity ratio in relation to total assets adjusted for liquidity comes to 49 %.

Overall statement

► Dividend of € 0.92 per share proposed to the Annual General Meeting

Fiscal year 2016/2017 was positive for the HELLA Group from the Management Board's perspective. HELLA continued to pursue its strategy of profitable growth in the fiscal year and increased sales as well as earnings. As forecasted in the interim financial statements, sales rose significantly particularly in the second half of the HELLA fiscal year. Accordingly, currency and portfolio-adjusted sales increased by 4.3 % and reported sales were up by 3.7 % to € 6,585 million. In the context of the growth momentum generated through new production rollouts, the HELLA Group also significantly increased its profitability and improved adjusted earnings before interest and taxes (adjusted EBIT) by 12.0 % to € 534 million. This resulted in a higher adjusted EBIT margin of 8.1 %

At the segment level, the Automotive segment in particular contributed to the rise in sales and the pace of growth picked

up in the second half of the calendar year. The Aftermarket segment also developed positively, so that the growth path embarked on in the prior fiscal year generally remained intact. In addition, the segment had a stabilising effect, especially in the first half of the fiscal year, while the Automotive segment prepared itself for pending new production rollouts. After disposing of the Industries and Airport Lighting sub-activities, the Special Applications segment continued on its consolidation course in the fiscal year 2016/2017, while sales in the remaining core business showed a positive trend.

Taking account of special effects, HELLA Group's earnings before interest and taxes (EBIT) totalled € 507 million and were therefore up 20.8 % over the previous year. Consolidated profit after tax amounted to € 343 million, which equates to an increase of 26.2 % compared with the fiscal year 2015/2016. In accordance with the adjustments to the dividend policy adopted as part of the initial public offering, under which some 30 % of the consolidated net profit attributable to the owners of the parent company is to be distributed to shareholders, the Management Board will propose to the annual general meeting (to be held on 28 September 2017) that a dividend of € 0.92 per share be distributed (prior year: € 0.77). As there are 111,111,112 no-par value shares, this is equivalent to a distribution amount of € 102 million (€ 86 million). Since the most recent capital increase in November 2014, the Company has had 111,111,112 shares, this number likewise applying on the date of distribution.

The HELLA Group's financial position and assets and liabilities remained solid, underpinned by its business performance. Adjusted for the restructuring payments (€ 10 million) and the suspension of the factoring programme (€ 70 million), adjusted free cash flow came to € 149 million after € 155 million in the prior year. Net financial debt rose by a total of € 41 million to € 278 million. At the reporting date the ratio of net financial debt to EBITDA stood at 0.3 (prior year: 0.3).

As the good business development continued at the start of the fiscal year 2017/2018, the Management Board takes a generally positive view of the results of operations, financial position and net assets at the time the group management report was prepared.

Internal control in Group accounting

The Group-wide internal control system for accounting is an important component and includes organisation, review and monitoring structures that ensure that business transactions are properly recorded, evaluated and applied to the financial reporting. Various analyses and evaluations are carried out

as part of risk management with the objective of identifying influencing factors on accounting and reporting early and to enable suitable measures for proper recording. Regulations that are applicable throughout the Group which, together with annual financial statement planning, determine the process for preparing the financial statements are codified in an accounting handbook. If there are changes to legal regulations and accounting standards, they are analysed promptly in terms of their impact on financial reporting and, where necessary, directly included in consolidated reporting.

The local companies are supported and monitored by the Group's central accounting department when creating their separate financial statements, which they are responsible for creating themselves. Finally, the consistency of the reported and verified financial statement data is ensured through the relevant IT systems. The consolidation of the separate financial statements in the consolidated financial statements is largely carried out centrally. In justified individual cases, for joint ventures for example, the financial statements of

sub-groups are also included in the consolidated financial statements. The effectiveness of the internal accounting controls is reviewed on a continuous basis by the Internal Audit department.

The employees responsible for financial reporting receive regular training. Where necessary, support is provided by external experts for the measurement of complex items, such as pension liabilities. Moreover, the control system incorporates further risk avoidance measures and measures to improve transparency, such as comprehensive plausibility checks, segregation of duties, and the four eyes principle. Furthermore, the analyses carried out as part of risk management help to identify risks which influence financial reporting and to enable measures to be taken to mitigate these risks. The effectiveness of this internal control system is assessed by the responsible Group companies and departments using an IT-based system and audited in spot checks performed by the Internal Audit department. The Management and Supervisory Boards are regularly informed of the results.

Opportunity and risk report

As an international automotive supplier, HELLA is exposed to numerous opportunities and risks arising from the Group's corporate actions and its business strategy. The aim of opportunity and risk management is to use opportunities to make further progress along the profitable growth path, identify risks early on and manage them responsibly.

Opportunity management

HELLA takes a decentralised approach to opportunity management. Opportunity management is part of the strategy and controlling process which also makes use of external market analyses and forecasts. Through an ongoing process, new opportunities are systematically recorded, evaluated and implemented if suitable. Opportunities arising from day-to-day business are identified and acted on by operational management. Opportunities for the HELLA Group can arise especially from changes in the global or regional market and competitive situation, but also from technological trends and from developments on the customer side.

Currently the automotive industry is being shaped by the key market trends of autonomous driving, energy efficiency and electrification, digitalisation and individualisation. The HELLA Group has identified these market trends as an opportunity for further corporate activity and strategically positioned itself alongside these market trends. For example, HELLA is pressing on with the development of software-controlled, high-resolution headlamp systems and working on hardware and software solutions for assisted and automated driving situations, for example in the areas of front camera systems and high-performance radar sensors. HELLA is benefiting from the trend towards energy efficiency and electrification by launching onto the market electronic solutions specially developed for electric and full hybrid vehicles, or which contribute to the vehicle's improved energy efficiency

independently of the respective drive train. As regards individualisation, one focus is on providing innovative product solutions to enable design and functions to be tailored to customer requirements, for example in the area of individual concepts for the interior and exterior lighting of vehicles.

For details about the company strategy and research and development activities, please refer to the General information on the HELLA Group from PAGE 41 of the Group management report.

There are also growth opportunities for the HELLA Group in relevant regional sales markets due to its global positioning. In the Automotive segment, business activities are focused in particular on the markets of Europe, China and the NAFTA region, where there are opportunities due to the high potential for growth in the markets, especially in China and NAFTA. HELLA pursues a specific strategic path for all relevant economic areas to meet the specific requirements of the respective sales markets.

Risk management system

Risk is understood to be the probability of occurrence of internal or external events that could jeopardise the achievement of strategic or operational aims. Risk management is therefore the entirety of all measures for a systematic handling of risks and a core component of HELLA's corporate governance and the strategy and audit process.

The risk management system is coordinated by the Risk Management Board at Group level, which determines the Company's total risk position. In addition, responsibility for risk management is defined at all organisational levels within the Group. This includes the HELLA Group's Management Board as well as all corporate functions and business segments. For

example, responsibility for (including recording and managing) risks along the value chain lies in the first instance with the specialist personnel in the operating units. Having a standardised risk management process ensures that the Management Board is informed promptly and in a structured manner about the current risk situation of the Group.

Risk management methodology

HELLA applies a uniform methodology to implement an effective risk management process across the entire Group for identifying and analysing risks at an early stage and implements measures to minimise them.

A Group risk report is prepared describing all main risks on the basis of regular risk evaluations. The Risk Management Coordinator informs HELLA's Management Board of existing risks, their evaluation and the measures performed. In the event of any material changes arising in the risk position in the intervening period, the Management Board is notified via clearly defined report paths. This ensures that the Management Board is able to exercise its supervisory duties and respond to new developments in a timely manner. Furthermore, the risk management system and the Group's general development are regularly reviewed in close consultation with the Supervisory Board and the Shareholder Committee. The risk management system and the underlying methodology for identifying, evaluating, managing and reporting risks is continuously developed.

The Management Board mandates the implementation of the risk management system, which is carried out by the Risk Management Board at all levels of the Company. Responsibility for identifying and evaluating potential risks lies with the individual levels and organisational units within the Company. The head of the departments or units takes on the role of risk owner, which has various instruments on hand for identifying and evaluating risks. These include questionnaires on specific activities, minutes of meetings and audit reports. In addition, all business divisions regularly take part in a risk management workshop.

Under the risk management strategy, new substantial risks must be reported immediately. These are systematically grouped into individual risk areas and managed by the risk leaders. All risk owners also regularly report any changes in risks already reported as well as all new developments.

On this basis, developments and risks, which may have a critical impact on the Company, are identified early on. Data is collected from all business divisions and corporate functions.

A final overview of the major risk categories is then achieved by consolidating all risks.

The risks identified are categorised and grouped in a risk overview schema in terms of their negative effects and their probability of occurrence. Risks are divided into three categories based on their impact ("minor", "noticeable" and "critical") and into two categories based on their probability of occurrence. A time frame of 1-5 years ("probable") or a time frame of 5-10 years ("less probable") is used as a basis for the probability of occurrence. To detect in good time possible "developments threatening the continuation of the company" (see section 91 (2) German Stock Corporation Act) due to the combined effects of several individual risks, risk aggregation is carried out using a Monte Carlo simulation.

Based on the classifications of the COSO model (Committee of Sponsoring Organizations of the Treadway Commission), HELLA distinguishes between five main risk categories:

- Strategic risks
- Financial risks
- Compliance risks
- Operational risks (including HR risks, sourcing risks, quality risks, IT risks)
- External risks (including market risks)

The order in which these risks are presented here does not indicate their significance, probability or impact. Hitherto unknown risks can also have a negative impact on the HELLA Group's economic or financial situation. For a list and a quantification of the main risks, please refer to the table at the end of the section. The respective measures taken by the HELLA Group to restrict risks are included in the presentation of individual risks (net review).

STRATEGIC RISKS

Strategic risks at HELLA essentially arise from the business model, changes in the industry environment and the Company's global positioning. Overall, it is assumed that strategic risks are of medium importance for HELLA..

Risks from the business model

As an automotive supplier, HELLA relies on a limited number of customers. This brings with it various risks arising from the customers' economic situation and performance. To mitigate these risks, the HELLA Group's strategy is to have a risk-reduced business model. For example, the Company maintains a balanced customer portfolio and long-term customer relationships, which simultaneously minimise the risks of a customer default. Secondly, the Company's business structure has a stabilising effect: whereas the Automotive segment is

Impact descriptors	Possible consequences
<p>1 – minor Negative outcomes from risks or lost opportunities unlikely to have a permanent or significant effect on the Company's reputation or performance.</p>	<ul style="list-style-type: none"> 🔴 If the risk occurs, there may be a minor effect on net profit, i.e. the impact on net profit for planned earnings is less than € 5 million 🔴 No regulatory consequences 🔴 Minor adverse publicity 🔴 Minor reversible harm
<p>2 – noticeable Negative consequences of risks or lost opportunities have a material impact on the Company. They can be managed without any major impact in the medium term.</p>	<ul style="list-style-type: none"> 🔴 If the risk occurs, there may be a considerable effect on net profit, i.e. the impact on net profit for planned earnings is up to € 50 million. 🔴 Limited regulatory consequences 🔴 Local adverse publicity for the area concerned 🔴 Major reversible harm
<p>3 – critical Negative consequences of risks or lost opportunities have a material impact on the Company. Substantial efforts are necessary to overcome the problems that they cause and to develop a medium-term solution. However, the risks generally do not pose any medium-term risk to the Company's going-concern status. In extraordinary and extreme cases, the Company's going-concern status may be theoretically placed at risk.</p>	<ul style="list-style-type: none"> 🔴 If the risk occurs, there may be a very major effect on net profit, i.e. the impact on net profit for planned earnings is greater than € 50 million. 🔴 Substantial regulatory consequences 🔴 Sustained negative coverage in the national press 🔴 Major sanctions imposed by the responsible authorities 🔴 Closure of part of the business 🔴 Irreversible loss

Probability	Occurrence	Definition
Probable	Once every 1-5 years	Probability of occurrence of 20 % to 90 % or greater in this period
Less probable	Once every 5-10 years	Probability of occurrence of less than 20 % in this period.

dependent on automobile manufacturer sales, the Aftermarket business division is driven by sales of spare parts, accessories and garage equipment. This occurs very largely anti-cyclically of trends in demand for new vehicles. In some respects, the Special Applications segment also follows different demand cycles compared with the Automotive segment.

Risks arising from changes in the industry environment

Economies and the automotive sector are becoming increasingly dynamic. Major market trends in the automotive industry in particular are helping to drive significant change in the industry environment. This includes, for example, the increasing share of software content, which is drawing in new suppliers onto the market, while significantly shortening the pace of product change. Thus, iteration cycles for new software solutions are now measured in months, while new vehicle models usually take three to four years to reach the market. Owing to these changes in the industry environment, strategic risks can arise as a result of increasing pressure to innovate, which is something companies must master. Secondly, risks arise from the Company's increasingly complex

strategy and management processes. To reduce these risks, HELLA conducts an intensive and regular strategic process to identify and appropriately manage opportunities and risks arising from changes in the industry environment. It also maintains an incubator in Berlin and an additional location in Silicon Valley to better anticipate new sector and technology trends.

Risks arising from the Company's global positioning

As an international automotive supplier, HELLA has a presence in 35 countries worldwide, so the Company's sales are distributed across the regions of Europe, Asia/Pacific/Rest of World, and North, Central and America. As a result, this global positioning of the Group can open up vulnerabilities to local or regional market fluctuations. Overall, the Group's global presence contributes, however, to a balanced and risk-reduced business strategy, as individual local volatilities can balance each other out.

FINANCIAL RISKS

The HELLA Group's international focus and operations pose a series of financial risks, particularly due to exchange rates, the increased complexity of a transfer pricing strategy and

group accounting, and potential disruption to the liquidity situation. Financial risks are of medium importance overall.

For information on the material risks arising from the use of financial instruments, please also refer to the presentation of the financial instruments from PAGE 155 in the consolidated notes.

Exchange rate risks

Various exchange rate risks may arise for the HELLA Group in connection with receivables, liabilities, cash and cash equivalents, securities and contracts which must be performed in another currency. The Company initially minimises these risks by sourcing materials locally within the respective currency and sales region. Currency risks are pooled, evaluated and coordinated centrally to additionally optimise risk management. HELLA's Foreign Currency Guideline defines the strategy for addressing currency risks for each company in the HELLA Group. Risk is initially analysed at the local level. A hedging proposal based on the local data is prepared, which takes into account the extent of the risk and the limits set in the Foreign Currency Guideline. The Treasury Committee then makes a decision on the proposal. Currency risks are primarily hedged by means of currency forwards, which are structured on the basis of expected foreign-currency cash flows.

Risks due to complexity in the transfer pricing strategy and group accounting

As European and international legislation is undergoing continuous evolution, transfer pricing strategies, intercompany transaction processing and accounting requirements are becoming increasingly more complex. This is creating new financial risks within the organisation that can arise from process inefficiencies, accounting errors, breaches of tax regulations and unnecessarily high tax payments. Continuous alignments and coordination between departments are therefore necessary to minimise the risks of deficiencies in the application of internal corporate regulations. The Group thus has a comprehensive and transparent transfer pricing policy, which is kept up to date by the Transfer Pricing department. A global network of contacts has also been established to facilitate communications and collaboration within the Group and to avoid transfer pricing errors.

Risks arising from disruption to liquidity

A sound financial policy is part of the HELLA Group's corporate management. Firstly, the Company's liquidity situation can be adversely affected over the long term by a customer default. Secondly, with the growing complexity of the products and customer deliveries, the Company's trade credit receivables are also rising. These requirements are continually monitored

by specialist departments, so that potential deficiencies in customer deliveries can be identified early on and HELLA's overall liquidity situation can be permanently monitored. The Group's liquidity position is adequately secured by long-term loans, euro bonds and yen bonds. All agreed financial covenants which, if breached, could lead to extraordinary termination rights for the lender with potentially accelerated payment obligations are monitored continuously. In May 2017, HELLA successfully placed a corporate bond of over € 300 million maturing in 2024 on the capital market.

COMPLIANCE RISKS

At HELLA, top priority is given to the observance of laws and internal rules in order to avert any compliance breaches. However, given the increasing complexity of regulatory frameworks and despite taking extensive precautionary measures, the risk of illegal conduct by individual employees cannot be excluded. Compliance risks that the HELLA Group is exposed to include in particular risks from investigations into breaches of competition law, patent risks, risks due to cybercrime, and risks from non-compliance with safety and data protection requirements. Overall, compliance risks are also classified as material due to their high regulatory complexity and dynamics. However, they are assumed to have only medium importance for HELLA as no serious events liable to jeopardise the Company's going-concern status are expected in the short term.

Please also refer to Corporate Governance and Compliance in the corporate governance report from PAGE 74 in the Group management report.

Risks arising from antitrust proceedings

In prior fiscal years, HELLA had already reported that European and US authorities had commenced anti-trust investigations into HELLA and other companies in the automotive lighting sector in 2012. As reported in the last interim Group management report (6-month report 2016/2017), expenses of € 16 million were incurred in connection with the proceedings of the European Commission relating to fines, possible claims for damages from third parties and other legal costs. These proceedings were concluded at the start of the fiscal year 2017/2018; in its ruling on 21 June 2017, the European Commission ended its proceedings in agreement with HELLA. HELLA agreed to a settlement by paying a fine of about € 10.4 million. There were no new developments in the US proceedings during the past fiscal year; these are also not currently foreseeable.

Patent risks

Like HELLA, competitors, suppliers and customers protect technology using patents and other property rights. The existence of property rights cannot always be clearly determined, particularly for certain processes, methods and applications. In individual cases there may therefore be a risk HELLA could be accused of breaching these third-party property rights. This may make the Group liable to pay damages or force it to acquire additional licences or refrain from using the relevant technology in certain countries. To avoid violating existing third-party property rights, HELLA systematically monitors new releases and compares these against its own technology portfolio.

Risks due to cybercrime

In the automotive industry, computers and computer-assisted systems are increasingly being used in the production and operation of vehicles. For example, various sensors and audiovisual systems are fitted to vehicles to heighten safety and performance and enable other driving functions to be performed. Because of strong interconnectedness in the production and operation of vehicles, the risk of cybercrime is increasing, and software applications can open up the possibility to an attack by hackers if used carelessly. HELLA strives to minimise this risk by participating in the international standardisation process in the automotive industry and by developing and implementing secure software and hardware architecture. In connection with this, it has also placed its activities to strengthen cybersecurity on a firm organisational footing.

Risks due to non-compliance with safety standards

HELLA's customers are increasingly also demanding the observance of safety standards. Failure to observe customer requirements may result in additional (and in some cases substantial) costs for HELLA or project delays, with a direct impact on the Company's sales and earnings. For this reason, HELLA seeks to satisfy customer requirements in full. Among other things, this necessitates the observance of customers' safety guidelines as well as the minimum information security standards (in accordance with ISO/IEC 27001). Although the failure to observe these standards does not entail a breach of a legal requirement as such, it would still mean that the Company had failed to meet its general duty of care. This could prompt customers to recover damages from HELLA if, for example, confidential customer data were to be disclosed without authorisation. HELLA has therefore set up and implemented a comprehensive information security programme. This programme includes various technical, organisational and process-related measures to secure a continuous improvement process within the context of information security management.

Risks due to non-compliance with data protection requirements

Since the Group holds personal data, it must adhere to the requirements of data protection legislation. With regard to the EU Data Protection Regulation adopted in May 2016, HELLA's European subsidiaries in particular face new challenges in this area. Failure to observe data protection rules may have legal ramifications and harm the HELLA Group's reputation. To minimise the risks associated with the illegal handling of personal data, HELLA has introduced and continues to develop effective systems and control mechanisms.

Risks due to environmental protection and safety requirements

As the volume of environmental rules is rising, HELLA may need to observe additional environmental and safety rules in the future. Moreover, changes in legal requirements may have an adverse impact on market demand for HELLA products. As an internationally active Group, HELLA must also comply with different regulatory systems. In particular, environmental protection and health regulations may be subject to frequent change and become increasingly more stringent. This may result in additional costs for the Company to comply with the new requirements. HELLA is continually working to improve its sustainable and environmentally responsible business and has stepped up the monitoring and assessment of local environmental protection standards in the past fiscal year in order to ensure they are complied with.

OPERATIONAL RISKS

As products and production are becoming increasingly complex and demanding, operational risks arise, for example, in the areas of logistics, procurement, production and employee qualifications. These include in particular risks due to shortages, deficiencies in quality, interruptions in the supplier chain and failures in information management. Overall, these risks are of medium importance for HELLA.

Risks arising from personnel and resource shortages

Within the development, production and sales chain, the risk of personnel, operational or organisational shortages may arise at individual locations. These can come from the relocation of complex projects and the restructuring of complex processes within the global HELLA network or through comprehensive transfers of projects and technology. This may be due to insufficient machinery capacity, inadequately trained staff, poor supplier quality, general capacity problems and staff shortages. Operational or organisational shortages can have a significant impact on the business as they may lead to additional non-quality costs, delays in delivery, contractual penalties, and increased costs to provide employees with the necessary training and qualifications. To avoid these shortages in

resources, HELLA strives to ensure a proper and predictive management of its production process and also promotes knowledge and technology transfer to potentially affected sites.

Risks arising from extended warranty periods

As the global market is highly competitive, a number of original equipment manufacturers have started to offer longer warranty periods for their vehicles to heighten the appeal of their products. As a consequence of this, they likewise expect their components suppliers to offer longer warranty periods on the products they provide. Among other things, automobile manufacturers use warranty cost analyses to lower the warranty costs per vehicle. The resultant warranty compensation system has a detrimental effect on components suppliers as they must bear part of the costs. HELLA is attempting to minimise this risk further by improving product quality and responding appropriately to any product quality shortfall reports.

Quality risks

Important characteristics of the HELLA Group's quality management are ensuring compliance with market-driven standards, durability and reliability with a high degree of user comfort. Quality deficits, such as deficient product maturity, inadequate resources or insufficiently qualified staff, can result in additional costs with a direct impact on HELLA's results of operations and also a lasting effect on the Company's reputation. To reduce quality risks, HELLA follows the principle of conformity of production (COP). Conformity of production serves as proof that the Company is able to manufacture a given product series in accordance with all requirements. This includes the specifications and labelling requirements stipulated in the type approval documentation. COP forms a

material part of the vehicle type approval process. It is ensured by means of a comprehensive quality management system, in which testing is overseen, results checked and control plans evaluated.

Risks arising for disruptions in the supply chain

HELLA is also dependent on its own supplier base. Any disruption in the supply chain would have an adverse effect on production, logistics and sales as well as the Company's general reputation. If any shortfalls arise on the part of exclusive suppliers, this may lead to production and delivery shortages as well as higher prices, higher material costs and quality problems. Accordingly, HELLA seeks to diversify its supplier base. HELLA's suppliers are also constantly monitored and audited by teams of experts to avoid any interruptions in the supply chain. Supply chain management operates uniformly across the entire Company. By actively managing the Company's own supplier chain, risks related to supplier development were reduced compared with the previous year. By the same token, an effective supplier performance management programme can help to identify and address supplier issues early on.

Risks arising from failures in information management

The HELLA Group uses a complex IT structure in all areas of the Company. Moreover, since the applications in the areas of development and production are becoming ever more complex and increasingly large amounts of data are having to be processed with limited IT resources, there is a risk of failures arising in the HELLA Group's information management. These potential failures in IT systems could interrupt operations for several days in very rare exceptional cases. To minimise these risks associated with information management,

Overview of the twelve most important individual risks

No.	Risks	Risk category	Impact descriptors	Probability
1	Operational or organisational shortages	Operational	Noticeable	Probable
2	Legal and regulatory requirements	Compliance	Critical	Probable
3	Warranties	Operational	Noticeable	Probable
4	Shortage of specialists	Operational	Noticeable	Probable
5	Product development process	Operational	Noticeable	Probable
6	Customer requirements	Operational	Noticeable	Probable
7	Compliance with product safety requirements	Compliance	Noticeable	Less probable
8	IT security requirements	Compliance	Noticeable	Probable
9	Supplier development	Operational	Noticeable	Probable
10	Transfer of expertise	Operational	Noticeable	Probable
11	Process deviations	Compliance	Noticeable	Probable
12	Loss of receivables	Financial	Noticeable	Probable

all IT systems are therefore centrally monitored and regularly updated. The Company is also steadily investing in the IT infrastructure and special cyber-security programs are being implemented to cut the risk of data loss.

Risks from shortages of specialists

To safeguard its position as a technology leader and because of the Company's international expansion, HELLA is generally reliant on qualified employees. HELLA is therefore in a global competition for the specialists that the Group needs, so that potential risks can arise from not adequately covering personnel requirements. In growth markets such as China, India and eastern Europe in particular, HELLA is also exposed to the risk of a rising salary base for qualified specialists. A shortage of staff would make its effect felt on development activities in particular. HELLA is continually developing a global recruitment, staff retention and training model to reduce the adverse effects of shortages of specialists and an inadequate expertise pool on project transfers.

EXTERNAL RISKS

The external risks to which HELLA is exposed are mostly market risks, such as fluctuations in customer demand or slower global economic growth. HELLA has classified these risks as difficult to forecast and largely beyond its control. The importance of external risks is classified as medium.

Risks arising from fluctuations in general economic conditions

HELLA generates around three-quarters of its sales in its original equipment manufacturer business. Consequently,

the Company's economic situation is largely dependent on the performance of the automotive industry and the overriding general economic conditions. HELLA is therefore exposed to fluctuations typical of the sector, which HELLA counters with a risk-diversified business model and an international positioning.

Risks arising from consolidation in the aftermarket

The Aftermarket segment is exposed to a major risk posed by the ongoing market consolidation among customers. In many cases, this consolidation is accompanied by increased price pressure, which can squeeze the Aftermarket business' sales and earnings. In addition, customer consolidation and restricted access to products and components in the independent spare parts trade as well as certain natural risks are classed as external risks.

Statement on overall risk and opportunities situation

The Group's risk profile did not change significantly in the reporting year. Its transparent and systematic risk management helped ensure the overall risks within the Group were efficiently managed through structured processes. From today's perspective, the Group's risks are limited and there are no risks posing an existential threat. Nor is the Company aware of any actual or potential developments that could seriously threaten its going-concern status in the foreseeable future.

Forecast report

Overall economic outlook

The macroeconomic outlook for 2017 and 2018 is subject to an array of financial, economic and political uncertainties, which are countered by factors and developments supporting the growth of the global economy.

For instance, there is still uncertainty surrounding the US government's future economic and foreign policy direction since the presidential elections in November 2016. The long-term effects of the UK's exit from the European Union, which was officially applied for at the end of March 2017 and is to be implemented within the next two years, are also still hard to discern. Meanwhile, financial and geopolitical risks are increasing the uncertainty regarding the further trajectory of the global economy. Among them are structural deficits, such as low growth in productivity and income inequality, and an increasing trend towards politico-economic protectionism. Additional uncertainty is coming from potential exchange rate volatility and from unpredictability in the interest rate environment, for example in connection with a possible end to the European Central Bank's expansionary monetary policy.

On the other hand, global economic development in emerging markets and developing countries, whose economic growth is expected to be well above the growth of the industrialised countries despite regional differences, is having a supportive effect.

In April 2017, the International Monetary Fund (IMF) raised its forecast for 2017 against its January outlook by 0.1 percentage points and is predicting a 3.5% increase in global gross domestic product (GDP). It also confirmed its forecast for 2018 and is expecting a GDP growth of 3.6%.

According to IMF estimates for 2017 and 2018, a positive trend in economic output is also forecast for the markets relevant for HELLA. China's economy will continue to power

above the global average, and significantly so with a rate of 6.6% in 2017 and 6.2% in the following year, but it will no longer top the high growth rates of previous years. In the case of the Eurozone, the IMF expects growth of 1.7% in 2017 and 1.6% in 2018. For the selective German economy, the IMF raised its assessment in July of this year slightly against the April forecast, and anticipates growth of 1.8% in the current calendar year and 1.6% in the following year. The US economy is expected to perform somewhat better than in prior years, with probable growth of 2.3% in 2017 and 2.5% in 2018.

Sector outlook

Within this global economic outlook, IHS Light Vehicle Production is forecasting for the period of the HELLA fiscal year 2017/2018 (1 June 2017 to 31 May 2018), a slight increase of 1.1% in global new production to 95.6 million units (prior year: 94.6 million). During this period, all core markets relevant to HELLA will probably experience largely stable or moderate growth. For instance, Europe is expected to grow by 1.5% to 22.2 million units (prior year: 21.9 million units), while in the selective German market in the same period new production is forecast to decrease by 1.6% to 5.8 million units (prior year: 5.9 million units). Growth in the Chinese market will be in the order of 1.1% to 27.7 million vehicles, and thus slightly weaker than in Europe (prior year: 27.4 million units). Asia/Pacific/Rest of World is expected to grow by 1.2% to 50.9 million vehicles (prior year: 50.3 million units). In the North, Central and South America region, new production in the fiscal year 2017/2018 is expected to increase by 0.3%, therefore maintaining the prior year's level of 20.8 million units. A fall of 3.2% to 11.4 million in new production is forecast for the selective US market (prior year: 11.8 million units).

Company outlook

In light of the projected general conditions and assuming there will be no significantly different outcomes owing to political, economic or social crises, HELLA is expecting a positive business development for the HELLA Group in fiscal year 2017/2018. The positive business outlook is supported, in particular, by the company's long-term strategic focus: HELLA is striving to build further on its technology and innovation leadership and strengthen its leading market position. The HELLA Group also continues to see promising opportunities for driving forward sustained global expansion, particularly in growth regions such as China and NAFTA. Additionally, HELLA is pushing ahead with another increase in operational excellence in the company's global network.

For the current fiscal year 2017/2018 (1 June 2017 to 31 May 2018), HELLA is expecting currency-adjusted sales growth

and an increase in adjusted earnings before interest and taxes (adjusted EBIT) of 5-10 % compared to the past fiscal year. The parameter for the adjusted EBIT margin is approximately 8 percent.

The forward-looking statements in this report are based on current assessments by HELLA's management. They are subject to risks and uncertainties which HELLA is not able to control or assess precisely, such as the future market environment and general economic conditions, actions by other market players and government measures. If any of these or other uncertainties and unknowns materialise, or if the assumptions on which such statements are based prove to be inaccurate, the actual results may differ materially from those expressed or implied in these statements.

Corporate Governance of HELLA KGaA Hueck & Co.

The General Partners, the Supervisory Board and the Shareholder Committee of HELLA KGaA Hueck & Co. are committed to the principles of transparent and responsible corporate governance and control of the Company, attaching great priority to the standards of good corporate governance. As a family-owned business, HELLA's main focus is on entrepreneurial guidelines that implement long-term goals and sustainability, as well as compliance with standards of law and ethical standards.

With the following explanations, the General Partners, the Supervisory Board and the Shareholder Committee report on corporate governance at HELLA in accordance with Section 3.10 of the German Corporate Governance Code (Deutscher Corporate Governance Kodex – DCGK) and, at the same time, on the conduct of the Company's business in accordance with Section 315 (5) of the German Commercial Code (Handelsgesetzbuch – HGB). Furthermore, the report contains the information and explanations required under Section 315 (4) and (5) HGB. An additional disclosure of such information and explanations in the notes is not necessary.

Report on Corporate Governance

I. CORPORATE GOVERNANCE MODEL OF HELLA KGaA HUECK & CO. AND THE HELLA GROUP

HELLA KGaA Hueck & Co. is a German partnership limited by shares (Kommanditgesellschaft auf Aktien – KGaA). Its legal form is a combination with similarities to a German limited partnership (Kommanditgesellschaft – KG) on the one hand and to a German stock corporation (Aktiengesellschaft – AG) on the other, with the main focus being on stock corporation law. As with a German stock corporation, the KGaA is a corporation whose nominal capital is divided into shares. As in a German limited partnership, the KGaA has two different groups

of partners; the personally liable partners (Komplementär(e)) (General Partner(s)) that are responsible for managing the KGaA's business and are personally liable without restrictions for the KGaA's liabilities, and the (limited liability) shareholders (Kommandit-Aktionäre) that hold an interest in the nominal capital of the KGaA. The legal status of the (limited liability) shareholders does not differ significantly from that of the shareholders of a German stock corporation.

The Company currently has two General Partners, Dr. Jürgen Behrend, who, however, will be resigning as Managing General Partner from the company at the end of September 2017, and HELLA Geschäftsführungsgesellschaft mbH, which has its registered office in Lippstadt. The shares in HELLA Geschäftsführungsgesellschaft mbH are held by the Company. Further governing bodies of HELLA KGaA Hueck & Co. are

- ❶ the Shareholder Committee established in accordance with the Articles of Association, which currently consists of six shareholder representatives elected by the Annual General Meeting,
- ❷ the Supervisory Board, which is constituted on a parity basis of eight shareholder representatives and eight employee representatives pursuant to the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), and
- ❸ the Annual General Meeting.

HELLA has established the Shareholder Committee that – as the central representative body of the shareholders – is responsible for advising and supervising the Management Board on a continuous basis and may play an active role in management issues, for example by determining which business transactions require its consent. When taking advantage of such organisational scope inherent in the legal form of the KGaA, HELLA emphasises transparency and equal treatment of all shareholders. Resolutions of the Annual General Meeting

ting, for example, are passed by a simple majority vote, unless mandatory legal provisions or the Articles of Association stipulate otherwise. This also applies to resolutions appointing or removing General Partners. Furthermore, the requisite consent of the General Partners to specific resolutions of the Annual General Meeting as prescribed by law is excluded according to the Articles of Association, to the extent permitted by law. In this and many other respects, HELLA KGaA Hueck & Co. closely follows the example of an ordinary stock corporation.

More detailed information on the differences to a stock corporation specific to the legal form can be found in the declaration of conformity (Entsprechenserklärung) of the General Partners, the Shareholder Committee and the Supervisory Board as of 31 May 2017, which has been published on the Company's website under [HELLA.COM/DECLARATIONOFCONFORMITY](https://www.hella.com/DECLARATIONOFCONFORMITY) and is reproduced below.

1. Group management by the General Partners

Group management at present consists of Dr. Jürgen Behrend as Managing General Partner and the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH with its President and CEO, Dr. Rolf Breidenbach. Following the resignation of Dr. Behrend at the end of September 2017, group management will be carried out by the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH solely. There are further Executive Boards in the segments and business divisions that are responsible for the operational and strategic management of the business units. Entrepreneurial self-responsibility is the basic principle for managing the business at all levels. For material business transactions, the Group Management Board requires the approval of the HELLA KGaA Hueck & Co. Shareholder Committee, which codetermines the significant guidelines for business by means of this process.

Pursuant to the Articles of Association, the General Partners are jointly responsible for the management of the Company's business. Important decisions, in particular the corporate strategy and decisions going beyond the day-to-day operations, are made jointly by the General Partners after consultation between Dr. Jürgen Behrend und Dr. Rolf Breidenbach, whereas the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH, headed by its CEO Dr. Breidenbach, are responsible for the operational implementation of the strategy and conducting the day-to-day business. In accordance with the Articles of Association and at the request of a General Partner, the Shareholder Committee decides over any differences of opinion between the General Partners concerning management actions. However, according to the Company's Articles of Association, this does not apply as long

as Dr. Jürgen Behrend acts as General Partner; in this case, he has the casting vote. Accordingly, he holds ultimate responsibility for management matters.

The Annual General Meeting is responsible for the appointment and removal of General Partners; according to the Articles of Association, the relevant resolution of the Annual General Meeting is passed by a simple majority of the votes cast, provided that such resolution does not require the General Partners' consent. Pursuant to the Articles of Association, Dr. Behrend may terminate his function as Managing General Partner effective as per the end of a quarter, giving three months' notice to the Shareholder Committee. He gave notice of such a termination for the end of September 2017. The Shareholder Committee is responsible for the appointment and removal of the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH, as well as for determining the terms and conditions of their service agreements. The Articles of Association stipulate that Dr. Behrend has the right to make proposals for such appointments and removals, and can ultimately veto any such decision. These statutory rights are linked to his position as Managing General Partner and will lapse upon his resignation.

2. Supervisory Board: competencies, functions and committees

The role of the Supervisory Board is to advise and supervise the General Partners in their conduct of the Company's business. In this respect, the competencies of the Supervisory Board of HELLA KGaA Hueck & Co. are limited due to its legal form. As opposed to the Supervisory Board of a stock corporation, the KGaA Supervisory Board is not responsible for appointments and dismissals in relation to the Company's Management Board. Nor does it have any power to issue rules of procedure for the Company's Management Board or determine which business decisions require its consent. The main responsibilities of the Supervisory Board include the review and approval of the annual financial statements and the consolidated financial statements, including the management report and the Group management report. The Supervisory Board further examines the proposal for the appropriation of distributable profit and prepares resolution proposals in respect of each agenda item on which the Annual General Meeting is to decide. The exercise of the authorisations granted to the General Partners to increase the nominal capital from authorised capital and to buy back treasury shares is also subject to the Supervisory Board's consent. The Supervisory Board reports annually on its activities to the Annual General Meeting, which adopts a resolution on its release.

As a rule, the Supervisory Board convenes four times a year. Resolutions of the Supervisory Board are adopted by a simple majority of the votes cast; each member has one vote. In case of a tie, the Chairman has the casting vote if the stalemate continues after a second vote on the same matter.

The Supervisory Board has a Nomination Committee consisting of the Chairman of the Supervisory Board and another Supervisory Board member representing the limited liability shareholders as elected by the Supervisory Board. The Nomination Committee prepares the proposals of the Supervisory Board to the Annual General Meeting for the election of Supervisory Board members. Currently, the members of the Nomination Committee are Prof. Dr. Michael Hoffmann-Becking and Elisabeth Fries. Furthermore, the Supervisory Board has an Audit Committee consisting of four Supervisory Board members elected by the Supervisory Board, of which two are shareholder representatives and two are employee representatives. Currently the members of the Audit Committee are Klaus Kühn (Chairman), Prof. Dr. Michael Hoffmann-Becking, Manfred Menningen and Paul Berger. The Audit Committee is responsible for monitoring the accounting processes, the effectiveness of the internal control system, the risk management system and the internal audit system, as well as the audit of the financial statements and compliance. It can propose recommendations or proposals to ensure the integrity of the accounting process. Furthermore, it issues a recommendation to the Supervisory Board for its proposal regarding the election of the auditor to be submitted to the Annual General Meeting. This recommendation must be substantiated in cases of inviting tenders for the audit mandate and must include at least two candidates. It decides instead of the Supervisory Board on the agreements with the auditor (in particular the audit assignment, determination of the main points of the audit and the fee agreement) and takes appropriate measures in order to establish and monitor the independence of the auditor. The Audit Committee also deals with any additional services provided by the auditor. It validates the Management Board report about the conclusions of the selection process. It is responsible for approving the award of non-audit services to be undertaken by the auditor that are not prohibited, whereby it may adopt directives in relation to tax advisory services that are not forbidden, within the scope of which the award of such services does not require individual authorisation. The Audit Committee also prepares the Supervisory Board's decisions on the approval of the annual financial statements and consolidated financial statements. For this purpose, it is responsible for conducting an initial review of the annual financial statements, the consolidated financial statements, the management report and the Group management report, and the proposal for the appropriation of distributable profit. The auditor participates in these meetings of the Audit Committee.

3. Shareholder Committee: competencies, functions and committees

The legal form of the KGaA makes it possible to create further optional corporate bodies. The Company took advantage of this opportunity. The Shareholder Committee, which has been created pursuant to the Articles of Association and is elected by the Annual General Meeting, supervises and advises the General Partners in their conduct of the Company's business and can issue rules of procedure for them. In addition, it determines which of the General Partners' transactions require its prior consent. It has management powers and power of representation for the legal relationship between the Company and the General Partners, and it represents the Company in legal disputes with the General Partners.

The Shareholder Committee exercises all rights attached to the Company's shares in HELLA Geschäftsführungsgesellschaft mbH. In particular, it appoints and removes the Managing Directors and is responsible for deciding on their employment contracts. The Articles of Association stipulate that Dr. Behrend has the right to make proposals for such appointments and removals, and can ultimately veto any such decision. These statutory rights are linked to his position as Managing General Partner and will lapse upon his resignation.

Furthermore, the Shareholder Committee may issue rules of procedure for the Management Board of HELLA Geschäftsführungsgesellschaft mbH. The Shareholder Committee is also responsible for executing shareholders' resolutions. In accordance with its rules of procedure, the Shareholder Committee also reviews the annual and consolidated financial statements, the management report and the Group management report, as well as the proposal for the appropriation of distributable profit; in addition, it submits resolution proposals in respect of each agenda item on which the Annual General Meeting is to decide. Further, the Shareholder Committee reports annually on its activities to the Annual General Meeting, which adopts a resolution on its release.

As a rule, the Shareholder Committee convenes five times a year. Resolutions of the Supervisory Board are adopted by a simple majority of the votes cast; each member has one vote. In case of a tie, the Chairman has the casting vote if the stalemate continues after a second vote on the same matter.

The Shareholder Committee has established a Personnel Committee consisting of its Chairman and two further members elected by the Shareholder Committee. Besides Manfred Wennemer, current Personnel Committee members are Roland Hammerstein and Konstantin Thomas. The Personnel Committee is responsible for preparing the Shareholder Committee's resolutions on the appointment and removal of

Managing Directors of HELLA Geschäftsführungsgesellschaft mbH and on their individual total remuneration, as well as on the individual total remuneration of the other General Partners and the remuneration system applied in this context. Notwithstanding the above, the Personnel Committee is responsible for the resolution regarding the conclusion, amendment and termination of the agreements with the General Partners and the service agreements of the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH.

4. Cooperation of Management Board, Supervisory Board and Shareholder Committee

The General Partners, the Supervisory Board and the Shareholder Committee work together on the basis of mutual trust in the best interests of the Company. Control of the management of the Company is primarily exercised by the Shareholder Committee. The management board has a reporting duty. The Shareholder Committee advises the General Partners, and for important business transactions and measures, which are defined by the Shareholder Committee in the rules of procedure for the General Partners, the consent of the Shareholder Committee must be obtained. The Supervisory Board is also responsible for supervising the management. For this purpose, the General Partners submit reports on a periodic basis and the Supervisory Board exercises information and inspection rights.

5. Objectives regarding the composition of the Supervisory Board and the Shareholder Committee

a) Content of the objectives for the committee composition and the competence profiles

Taking into account the specifics of the enterprise, the Supervisory Board and the Shareholder Committee have specified objectives regarding their future composition, as well as drawing up competence profiles for each of all the bodies. These objectives and competence profiles are to be taken into account by the bodies in new elections in their respective election proposals. This applies mutatis mutandis in the case of judicial appointments of Supervisory Board members.

In their respective composition, the Supervisory Board and the Shareholder Committee shall take into account the international activities of the HELLA Group. For this reason, it is intended that both the Supervisory Board and the Shareholder Committee have at least two members with relevant international experience, which means – for example – that they have worked abroad or have had significant interaction on an international level. Furthermore, the Supervisory Board and the Shareholder Committee take into account potential conflicts of interest of the members when determining their respective composition.

Independence of their respective members is also an important issue to which the Supervisory Board and the Shareholder Committee wish to pay due regard in connection with their respective composition, while taking into account the ownership structure. This is why both the Supervisory Board and the Shareholder Committee have set the objective that at least two members must be independent. As to the definition of independence, Section 5.4.2 DCGK is applied, whereby a member is, in particular, not considered to be independent if that member has any personal or business relationship with the Company, its corporate bodies, a controlling shareholder or any of its affiliates, which could give rise to a material conflict of interest that is not merely temporary.

When determining their respective composition, the Supervisory Board and the Shareholder Committee also take into account the age limits as defined in the internal rules of procedure, according to which as a rule, only those persons may be proposed as Supervisory Board members who, at the time of election, have not yet completed 75 years of age. Election as member of the Shareholder Committee shall be possible for the last time in the year in which the member completes 70 years of age.

In their respective composition, the Supervisory Board and Shareholder Committee consider first and foremost the professional and personal qualification of future members. In this context, the two bodies also consider diversity.

Against the background of the duties of the Supervisory Board and the Shareholder Committee, and the accompanying requirements of the skills and knowledge of the members, both the Supervisory Board and the Shareholder Committee have drawn up and agreed on a competence profile for the Board as a whole. The following competencies should be embodied in at least one member in both the Supervisory Board and the Shareholder Committee: (1) management experience in international markets, (2) industry expertise in the automotive industry or other manufacturing industries, (3) expertise in the areas of accounting or auditing and (4) experience in areas of law (for example compliance) that are relevant for HELLA.

b) Status of implementation of the composition objectives and competence profiles

In its current composition, the Shareholder Committee meets all of the aforesaid composition objectives and the competence profile. The current composition of the Supervisory Board, too, also meets all of the aforementioned composition objectives and competence profile except for the objective regarding the age limit.

**c) Names of the independent shareholders' members
(Section 5.4.1 para. 4, sentence 3 DCGK)**

In the opinion of the Shareholder Committee, all of its members (Manfred Wennemer, Roland Hammerstein, Dr. Gerd Kleinert, Klaus Kühn, Dr. Matthias Röpke and Konstantin Thomas) are independent in accordance as defined by the DCGK. This opinion is not inconsistent with the fact that Roland Hammerstein, Dr. Matthias Röpke and Konstantin Thomas are parties of the pool agreement of the family shareholders of HELLA KGaA Hueck & Co., which holds a total of 60.00% of the Company's voting rights. This does not justify the threat of a material conflict of interest that is not merely temporary nor do the aforementioned members therefore have relations with a "controlling shareholder" within the meaning of Section 5.4.2. DCGK, as the pool agreement does not allow any of its contracting parties to hold a majority of the voting rights in the Company.

The Supervisory Board believes that all shareholder representatives, namely Prof. Dr. Michael Hoffmann-Becking, Manuel Frenzel, Elisabeth Fries, Stephanie Hueck, Klaus Kühn, Claudia Owen, Dr. Konstanze Thämer and Christoph Thomas, are also independent within the meaning of the above. For the reasons outlined above, there is nothing to preclude that, with the exception of Prof. Dr. Michael Hoffmann-Becking and Klaus Kühn, all shareholder representatives are parties of the pool agreement of the family shareholders.

6. Composition of the subscribed capital/shareholders' rights

The nominal capital of the Company amounts to €222,222,224 and is divided into 111,111,112 no par value bearer shares. All shares have been fully paid in. The Articles of Association stipulate the shareholders' right to the issuance of share certificates representing their respective shares shall be excluded to the extent legally permitted and, unless such issuance is required, in accordance with the regulations applicable to the stock exchange on which the shares are admitted.

The shareholders exercise their rights provided for by law or by the Articles of Association before or during the Annual General Meeting and exercise their voting rights in this context. Each no par value share carries one vote at the Annual General Meeting. In addition, in the Annual General Meeting shareholders may express their opinion on items on the agenda, propose motions and address questions to the General Partners.

The Annual General Meeting of HELLA KGaA Hueck & Co. is usually held in the first four months of the fiscal year at the Company's registered office or in another German city that has more than 50,000 inhabitants. The meeting is convened

by the General Partners. Shareholders whose aggregate shareholding reaches one-twentieth of the nominal capital (i.e. € 11,111,112) may request the convening of an Annual General Meeting in writing, stating the purpose and reasons therefor. In the same manner, shareholders whose aggregate shareholding equals or exceeds a pro rata amount of € 500,000 may request that items be included in the agenda and published. Furthermore, shareholders whose shares in aggregate represent a proportionate amount of € 100,000 may submit a request to the Management Board, under certain conditions, that a special auditor be appointed by the court to review a procedure in the context of the Company's establishment or a procedure that has taken place within the past five years.

The resolutions of the Annual General Meeting are passed by a simple majority of the votes cast, unless mandatory law or the Articles of Association dictate otherwise and, where the law requires a capital majority, with a simple majority of the nominal capital represented at the time of passing the resolution. This also applies, in particular, to amendments to the Articles of Association and to the passing of a resolution on a transformation into a stock corporation. The Supervisory Board is authorised to resolve amendments of these Articles of Association that only relate to the version.

7. Restrictions concerning the voting rights or the transfer of shares

According to the notifications received by the Company, 60.00% of the Company's voting rights (a total of 66,666,669 no par value shares) were pooled as of 31 May 2017 by way of a pool agreement of the family members of HELLA KGaA Hueck & Co. Currently, a total of 62 members of the family of shareholders (Hueck and Röpke families), as well as two legal entities, form part of this pool agreement. The pool agreement may be terminated subject to notice for the first time as of 31 May 2024 and stipulates, among other things, that any exercise of the voting rights conferred by the pooled shares is subject to a vote in a meeting of the pool members to be held prior to the Annual General Meeting. Without the consent of the other pool members, pooled shares may be transferred only to descendants of Eduard Hueck sen., Richard Hueck sen. or Dr. Wilhelm Röpke or their respective spouses.

8. Major shareholders/special rights/participation of employees in the capital

According to the notifications received by the Company, the members of the pool agreement of the family shareholders of HELLA KGaA Hueck & Co. held as per 31 May 2017 a total of 60.00% of the Company's voting rights as a pooled shareholding. In addition, the members of the pool agreements also hold shares that do not form part of the pool. There is no direct

shareholding in HELLA KGaA Hueck & Co. of more than 10% of the voting rights.

No shares have been issued that confer multiple voting rights, preferential voting rights, maximum voting rights or special rights granting powers of control. No shareholding of employees exists in the Company's capital that would not enable the employees to directly exercise their shareholder rights.

9. Authorised capital/authorisation to buy back shares

In accordance with Article 5 (4) of the Articles of Association, the General Partners are authorised to increase the nominal capital with the approval of the Supervisory Board and the Shareholder Committee by a total amount of € 44 million by issuing, on one or more occasions on or before 9 October 2019, new no par value bearer shares against cash contributions and/or contributions in kind. In this context, the shareholders must generally be granted a subscription right. However, the General Partners are authorised to exclude, with the approval of the Supervisory Board and the Shareholder Committee, the shareholders' subscription rights as follows: firstly, in case of a capital increase against contributions in kind for the purpose of acquiring a business, parts of a business or participations in a business or other assets; secondly, in so far as is necessary in order to grant a subscription right for newly issued shares to the holders or creditors of bonds issued by the Company bearing option or conversion rights or obligations (warrants or convertible bonds), to the extent that such subscription rights would exist after exercise of their option or conversion right or fulfillment of their option or conversion obligation; thirdly, if the notional value of the new shares in the nominal capital does not exceed 10% of the nominal capital existing at the time this authorisation becomes effective and at the time a resolution to exercise the authorisation is adopted, provided that the issue price is not significantly lower than the stock exchange price, and further provided the notional value in the nominal capital of any shares that have been issued or sold with the exclusion of subscription rights on the basis of a corresponding authorisation in direct or analogous application of Section 186 (3) sentence 4 AktG must be included in the calculation; and fourthly, for the avoidance of fractional shares.

The General Partners are authorised, until 30 October 2019, to acquire treasury shares up to a total of 10% of the nominal capital or – if lower – of the nominal capital existing at the time the authorisation is exercised. The acquisition is made at the discretion of the General Partners with the consent of the Shareholder Committee and the Supervisory Board through the stock exchange or via a public offer request directed to all shareholders, or via a public invitation addressed

to all shareholders for submission of sales offers. The General Partners are authorised to use the treasury shares that have been acquired with the consent of the Shareholder Committee and the Supervisory Board or all legally permissible purposes. In particular, the shares may be recalled without any further resolution being passed by the Annual General Meeting, may be sold through the stock exchange or via a public offer directed to all shareholders pro rata to their respective interests or in a different way with the exclusion of the shareholders' subscription right, provided the sale takes place against cash consideration and at a price that does not significantly fall below the stock exchange price; in addition, if the subscription right is excluded, the shares may be offered and transferred against contributions in kind, in particular in connection with the acquisition of companies, parts of companies or shares in companies or any other assets, or may be used to service rights or obligations to purchase shares of HELLA KGaA Hueck & Co. resulting from convertible bonds or bonds with warrants or similar instruments, or in connection with employee share ownership plans.

In this context, treasury shares may also be acquired using put or call options or forward contracts, or a combination of these instruments (derivatives). Derivatives may be issued or acquired, excluding any subscription right of the shareholders, with a credit or financial institution, or another appropriate counterparty that is experienced in the derivatives business, with the proviso that, on the basis of the derivatives, only shares will be delivered that were acquired in keeping with the principle of equal treatment. Moreover, the issuance or acquisition of derivatives may be publicly offered to all shareholders or may be effected through the derivatives exchange Eurex or a comparable successor system after prior announcement in the Company's designated publication media, with the exclusion of any subscription rights. The term of the derivatives must be selected such that the acquisition of the shares through the exercise of derivatives takes place on 30 October 2019 at the latest.

10. Material agreements with change-of-control clauses/compensation agreements

HELLA KGaA Hueck&Co. has entered into the material agreements set out below which contain change-of-control provisions, for example as a result of a takeover bid:

The listed bonds currently outstanding which HELLA has issued (a 1.25% bond maturing in September 2017 with a nominal value of € 300 million, a 2.375% bond maturing in January 2020 with a nominal value of € 500 million and a 1.0% bond maturing in May 2024 with a nominal volume of € 300 million) are subject to change-of-control clauses under which the

bond creditors may demand early repayment if a person or group of persons acting jointly gains control over HELLA KGaA Hueck&Co. and the rating is lowered on account of this within 120 days of the change of control. In addition, HELLA KGaA Hueck & Co. has been granted a syndicated cash credit facility of € 450 million on which it has not yet drawn. This facility expires on 1 June 2022 and is also subject to a change-of-control clause, under which the creditors may terminate the facility and call in all outstanding amounts if a person or a group of persons acting jointly gains control of HELLA KGaA Hueck & Co. In all these cases, control is particularly deemed to have been gained if more than 50% of the voting-entitled shares are acquired. If any of the aforementioned instruments are prematurely called in as a result of such change of control, this could have a significant effect on HELLA's net assets, financial condition and results of operations.

The Company has not entered into any compensation agreements with any members of management (General Partners and Managing Directors of HELLA Geschäftsführungsgesellschaft mbH) or employees in the event of any takeover bid.

II. CORPORATE GOVERNANCE AND COMPLIANCE

In the interest of proper corporate governance, the members of the Management Board conduct the Company's business in accordance with statutory rules, the provisions of the Articles of Association of HELLA KGaA Hueck & Co. and HELLA Geschäftsführungsgesellschaft mbH and the rules of procedure for the General Partners and HELLA Geschäftsführungsgesellschaft mbH. In addition, the Management Board acts in accordance with the requirements set by the compliance guidelines, its Code of Conduct, the Corporate Governance Principles, its resolutions and other corporate rules.

Management practices extending beyond statutory requirements primarily result from our corporate philosophy. HELLA is firmly convinced that corporate success is founded on a corporate culture based on values. Equally important is the responsible treatment of employees, partners, society and the environment.

HELLA's primary goal is customer satisfaction. At its core, this corporate philosophy is based on a comprehensive understanding of quality that is not limited to product quality but which also covers all of the Company's activities.

For the corporate culture, too, customer satisfaction is the point of departure and prime objective. It can be achieved only if every employee internalises customer satisfaction individually as their own target and takes personal responsibility for achieving it. Consequently, the Company's guiding strategic principle is to demand and promote entrepreneurial self-

responsibility for each HELLA employee, irrespective of their position within the Company. As a result, processes and organisational structures at HELLA are always aligned in such a way as to enable the entrepreneurial self-responsibility of its employees.

The core of our corporate culture consists of seven basic values of the HELLA Group, which were defined under the headline "Professionalism and a Human Approach" as the basis for lasting corporate success: entrepreneurial spirit, cooperation, sustainability, performance orientation, innovation, integrity and exemplary behaviour by each and every individual.

These values give rise to basic rules of behaviour which HELLA has anchored in its Code of Conduct. They are binding for all Group employees all over the world. The Code of Conduct brings together the basic rules on ethical dealings that apply within the HELLA Group between employees but also in relation to business partners, public authorities and other third parties in conformity with the law. It is an expression of the self-perception of the HELLA Group, which is to meet the responsibility towards the company in relation to shareholders and society and to live up to the expectations of our customers, suppliers and business partners anew every day. The Code of Conduct for example is complemented by a Compliance Declaration on observing the rules of competition law.

Compliance – compliant behaviour and acting with integrity – is an integral part of the corporate culture, forms the basis for the business activities and is a prerequisite for sustained corporate success. The HELLA Corporate Compliance Office is responsible for the Group-wide compliance organisation and compliance management system that are anchored in the fundamental HELLA compliance guideline.

The Chief Compliance Officer and the Head of the Compliance Office coordinate the compliance organisation, enhancing the HELLA compliance system, and are responsible for the topics of antitrust law, anti-corruption legislation and capital market law. They report regularly to the Management Board and to the Audit Committee of the Supervisory Board. The Chief Compliance Officer reports to the President and CEO. Local compliance officers such as the Compliance Officer China and Mexico report to the Head of the Compliance Office. For other compliance matters (such as data protection, export control/customs), specialist functions within the HELLA Group are responsible as central technical compliance divisions who are performing this task competently and independently with the support of the Compliance Office. The compliance organisation is supplemented by a Compliance Board and the local compliance officers, who are responsible for compliance measures within the individual companies. Permanent members of

the Compliance Board, which meets regularly as an advisory and decision-making body, include the Chief Compliance Officer, the Head of the Compliance Office and the heads of the following business areas: Corporate Finance, Risk Management, Corporate Audit, Corporate Communications and HR.

In addition to the basic elements of compliance organisation, targets, culture and communications, the HELLA compliance system includes above all the pillars of the compliance programme which must be developed (further) for each compliance issue: risk analysis, information/instruction (prevention), controls and detection as well as reaction.

In order to strengthen the exchange between the individual central technical compliance divisions on cross-divisional topics and to support the focus of these specialist divisions on the requirements of the compliance guidelines in developing and expanding the respective compliance programme, regular meetings have been held since November 2016 between the persons responsible in the central technical compliance divisions, under the direction of the Compliance Office.

Through worldwide in-class events and web-based training (e-learning), directives and other publications together with advice in day-to-day operations, the heads of the central specialist compliance divisions ensure that all employees around the world are familiar with the correct way of handling statutory and internal rules, including the HELLA Code of Conduct. These measures are a key preventative component of our continuous compliance management.

Alongside the establishment and expansion of the HELLA compliance system and the HELLA compliance organisation, one focus of the Compliance Office in the past fiscal year was on the group-wide introduction of the web-based whistleblower portal "Tell Us". Employees may report grave misconduct via this portal – day and night and anonymously if wished. "Tell Us" offers an additional channel of communication, if a personal conversation – which continues to be the primary channel of communication in line with the culture of open communication at HELLA – cannot be considered. The portal also enables the whistleblower to enter into an anonymous dialogue. "Tell Us" notifications are logged centrally at the Compliance Office and the Corporate Audit and Corporate Security departments, and are processed according to the incident guideline – as in the past and with notifications incoming via other reporting channels as before. The processing including the closure of the process is documented in the "Tell Us" portal. The introduction of the whistleblower portal started in Germany in June 2016, followed gradually by most other countries in Europe and worldwide during the course of the last fiscal year.

All new HELLA employees throughout the Group will continue to be invited to the e-learning module "Code of Conduct and Compliance Fundamentals" as part of the onboarding process and their participation will be monitored.

Further details on the corporate philosophy and the principles of corporate governance can be found online under WWW.HELLA.COM/CORPORATERESPONSIBILITY.

III. DETERMINATIONS REGARDING FEMALE REPRESENTATION PURSUANT TO SECTION 76 (4) AND SECTION 111 (5) AKTG AND INFORMATION ABOUT THE GENDER QUOTA PURSUANT TO SECTION 96 (2) AKTG

The Management Board of HELLA KGaA Hueck & Co. had determined a target level of 9 % for female representation in the first management level below the Management Board. For the second management level below the Management Board, the target level was set at 5.6 %. Both target levels were to be reached by 30 June 2017.

HELLA raised the female representation in the first management level from 6.94 % (April 2015) to 8.14 % (June 2017) and in the second management level from 3.60 % (April 2015) to 4.88 % (June 2017). HELLA has taken various measures to specifically promote women and sees the clear effects of these measures in the increasing ratios, even though the objectives set for June 2017 could not be achieved in full. Over the next five years, HELLA is targeting a further, continuous rise in the female representation to 9.5 % in the first management level and to 6 % in the second management level.

No further determinations by the Supervisory Board pursuant to Section 111 (5) sentence 4 AktG have been made for reasons specific to the Company's legal form. In contrast to a stock corporation, the Supervisory Board of a KGaA does not have the authority to decide on the composition of the Management Board.

The composition of the Supervisory Board is governed by the mandatory requirement of Section 96 (2) AktG which specifies that at least 30 % of its members must be women and at least 30 % must be men. This requirement is met. Currently, six of the 16 Supervisory Board members (and four of the eight shareholder representatives) are women, which corresponds to a quota of 37.5 %. So far, neither the shareholder representative's side nor the employee representative side has objected to the overall fulfillment of the quota requirement.

IV. APPLICATION OF THE GERMAN CORPORATE GOVERNANCE CODE

The General Partners as well as the Shareholder Committee and Supervisory Board of HELLA KGaA Hueck & Co. publish an annual declaration in accordance with Section 161 AktG confirming conformity to the recommendations of the "Government Commission for the German Corporate Governance Code" published by the German Federal Ministry of Justice in the official part of Bundesanzeiger and disclose any recommendations which are or have not been conformed to, stating the reasons for this. On 31 May 2017, the Managing General Partners as well as the Shareholder Committee and the Supervisory Board of KGaA Hueck & Co. published the declaration below in accordance with Section 161 AktG on the Company's website.

Declaration regarding the German Corporate Governance Code in accordance with Section 161 Stock Corporation Act (Aktengesetz (AktG))

The General Partners as well as the Shareholder Committee and the Supervisory Board of HELLA KGaA Hueck & Co. ("Company") declare, pursuant to Section 161 AktG that since the last time this declaration was made on 31 May 2016, and except for the deviations set out below, the Company has complied, and intends to comply in the future, with the recommendations of the German Corporate Governance Code (Deutscher Corporate Governance Kodex, "DCGK"), as amended on 7 February 2017 and 5 May 2015, taking into account the special features of its legal form as set out below.

I. Special features of the legal form

The German Corporate Governance Code has been developed with companies organised as stock corporations or as European companies (SE) in mind and therefore does not take account of the special factors relating to the KGaA form. Accordingly, many of the recommendations of the German Corporate Governance Code can only be applied to HELLA KGaA Hueck & Co. in modified form. Material modifications are particularly required as a result of the following special factors relating to the Company's legal form.

1. Management

In contrast to a stock corporation whose affairs are managed by a board of directors, the management of a KGaA is the responsibility of the General Partners (partners with unlimited liability). They are not appointed or dismissed by the Supervisory Board but by the Annual General Meeting. The company has two General Partners, Dr. Jürgen Behrend and HELLA Geschäftsführungsgesellschaft mbH, which has its registered office in Lippstadt. HELLA Geschäftsführungsgesellschaft mbH is represented by its Managing Directors

Dr. Rolf Breidenbach (President and CEO), Markus Bannert, Dr. Werner Benade, Stefan Osterhage, Ulric Bernard Schäferbarthold and Dr. Matthias Schöllmann. Unlike the board of directors of a stock corporation, the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH are appointed for an indefinite period of time. There is only a chairman or speaker of the company's Management Board at the level of HELLA Geschäftsführungsgesellschaft mbH but not at the level of the General Partners. The shares in HELLA Geschäftsführungsgesellschaft mbH are held by the Company. The resultant shareholder rights are exercised by the Shareholder Committee.

2. Shareholder Committee

The legal form of the KGaA, as opposed to that of a stock corporation, makes it possible to establish further optional corporate bodies. The Company took advantage of this opportunity. The Shareholder Committee, which has been created pursuant to the Articles of Association and is elected by the Annual General Meeting, supervises and advises the General Partners in their conduct of the Company's business and can issue rules of procedure for them. In addition, it determines which of the General Partners' transactions require its prior consent. It has management powers and power of representation for the legal relationship between the Company and the General Partners, and it represents the Company in legal disputes with the General Partners. Following a request by a General Partner, the Shareholder Committee decides on any disagreement between the General Partners concerning management actions. However, according to the Company's Articles of Association, this does not apply as long as Dr. Jürgen Behrend acts as General Partner; in this case, he has the casting vote.

The Shareholder Committee exercises all rights attached to the Company's shares in HELLA Geschäftsführungsgesellschaft mbH. In particular, it appoints and removes the Managing Directors and is responsible for deciding on their employment contracts. However, the Articles of Association stipulate that Dr. Behrend has the right to make proposals for such appointments and removals, and can ultimately veto any such decision.

Furthermore, the Shareholder Committee may issue rules of procedure for the Management Board of HELLA Geschäftsführungsgesellschaft mbH. The Shareholder Committee is also responsible for executing shareholders' resolutions.

To the extent where the DCGK contains recommendations relating to the tasks and responsibilities of a supervisory board, which in the case of HELLA KGaA Hueck & Co. are performed by the Shareholder Committee under the terms of

its Articles of Association, these recommendations are deemed to apply to the Shareholder Committee.

3. Supervisory Board

Compared to the supervisory board of a stock corporation, the supervisory board of a KGaA has limited powers. In particular, it is not responsible for appointments and dismissals in relation to the Company's management. Nor does it have any power to issue rules of procedure for the Company's Management Board or determine which business decisions require its consent.

4. Annual General Meeting

The legal status of the Annual General Meeting is not dissimilar to that of a stock corporation. In particular, it elects the members of the Supervisory Board and the Shareholder Committee. To the extent permitted by law, resolutions of the Annual General Meeting of HELLA KGaA Hueck & Co. are adopted by a simple majority. In contrast to a stock corporation, the Annual General Meeting of HELLA KGaA Hueck & Co. adopts legally binding resolutions approving the annual financial statements.

Under the Stock Corporation Act Aktiengesetz (AktG), certain resolutions of the annual general meeting of a KGaA are subject to the approval of the General Partners (see Section 285 (2) and Section 286 (1) AktG). However, this consent requirement has been rendered inapplicable by the articles of association of HELLA KGaA Hueck & Co. to the extent legally permitted, in particular with regard to resolutions on amendments of the articles of association, fundamental and extraordinary business decisions, and the appointment and removal of General Partners. On the other hand, the annual financial statements cannot be approved by the Annual General Meeting without the general partners' consent. According to the Articles of Association, the General Partners declare their consent when submitting their resolution proposals on the annual unconsolidated financial statements to the Annual General Meeting.

II. DEVIATIONS FROM THE RECOMMENDATIONS OF THE GERMAN CORPORATE GOVERNANCE CODE

1. Time period from the last declaration on 31 May 2016 until the announcement of the amended DCGK on 24 April 2017

In the time period from the last declaration on 31 May 2016 until 24 April 2017, the following recommendations of the DCGK, as applicable until that date, were not complied with:

- a Deviating from Section 4.2.2. para. 2, sentence 3, the Shareholder Committee has not considered the relationship between the remuneration of the Management Board (i.e. Dr. Jürgen Behrend and the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH) and that of senior management and the staff overall. The responsibilities of the individual members of the Management Board, his/her personal performance, the economic situation and performance of the Group, and the remuneration levels at peer companies are considered more appropriate and meaningful benchmarks for determining the level of remuneration.
- b Deviating from Section 4.2.3 Paragraph 3, the level of provision aimed for under the pension scheme for the Management Board has not been established. The Company utilises an asset-linked pension plan for the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH. The benefits provided under this plan depend materially on such factors as the prevailing interest rate and the appreciation of the value of the plan assets. The defined-benefit pension plan for Dr. Jürgen Behrend has been established already in 1987, and was modified and extended in 2014. Against this background, defining a level of provision is therefore not considered useful or practicable
- c On 31 October 2014, the Annual General Meeting had resolved that no individualised disclosure of the remuneration granted to the Company's executive management shall be made pursuant to Sections 285 No. 9a) sentences 5 to 8 and 314 (1) No. 6a) sentences 5 to 8 of the German Commercial Code (Handelsgesetzbuch – HGB). Therefore, the Company deviates from the recommendations set forth in Section 4.2.5 DCGK.
- d Deviating from Section 5.4.1 para. 2, sentence 2 DCGK, the Shareholder Committee and the Supervisory Board have not specified any regular limit of length of membership. These bodies believe that any general regular limit is not helpful because such limit does not reasonably take into account specific individual aspects that would justify a longer length of membership of individual members of these bodies in the best interests of the company and of the voting shareholders. In the opinion of the Shareholder Committee and the Supervisory Board, diversity as required by the DCGK may also be reflected in different lengths of membership in the respective body and, thus, in the level of experience of its members

2. Time period since the announcement of the amended DCGK on 24 April 2017

In the period from 24 April 2017, the recommendations set forth under II. 1 letters a) through d) – which have thus remained unchanged, have not been complied with for the reasons given in each case. The new competence profiles provided for under Section 5.4.1 para. 2, sentence 1 DCGK were drawn up and adopted by the Shareholder Committee at its meeting of 29 May 2017 and by the Supervisory Board at its meeting of 30 May 2017. An earlier adoption was not possible as the dates of the meetings were determined quite far in advance, leading to a deviation from Section 5.4.1 para. 2, sentence 1 DCGK in the period between 24 April 2017 and the day of the meeting. The planned publication of CVs of all Supervisory Board and Shareholder Committee members on the website in accordance with Section 5.4.1 para. 5, sentence 2 DCGK shall take place at the end of May 2017. The necessary preparatory work resulted in a deviation from Section 5.4.1 para. 5, sentence 2 DCGK in the period since 24 April 2017.

3. Forward-looking part

The General Partners as well as the Shareholder Committee and the Supervisory Board of HELLA KGaA Hueck&Co. intend to continue to deviate from the recommendations set forth under II. 1. a) through d) DCGK and for the reasons given above. However, the recommendations stated under II. 2. shall be complied with in future.

III. FURTHER INFORMATION

Section 4.2.3 para. 2, sentence 3 DCGK includes the recommendation for variable remuneration components determined by multi-year assessment, that this assessment basis should be mainly forward-looking. According to Section

4.2.3 para. 2, sentences 4 and 7 DCGK, both positive and negative developments shall be taken into account when determining variable remuneration components, and those components shall be related to demanding, relevant comparison parameters. While the Company's short-term variable remuneration (STI) for contracts that exist before the fiscal year 2016/2017 is calculated as a fixed percentage of the Group's consolidated earnings before taxes (EBT) and for contracts concluded thereafter using the performance of the free cash flow (FCF), and does not retroactively penalize deteriorations in this performance measure over a multi-year period, the Company's LTI is tied to demanding targets for the Group's return on invested capital (RoIC) and is withheld over a forward-looking period of three financial years, during which it may decrease and be reduced to zero or increase, respectively, on account of deteriorations or improvements in the RoIC and/or the consolidated earnings before taxes. The Company considers this sufficient in the light of Section 4.2.3 para. 2, sentences 3, 4 and 7 DCGK.

V. DIRECTORS' DEALINGS/SHAREHOLDINGS OF MEMBERS OF THE GOVERNING BODIES

Pursuant to Section 15a WpHG, the Managing General Partners (including the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH), the members of the Supervisory Board and the Shareholder Committee, as well as related persons, are required to disclose notifiable dealings with shares of HELLA KGaA Hueck & Co. or related financial instruments, if the value of the dealings made by the member of the governing body and related persons in the calendar year reaches or exceeds the sum of € 5,000. The transactions notified to the Company in the fiscal year under review were duly published and are available on the website under WWW.HELLA.COM/DIRECTORSDEALINGS.

Remuneration report

The remuneration report contains information on the remuneration systems for the Managing General Partner Dr. Jürgen Behrend and the Managing Directors of HELLA Geschäftsführungsgesellschaft, as well as for the members of the Supervisory Board and of the Shareholder Committee of HELLA KGaA Hueck & Co. It takes into account the recommendations of the German Corporate Governance Code (DCGK) and contains the information and explanations required under the German Commercial Code (Handelsgesetzbuch, HGB) including the principles of the German Accounting Standard No. 17 (DRS 17) and in accordance with the International Financial Reporting Standards (IFRS). The information required by Section 314 (1) no. 6a sentences 5-8 HGB on the remuneration paid to the individual members of the Management Board is not disclosed. On 31 October 2014, the extraordinary Annual General Meeting passed a dispensation resolution within the meaning of Section 286 (5) sentence 1 HGB in conjunction with Section 314 (2) sentence 2 HGB. The Company will refrain from disclosing the information recommended by Section 4.2.5 paras. 3 and 4 DCGK in its remuneration report for as long as a corresponding dispensation resolution remains in force.

I. Remuneration of the Managing General Partner Dr. Jürgen Behrend and of the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH

In accordance with the Articles of Association, the legal relationships between the Company and a Managing General Partner are governed by agreements between the Managing General Partner and the Shareholder Committee to the extent that such relationships do not result from applicable mandatory provisions of the Articles or under law. In addition, the Shareholder Committee is responsible for deciding on the employment contracts of the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH. In this connection, the

Shareholder Committee also decides on the applicable remuneration system and the individual remuneration amount. It is assisted by its Personnel Committee in the performance of this task.

The individual remuneration of the Managing Directors has three components: a fixed non-performance-related component (plus non-performance-related remuneration in kind and ancillary benefits), an annual performance-related component (short-term incentive, STI) and a long-term performance-related component (long-term incentive, LTI). Additionally, there are pension commitments by the Company to Dr. Jürgen Behrend and comparable long-term obligations towards the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH. In view of the intended resignation of Dr. Behrend as at 30 September 2017, he will not be paid the fixed non-performance-related component and the STI in the fiscal year 2017/2018. In addition, an LTI base amount will be allocated for the last time on a time-proportionate basis for the fiscal year 2017/2018.

For new contracts that were concluded with Managing Directors in the past fiscal year, the Shareholder Committee further developed and modified the calculation of the remuneration components and various other contractual terms. In future, the Company will base new appointments on the modified concept described separately below. It also intends to convert existing contracts on the occasion of renewals.

1. NON-PERFORMANCE-RELATED REMUNERATION COMPONENT

The non-performance-related remuneration component consists of an annual fixed salary and remuneration in kind as well as other ancillary benefits. The annual fixed salary is paid in monthly intervals. Contrary to this, Dr. Jürgen Behrend does not receive an annual fixed salary but solely an annual minimum cash bonus. This minimum cash bonus is adjusted

annually in line with the changes in the basic salary of a federal civil servant within the B 3 salary group (highest seniority) subject to an annual review by the Shareholder Committee.

The remuneration in kind and other ancillary benefits primarily consist of the private use of a company car. Furthermore, Dr. Jürgen Behrend and all the Managing Directors in their capacity as members of the Company's governing bodies are covered by the Group's D&O insurance. In the event of any claim, they are responsible for a deductible of at least 10% of the loss capped at 1.5 times their annual fixed salary or (in Dr. Jürgen Behrend's case) the minimum cash bonus.

2. PERFORMANCE-RELATED REMUNERATION COMPONENTS

a) Short-term variable remuneration (STI)

For contracts already in place before the fiscal year 2016/2017, the short-term variable remuneration is calculated as a fixed percentage of the HELLA Group's operating earnings before taxes (EBT) for the fiscal year in question, adjusted for exceptional effects (extraordinary expenses and income reportable in the consolidated financial statements under Section 277 (4) HGB, old version). In this connection, a minimum bonus amount not tied to EBT is granted. The bonus is paid once per fiscal year.

The Company applies a modified calculation concept to contracts concluded after the fiscal year 2016/2017. Accordingly, the EBT is included in the calculation with a 70% weighting, while the remaining 30% is based on the performance of the free cash flow from operating activities (OFCF). The Shareholder Committee specifies minimum, target and maximum values for the EBT and OFCF. The minimum values define the floor for the disbursement of an STI. If the target values are reached, the STI amounts to 120% of the annual fixed salary and 360% of the annual fixed salary upon reaching the maximum values. In two cases, the target values of 120% of the annual fixed salary were guaranteed as minimum values for the first 12 months employment.

b) Long-term variable remuneration (long-term incentive, LTI)

The long-term variable remuneration (long-term incentive, LTI) for the fiscal year is also paid in cash. It is calculated on the basis of two key performance indicators during a period of a total of four fiscal years, thus creating a long-term and sustainable incentive. In addition to the EBT margin, it is primarily based on the return on invested capital (ROIC), which the Company uses as a strategic management parameter. ROIC is defined as the ratio of operating return before interest and after tax to invested capital. Return is calculated on the

basis of operating earnings before interest and taxes (EBIT) for the past twelve months at the level of the Group units, less the standard income tax rate applicable in the country in question. Invested capital is the average of the opening and closing value of the assets shown on the face of the balance sheet excluding cash and cash equivalents and current assets less liabilities carried on the face of the balance sheet excluding current and non-current financial liabilities for the reporting period.

The LTI payable is calculated as follows for contracts existing before the fiscal year 2016/2017: an LTI base amount is initially calculated for the fiscal year in question. It is calculated for each fiscal year as a key performance indicator-based percentage of the fixed salary of each Managing Director or, in Dr. Jürgen Behrend's case, as a percentage of the minimum cash bonus. This percentage of the LTI base amount depends on the ROIC and may range from 0% (if the ROIC is 14% or less) to 200% (if the ROIC is 22% or more). The target is achieved at a RoIC of 18%. Payment of the LTI to the Managing Directors is made after a period of three fiscal years following the fiscal year for which the LTI base amount was calculated. One half each of the amount paid is determined by changes in the HELLA Group's ROIC and EBT respectively. For this purpose, the figures for the fiscal year for which the LTI base amount was calculated are compared with those for the year at the expiry of which the amount is paid. Every increase by one percentage point in the applicable criteria results in an increase of 7.5% in the LTI base amount, while every decrease by the same amount leads to a corresponding decrease in the LTI base amount. This does not give rise to any entitlement on the part of the Company to recover any compensation from a Managing Director in the event of a negative overall LTI. In addition, it is not netted against a future positive LTI.

The calculation concept for the LTI base amount was amended for contracts concluded after the fiscal year 2016/2017. The Shareholder Committee specifies minimum, target and maximum values for the RoIC. The minimum value (currently a RoIC of 12%) defines the floor for calculating an LTI base amount. If the target value is reached (currently a RoIC of 16%), the LTI amounts to 80% of the annual fixed salary and 240% of the annual fixed salary upon reaching the maximum value (currently a RoIC of 24%). In two cases, an LTI base amount of 80% of the annual fixed salary was guaranteed as a minimum value for the first 12 months employment.

c) Remuneration cap

The Company has defined a remuneration cap under which the annual STI and LTI together are subject to a maximum equalling six times the applicable annual fixed salary or, in Dr. Jürgen Behrend's case, six times the minimum bonus. The

Shareholder Committee of HELLA KGaA Hueck&Co. may at its own discretion make a positive or negative adjustment to all variable remuneration components if it is of the opinion that the calculation of the variable remuneration component is not in line with the Company's business performance because of extraordinary effects.

d) Pension commitments and comparable long-term obligations

The Company has also made pension commitments and comparable long-term obligations to the Managing Directors. A defined benefit pension plan has been created for Dr. Jürgen Behrend. Claims under this plan arise when Dr. Jürgen Behrend relinquishes the position of Managing General Partner or passes away (in which case his surviving widow is the beneficiary).

With respect to the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH, the Company uses a defined contribution pension plan to which it allocates a certain amount each year for the respective Managing Director. This financial contribution was increased for contracts concluded after the fiscal year 2016/2017. Upon pension eligibility arising, the accrued capital is paid either in a single lump sum or - subject to the Company's approval - in instalments over a maximum period of eight years. The contributions to the pension plan may be invested externally in one or more investment funds. The return here is based on the performance of the investment in question. In any case, a minimum interest rate is guaranteed. As a general rule, the capital account is dissolved on 31 May of the year following the Managing Director's 58th birthday. This period may be extended at the Managing Director's request and subject to the Company's approval. Pension eligibility also arises in the event of full or partial loss of earning capacity, protracted disability due to illness or upon death predating the Managing Director's contractual date of eligibility. In this case, the capital is paid either in a single lump sum or - subject to the Company's approval - in instalments over a maximum period of eight years to the beneficiaries nominated by the Managing Director. In addition to the pension plan funded by the Company, the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH are free to participate in a further asset-linked pension plan. In this case, capital is accumulated in the form of an individually defined deferred compensation component and largely follows the rules applicable to the asset-linked pension plan funded by the Company.

e) Termination benefits for Managing Directors

The employment contract automatically expires at the end of the month in which the Managing Director turns 65 or at the end of the month in which the notice granting a retirement, disabili-

ty or similar pension is received. In the event of illness-related disability, the fixed salary or the difference over sickness benefits is paid for a further 18 months. In the case of death, the eligible beneficiaries receive the deceased Managing Director's fixed salary for a period of three months commencing with the month of death. If the Company revokes the appointment prior to the date of expiry of the service agreement, the service agreement can be terminated prematurely under exceptional circumstances. In cases in which the service agreement is terminated for material reasons for which the Managing Director is not responsible, a settlement of two times his annual remuneration or, if the remaining term of the service agreement is less than two years, a time-proportionate amount of the settlement is paid. For this purpose, the annual remuneration equals the sum total of the fixed annual salary plus bonuses less remuneration in kind and other ancillary benefits for the last full fiscal year prior to the termination of the appointment, plus the LTI payable after the expiry of the last full fiscal year.

If the Managing Director's appointment is terminated in the course of the fiscal year, a time-proportionate amount of the bonus is paid. The minimum bonus is likewise calculated on a time-proportionate basis. The LTI base amount is also calculated on a time-proportionate basis for the year of termination. In certain cases, the LTI base amounts not yet due for payment lapse or are reduced on a time-proportionate basis upon exit.

There are no special change-of-control arrangements or particular compensation agreements with the Company in the event of a takeover bid.

3. TOTAL REMUNERATION FOR THE FISCAL YEAR 2016/2017

The total remuneration (excluding pension commitments and comparable long-term obligations) paid to the Managing General Partner Dr. Jürgen Behrend and the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH came to € 17,881 thousand in the fiscal year 2016/2017 (prior year: € 17,516 thousand). Of this, fixed remuneration accounted for € 2,881 thousand (prior year: € 2,950 thousand) and variable remuneration for € 15,000 thousand (prior year: € 14,566 thousand).

Remuneration in kind and other ancillary benefits came to a total of € 328 thousand in the fiscal year 2016/2017 (prior year: € 238 thousand). Remuneration in kind was measured on the basis of actual cost. The ancillary benefits include expenses of € 7 thousand (prior year: € 0 thousand) for double budgeting and of € 118 thousand for remuneration compensation (prior year: € 0 thousand). The present value of the pension liabilities

(defined benefit obligation) and the comparable long-term obligations for the active Managing Directors (Dr. Jürgen Behrend and the Managing Directors of HELLA Geschäftsführungsgesellschaft mbH) came to € 22,081 thousand as at 31 May 2017 (previous year: € 19,917 thousand).¹ The financing contributions structured in the form of investment fund units and pledged to the beneficiaries were valued at € 12,072 thousand as of the reporting date (prior year: € 9,941 thousand).

Pension liabilities towards former members of the Management Board and their surviving dependants came to € 9,165 thousand (prior year: € 8,990 thousand). This was transferred to Allianz Pensionsfonds AG in the amount of € 3,890 thousand (prior year: € 4,001 thousand). The net obligation of the share transferred to Allianz Pensionsfonds AG comes to € 205 thousand (prior year: € 261 thousand). Payments under pension liabilities towards former members of the Management Board and their surviving dependants came to € 278 thousand (prior year: € 348 thousand).

In addition, the Company paid settlement amounts of € 0 thousand in the fiscal year 2016/2017 (prior year: € 6,720 thousand).

Commitments of € 2,200 thousand (prior year: € 0 thousand) for amounts payable from the LTI programme arising from the occurrence or suspension of conditions were made in the fiscal year 2016/2017.²

4. LIABILITY REMUNERATION FOR HELLA GESCHÄFTSFÜHRUNGSGESELLSCHAFT MBH

Under Article 8 of the Articles of Association, HELLA Geschäftsführungsgesellschaft mbH as a General Partner receives liability remuneration of 5% of its paid-in capital payable on the reporting date. The Company paid an amount of € 1 thousand (prior year: € 1 thousand) in this connection.

II. Remuneration of the Supervisory Board

Under Article 16 of the Articles of the Association, the Annual General Meeting determines the remuneration payable to the Supervisory Board. In accordance with the still applicable resolution passed at the Annual General Meeting on 26 September 2014, all members of the Supervisory Board receive annual remuneration of € 20 thousand. The Chairman of the Supervisory Board receives annual remuneration of € 40 thousand and each Deputy Chairman € 30 thousand. Members serving on the Supervisory Board for only part of the fiscal year receive a corresponding time-proportionate amount. Each member of the Audit Committee receives additional annual remuneration of € 10 thousand. The Chairman of the Audit Committee receives additional annual remuneration of € 20 thousand. The members of the Nomination Committee do not receive any additional remuneration. All members of the Supervisory Board are reimbursed for all expenses which they incur in the performance of their duties plus value added tax. No attendance fees are paid. The total remuneration paid to the members of the Supervisory Board (fixed remuneration and remuneration for committee work) came to € 400 thousand in the fiscal year 2016/2017 (prior year: € 400 thousand). Of this, fixed remuneration accounted for € 350 thousand (prior year: € 350 thousand) and committee remuneration for € 50 thousand (prior year: € 50 thousand).

As members of the Company's governing bodies, the members of the Supervisory Board are covered by the Group's D&O insurance. This cover is subject to a deductible of at least 10% per claim, which however is capped at one-and-a-half times the fixed annual remuneration.

The Chairman of the Supervisory Board, Prof. Dr. Michael Hoffmann-Becking, is a partner in a law firm which provides legal advisory services to HELLA KGaA Hueck & Co. and the Group in several different fields of law, including company law, securities law, labour law and competition law among other things. In the fiscal year 2016/2017, the Group was billed a total of € 297 thousand plus value added tax for these advisory services (prior year: € 456 thousand plus value added tax). The advisory services provided in the fiscal year 2016/2017 particularly included the preparation and execution of the Annual General Meeting of HELLA KGaA Hueck and Co. Otherwise, no other payments or benefits were granted to members of the Supervisory Board for products and services, in particular for advisory and placement services.

¹ of which € 7,958 thousand (prior year € 5,447 thousand) employee-financed

² The commitment includes services rendered within the LTI programme based on 100% target achievement. Please refer to 1.2b. for a detailed description of the LTI programme.

The following table sets out the individual remuneration paid to the members of the Supervisory Board in the fiscal years 2016/2017 and 2015/2016.

€	Fixed remuneration		Remuneration for committee work		Total remuneration	
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016
Prof. Dr. Michael Hoffmann-Becking, Chairman	40,000.00	40,000.00	10,000.00	10,000.00	50,000.00	50,000.00
Alfons Eilers, Deputy Chairman	30,000.00	30,000.00	0	0	30,000.00	30,000.00
Laura Behrend (up to 29 September 2016)	6,630.14	20,000.00	0	0	6,630.14	20,000.00
Paul Berger	20,000.00	20,000.00	10,000.00	10,000.00	30,000.00	30,000.00
Michaela Bittner	20,000.00	20,000.00	0	0	20,000.00	20,000.00
Heinrich-Georg Bölter	20,000.00	20,000.00	0	0	20,000.00	20,000.00
Manuel Rodriguez Cameselle	20,000.00	20,000.00	0	0	20,000.00	20,000.00
Manuel Frenzel	20,000.00	20,000.00	0	0	20,000.00	20,000.00
Elisabeth Fries	20,000.00	20,000.00	0	0	20,000.00	20,000.00
Stephanie Hueck	20,000.00	20,000.00	0	0	20,000.00	20,000.00
Susanna Hülsbömer	20,000.00	20,000.00	0	0	20,000.00	20,000.00
Klaus Kühn	20,000.00	20,000.00	20,000.00	20,000.00	40,000.00	40,000.00
Manfred Menningen	20,000.00	20,000.00	10,000.00	10,000.00	30,000.00	30,000.00
Claudia Owen (from 29 September 2016)	13,424.66	0	0	0	13,424.66	0
Marco Schweizer	20,000.00	20,000.00	0	0	20,000.00	20,000.00
Dr. Konstanze Thämer	20,000.00	20,000.00	0	0	20,000.00	20,000.00
Christoph Thomas	20,000.00	20,000.00	0	0	20,000.00	20,000.00

III. Remuneration of the Shareholder Committee

Under Article 28 of the Articles of the Association, the Annual General Meeting determines the remuneration payable to the Shareholder Committee. Under the still valid resolution passed at the Annual General Meeting on 19 November 2010, the Chairman of the Shareholder Committee receives annual remuneration of € 300 thousand and all other members € 100 thousand. Members serving on the Shareholder Committee for only part of the fiscal year receive a corresponding time-proportionate amount. All members of the Shareholder Committee are reimbursed for all expenses which they incur in the performance of their duties plus value added tax. No attendance fees are paid. No additional remuneration is paid to members of the Personnel Committee.

As members of the Company's governing bodies, the members of the Shareholder Committee are covered by the Group's

D&O insurance. This cover is subject to a deductible of at least 10% per claim, which however is capped at one-and-a-half times the fixed annual remuneration.

The total remuneration paid to the members of the Shareholder Committee came to € 885 thousand plus value added tax in the fiscal year 2016/2017 (prior year: € 900 thousand plus value added tax). Of this, fixed remuneration accounted for € 885 thousand (prior year: € 900 thousand) and remuneration for committee work for € 0 thousand (prior year: € 0 thousand).

No payments or benefits other than those mentioned above were granted to members of the Shareholder Committee for products and services, in particular for advisory and placement services, in the fiscal year 2016/2017.

The following table sets out the individual remuneration paid to the members of the Shareholder Committee in the fiscal years 2016/2017 and 2015/2016.

€	Fixed remuneration		Remuneration for committee work		Total remuneration	
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016
Manfred Wennemer, Chair	300,000.00	300,000.00	0	0	300,000.00	300,000.00
Moritz Friesenhausen (up to 29 March 2017)	85,479.45	100,000.00	0	0	85,479.45	100,000.00
Roland Hammerstein	100,000.00	100,000.00	0	0	100,000.00	100,000.00
Dr. Gerd Kleinert	100,000.00	100,000.00	0	0	100,000.00	100,000.00
Klaus Kühn	100,000.00	100,000.00	0	0	100,000.00	100,000.00
Dr. Matthias Röpke	100,000.00	100,000.00	0	0	100,000.00	100,000.00
Konstantin Thomas	100,000.00	100,000.00	0	0	100,000.00	100,000.00

Report by the Supervisory Board

Ladies and Gentlemen,

In the fiscal year 2016/2017, the Supervisory Board closely followed the situation and development of HELLA KGaA Hueck & Co. The Supervisory Board performed the tasks incumbent upon it as provided for by applicable law and the articles of association, and advised and supervised the Management Board.

The Management Board provided the Supervisory Board on a regular basis with written and verbal information on the business performance of HELLA KGaA Hueck & Co. In particular, the market and sales situation of the enterprise against the background of general economic developments, the financial situation of the Company and its subsidiaries as well as earnings trends were presented to the Supervisory Board. In the context of the quarterly reporting, sales and earnings figures were presented for the HELLA Group as a whole as well as broken down by business segment.

Furthermore, during the Supervisory Board meetings, the current business situation, the sales, results and capital expenditure planning, as well as the operative targets were discussed. Any deviations in the course of business from the budgeted values were explained by the Management Board in detail.

FOCUS OF DELIBERATIONS OF THE SUPERVISORY BOARD

In the fiscal year 2016/2017, the Supervisory Board held four ordinary meetings, which took place on 10 August 2016, 27 October 2016, 27 January 2017 and 30 May 2017.

At the meeting on 10 August 2016, the annual financial statements of HELLA KGaA Hueck & Co. and of the Group for the fiscal year 2015/2016 were presented and discussed in depth. Based on the initial review by the Audit Committee, the

Supervisory Board approved both financial statements. The Supervisory Board further addressed the proposed resolutions for the Annual General Meeting on 29 September 2016 and an outlook for current market development.

At the meeting on 27 October 2016, the Management Board reported on the current business performance and provided an overview of the newly defined "guardrails" for HELLA's annual strategy process.

The main topic of the meeting on 27 January 2017 was the current financial situation of the Company. Another focal point was the current status of HELLA's co-operation with external service providers in the areas of Facility Management, Logistics and IT.

The topics of the meeting on 30 May 2017 were in particular the Management Board report for the third quarter of the fiscal year 2016/2017, the year-end forecast for the fiscal year 2016/2017, the business plans for fiscal years 2017/2018 to 2019/2020 and the results of the annual HELLA strategy process. Furthermore, the annual declaration of conformity regarding the German Corporate Governance Code pursuant to Section 161 Stock Corporation Act (Aktiengesetz, "AktG") was adopted and subsequently published on the Company's website at www.HELLA.de/entsprechenserklaerung. In addition, the declaration was renewed on the objectives for the composition of the Supervisory Board and on the competence profile for the Supervisory Board in keeping with the recommendations of the German Corporate Governance Code as of 7 February 2017. It was also agreed to adjust rules of procedure of the Supervisory Board to the new rules in the audit directive.

WORK OF THE COMMITTEES

The Supervisory Board has established an Audit Committee which is responsible for the initial review of the annual financial statements, of the consolidated financial statements, of the management reports and of the proposal for the appropriation of profits. The Audit Committee is also responsible for preparing the agreements with the auditor, in particular the instruction of the auditor, defining the main points of the audit and the fee agreement. The Audit Committee additionally deals with the supervisory duties prescribed by Section 107 (3) sentence 2 AktG. The members of the Audit Committee are Klaus Kühn (Chairman), Prof. Dr. Michael Hoffmann-Becking, Paul Berger and Manfred Menningen.

The **AUDIT COMMITTEE** convened four times in the fiscal year 2016/2017. At the meeting on 2 August 2016, the Committee examined the initial review of the annual financial statements and of the consolidated financial statements as at 31 May 2016, as well as of the management reports and of the proposal for the appropriation of profits. Representatives of the auditor of the annual financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft, Bielefeld, also participated in this meeting of the Audit Committee. Furthermore, the annual reports by company auditing, risk management and compliance management were presented and discussed.

At the meeting on 23 September 2016, the Audit Committee examined the three-month financial statement for the fiscal year 2016/2017. Representatives of the auditor were present at the meeting and reported on the new accounting provisions.

At the meeting on 10 January 2017, the half-year financial report for the fiscal year 2016/2017 was presented. Representatives of the auditor were present at the meeting and

explained the result of their audit review of the half-year financial report. The reports on company auditing and compliance management were also discussed.

Representatives of the auditor participated at the meeting on 28 March 2017, during which the nine-month financial statement was discussed and the main points of the 2016/2017 year-end audit were defined. The Audit Committee also examined the agreement with the auditor for the review of the annual financial statements for the fiscal year 2016/2017. Based on the resolution passed, KPMG AG Wirtschaftsprüfungsgesellschaft AG, Bielefeld, was instructed by means of a written resolution procedure to conduct the audit. An additional focal point of the discussion was the project cost calculation of HELLA; moreover, the draft of the auditing plan for the fiscal year 2017/2018 was presented.

The **NOMINATION COMMITTEE**, which is responsible for preparing the proposals presented by the Supervisory Board to the Annual General Meeting for the election of Supervisory Board members, did not convene in the fiscal year 2016/2017.

AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 29 September 2016, the Annual General Meeting appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Bielefeld, as auditor both for the annual financial statements and for the consolidated financial statements for the fiscal year 2016/2017. The annual financial statements and the management report of HELLA KGaA Hueck & Co. for the fiscal year 2016/2017 were prepared by the General Partners in accordance with the provisions applicable under the German Commercial Code (Handelsgesetzbuch, "HGB"); the consolidated financial statements and the group management report were prepared in

accordance with the International Financial Reporting Standards (IFRS) to be adopted in the European Union, and in accordance with the additional commercial law provisions under Section 315a HGB to be applied. The two financial statements including the management reports were audited by auditor KPMG, which issued an unqualified auditors' certificate for all documents. The Audit Committee of the Supervisory Board thoroughly reviewed the annual financial statements at its meeting on 2 August 2017. The representatives of the auditor, present at the meeting of the Audit Committee, reported on the result of their audits and gave additional information. In the course of its audit, the auditor did not find any material shortcomings in respect of the organisation and effectiveness of the internal control and risk management system.

Based on the preparatory initial review by its Audit Committee, the Supervisory Board, for its part, also reviewed the annual financial statements and the management report of HELLA KGaA Hueck & Co. as well as the consolidated financial statements and the Group management report for the fiscal year 2016/2017. Given the final result of the Supervisory Board's review, there are no objections to be raised against the annual financial statements and the consolidated financial statements. At its meeting on 9 August 2017, the Supervisory Board approved the annual financial statements and the consolidated financial statements, and endorsed the proposal of the General Partners for the appropriation of distributable profits.

COMPOSITION OF THE SUPERVISORY BOARD

Ms. Laura Behrend resigned from her position as member of the Supervisory Board with effect from the end of the Annual General Meeting of 29 September 2016. On the recommendation of the Supervisory Board, Ms. Claudia Owen was appointed

by the Annual General Meeting as a new member of the Supervisory Board with effect from the end of the Annual General Meeting of 29 September 2016.

THANKS TO THE MEMBERS OF THE MANAGEMENT BOARD AND TO ALL EMPLOYEES

The Supervisory Board would also like to express its gratitude and appreciation to the members of the Management Board and to all employees of HELLA worldwide for their commitment and successful work in the fiscal year 2016/2017.

Lippstadt, 9 August 2017

On behalf of the Supervisory Board


Prof. Dr. Michael Hoffmann-Becking
 (Chairman)

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Consolidated income statement

of HELLA KGaA Hueck & Co. for the period from 1 June to 31 May

€ thousand	Notes	2016/2017	2015/2016
Sales	10	6,584,748	6,351,889
Cost of sales	11	-4,772,735	-4,663,691
Gross profit		1,812,014	1,688,198
Research and development expenses	12	-636,243	-623,459
Distribution expenses	13	-506,319	-493,913
Administrative expenses	14	-229,627	-218,239
Other income and expenses	15	14,965	13,918
Earnings from investments accounted for using the equity method	32	51,937	52,979
Other income from investments		443	308
Earnings before interest and taxes (EBIT)		507,170	419,792
Financial income	16	15,027	32,515
Financial expenses	16	-59,274	-72,027
Net financial result	16	-44,247	-39,512
Earnings before income taxes (EBT)		462,923	380,280
Income taxes	17	-119,816	-108,419
Earnings for the period		343,107	271,861
of which attributable:			
to the owners of the parent company	39	341,733	268,500
to non-controlling interests	39	1,374	3,361
Basic earnings per share in €	19	3.08	2.42
Diluted earnings per share in €	19	3.08	2.42

Consolidated statement of comprehensive income

(after-tax analysis) of HELLA KGaA Hueck & Co.; for the period from 1 June to 31 May

€ thousand	2016/2017	2015/2016
Earnings for the period	343,107	271,861
Currency translation differences	-14,515	-80,215
Changes recognised in equity	-14,299	-80,215
Gains reclassified to profit or loss	-216	0
Financial instruments for cash flow hedging	5,461	24,038
Changes recognised in equity	11,155	24,499
Gains reclassified to profit or loss	-5,693	-461
Change in fair value of financial instruments available for sale	4,259	-7,344
Changes recognised in equity	3,937	-10,307
Losses reclassified to profit or loss	322	2,963
Share of other comprehensive income attributable to associates and joint ventures	-70	-13,583
Items that were or can be transferred to profit or loss	-4,795	-63,521
Remeasurements of defined benefit plans	-3,706	5,017
Share of other comprehensive income attributable to associates and joint ventures	-507	-99
Items never transferred to profit or loss	-3,706	5,017
Other comprehensive income for the period	-8,500	-58,504
Comprehensive income for the period	334,607	213,357
of which attributable:		
to the owners of the parent company	333,526	210,593
to non-controlling interests	1,081	2,764

Consolidated statement of financial position

of HELLA KGaA Hueck & Co. as at 31 May

€ thousand	Notes	31 May 2017	31 May 2016
Cash and cash equivalents	24	783,875	585,134
Financial assets	25	314,386	328,790
Trade receivables	26	1,067,979	937,471
Other receivables and non-financial assets	27	155,738	146,376
Inventories	28	663,533	607,584
Current tax assets		25,657	26,783
Non-current assets held for sale	29	0	2,924
Current assets		3,011,167	2,635,062
Intangible assets	30	254,850	225,021
Property, plant and equipment	31	1,906,676	1,697,539
Financial assets	25	30,094	17,033
Investments accounted for using the equity method	32	273,901	261,448
Deferred tax assets	33	117,488	122,954
Other non-current assets	34	44,021	36,244
Non-current assets		2,627,030	2,360,239
Assets		5,638,197	4,995,301
Financial debt	38	340,481	86,880
Trade payables	35	672,888	633,818
Current tax liabilities		60,670	57,923
Other liabilities	36	635,935	558,043
Provisions	37	100,481	65,259
Current liabilities		1,810,454	1,401,923
Financial debt	38	1,036,205	1,064,789
Deferred tax liabilities	33	32,371	25,767
Other liabilities	36	182,320	193,284
Provisions	37	351,103	330,888
Non-current liabilities		1,601,999	1,614,728
Subscribed capital	39	222,222	222,222
Reserves and unappropriated surplus	39	1,998,533	1,750,563
Equity before non-controlling interests	39	2,220,755	1,972,785
Non-controlling interests	39	4,989	5,865
Equity		2,225,744	1,978,650
Equity and liabilities		5,638,197	4,995,301

Consolidated cash flow statement

of HELLA KGaA Hueck & Co. for the period from 1 June to 31 May

€ thousand	Notes	2016/2017	2015/2016*
Earnings before income taxes (EBT)		462,923	380,280
+ Depreciation and amortisation		411,970	395,753
+/- Change in provisions		34,053	-22,233
+ Cash receipts for series production		131,503	83,120
- Non-cash sales transacted in previous periods		-116,176	-101,086
- Other non-cash income		-81,565	-59,703
+ Losses from the sale of property, plant and equipment and intangible assets		6,000	4,168
+ Net financial result		44,247	39,512
- Increase in trade receivables and other assets not attributable to investing or financing activities		-124,535	-115,088
- Increase in inventories		-54,710	-34,264
+ Increase in trade payables and other liabilities not attributable to investing or financing activities		68,811	121,707
+ Tax refunds received		16,227	12,766
- Taxes paid		-123,132	-122,049
+ Dividends received		36,905	39,903
= Net cash flow from operating activities		712,521	622,786
+ Cash receipts from the sale of property, plant and equipment		11,932	9,048
+ Cash receipts from the sale of intangible assets		4,818	4,940
- Payments for the purchase of property, plant and equipment		-592,836	-489,869
- Payments for the purchase of intangible assets		-72,888	-70,735
+ Repayments of loans to investments		250	4,866
- Payments for loans granted to investments		0	-4,147
+ Cash receipts from capital decrease in investments		0	2,766
- Payments for capital increases in investments		0	0
+ Cash receipts from the disposal of subsidiaries with loss of control (net of cash and cash equivalents transferred) and from liquidation of other investments		5,538	103
- Payments for the acquisition of subsidiaries, less cash and cash equivalents received	03	-4,921	0
= Net cash flow from investing activities		-648,107	-543,028
+ Cash receipts from the issuance of a bond	38	298,707	0
- Payments for the repayment of financial liabilities		-102,952	-59,427
+ Cash proceeds from changes in financial debt	38	34,917	68,556
+ Net payments for the purchase and sale of securities		12,491	68,477
- Payments made for acquiring shares of non-controlling interests		0	-57,789
+ Interest received		11,198	12,346
- Interest paid		-32,593	-32,978
- Dividends paid	39	-86,766	-86,612
= Net cash flow from financing activities		135,002	-87,427
= Net change in cash and cash equivalents		199,416	-7,670
+ Cash and cash equivalents as at 1 June		585,134	602,744
+/- Effect of exchange rate fluctuations on cash and cash equivalents		-675	-9,941
= Cash and cash equivalents as at 31 May		783,875	585,134

*See also Note 07
Notes to the cash flow statement see Note 40

Consolidated statement of changes in equity

of HELLA KGaA Hueck & Co.

€ thousand	Subscribed capital	Capital reserve	Reserve for cur- rency translation differences	Reserve for financial instruments for cash flow hedging
As at 1 June 2015	222,222	250,234	81,505	-89,092
Earnings for the period	0	0	0	0
Other comprehensive income for the period	0	0	-79,631	24,045
Comprehensive income for the period	0	0	-79,631	24,045
Distributions to shareholders	0	0	0	0
Changes in ownership interest in subsidiaries	0	0	-181	0
Transactions with shareholders	0	0	-181	0
As at 31 May 2016	222,222	250,234	1,693	-65,047
Earnings for the period	0	0	0	0
Other comprehensive income for the period	0	0	-14,225	5,462
Comprehensive income for the period	0	0	-14,225	5,462
Distributions to shareholders	0	0	0	0
Disposal of non-controlling interests	0	0	0	0
Transactions with shareholders	0	0	0	0
As at 31 May 2017	222,222	250,234	-12,532	-59,585

See also Note 39 for notes on equity

Reserve for available-for-sale financial instruments	Remeasurements of defined benefit plans	Other retained earnings/profit carried forward	Reserves and unappropriated surplus	Equity before non-controlling interests	Non-controlling interests	Equity
10,469	-70,904	1,475,804	1,658,016	1,880,238	29,456	1,909,694
0	0	268,500	268,500	268,500	3,361	271,861
-7,344	5,023	0	-57,907	-57,907	-597	-58,504
-7,344	5,023	268,500	210,593	210,593	2,764	213,357
0	0	-85,556	-85,556	-85,556	-1,056	-86,612
0	0	-32,309	-32,490	-32,490	-25,299	-57,789
0	0	-117,865	-118,046	-118,046	-26,355	-144,401
3,125	-65,881	1,626,439	1,750,563	1,972,785	5,865	1,978,650
0	0	341,733	341,733	341,733	1,374	343,107
4,231	-3,675	0	-8,207	-8,207	-294	-8,500
4,231	-3,675	341,733	333,526	333,526	1,081	334,607
0	0	-85,556	-85,556	-85,556	-1,210	-86,766
0	0	0	0	0	-746	-746
0	0	-85,556	-85,556	-85,556	-1,957	-87,513
7,357	-69,557	1,882,616	1,998,533	2,220,755	4,989	2,225,744

01 Basic information

HELLA KGaA Hueck & Co. (HELLA KGaA) and its subsidiaries (collectively referred to as the "Group") develop and manufacture lighting technology and electronics components and systems for the automotive industry. In addition to the development and manufacture of components, the Group also produces complete vehicle modules and air-conditioning systems in joint venture undertakings. The Group's production and manufacturing sites are located across the globe; its most significant markets are in Europe, the USA and Asia, particularly Korea and China. In addition, HELLA has its own international sales network for all kinds of vehicle accessories.

The Company is a listed stock corporation, which was founded and is based in Lippstadt, Germany. The address of the Company's registered office is Rixbecker Str. 75, 59552 Lippstadt. HELLA KGaA Hueck & Co. is registered in the Commercial Register B of Paderborn district court under number HRB 6857 and prepares the consolidated financial statements for the smallest and largest group of companies.

The consolidated financial statements of HELLA KGaA for the fiscal year 2016/2017 (1 June 2016 to 31 May 2017) were prepared in accordance with all IFRS and IAS standards subject to mandatory application for the period as well as the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC) and the Standing Interpretations Committee (SIC), and as adopted by the EU. The consolidated financial statements are accompanied by a Group management report and the additional disclosures required by Section 315a of the German Commercial Code (Handelsgesetzbuch – HGB). The comparative values of the prior year have been determined according to the same principles. The consolidated financial statements are prepared in euros (€). Amounts are stated in thousands of euros (€ thousand).

The consolidated financial statements are prepared using accounting and measurement methods that are applied consistently within the Group on the basis of amortised historical cost. This does not apply to assets that are available for sale and derivative financial instruments, which are measured at fair value. The consolidated income statement is prepared using the cost-of-sales method. The current/non-current distinction is observed in the consolidated statement of financial position. The amounts stated under current assets and liabilities are for the most part due for settlement within twelve months. Accordingly, non-current items are mainly due for settlement in more than twelve months. In order to enhance the clarity of the presentation, items of the consolidated statement of financial position and

consolidated income statement have been grouped together where this is appropriate and possible. These items are broken down and explained in the notes to the consolidated financial statements. Please note that where sums and percentages in the report have been rounded, differences may arise as a result of commercial rounding.

The Management Board released the consolidated financial statements for submission to the Supervisory Board on 24 July 2017. It is the responsibility of the Supervisory Board to review the consolidated financial statements and declare its approval. A resolution by the Supervisory Board approving the consolidated financial statements is expected to be passed at the ordinary Supervisory Board meeting to be held on 9 August 2017.

02 Scope of consolidation

In addition to HELLA KGaA Hueck & Co., all significant domestic and foreign subsidiaries that are directly or indirectly controlled by HELLA are consolidated. The number of subsidiaries has changed as a result of company formations, the acquisition of a subsidiary and divestments. Material joint ventures are included in the consolidated financial statements using the equity method of accounting. The number of joint ventures has changed due to divestments, liquidations and one formation.

Number	31 May 2017	31 May 2016
Fully consolidated companies	98	95
Companies accounted for using the equity method	53	57

The main subsidiaries are set out below:

Company	Country	City	Share of equity (%)	
			2016/2017	2015/2016
HELLA Shanghai Electronics Co., Ltd.	China	Shanghai	100	100
FTZ Autodele & Værktøj A/S	Denmark	Odense	100	100
HELLA Fahrzeugkomponenten GmbH	Germany	Bremen	100	100
HELLA Automotive Mexico S.A. de C.V.	Mexico	Tlalnepantla	100	100
INTER-TEAM Sp. z o.o.	Poland	Warsaw	100	100
HELLA Romania s.r.l.	Romania	Ghiroda-Timişoara	100	100
HELLA Slovakia Front-Lighting s.r.o.	Slovakia	Kocovce	100	100
HELLA Slovakia Signal-Lighting s.r.o.	Slovakia	Bánovce nad Bebravou	100	100
HELLA Saturnus Slovenija d.o.o.	Slovenia	Ljubljana	100	100
HELLA Autotechnik Nova s.r.o.	Czech Republic	Mohelnice	100	100
HELLA Electronics Corporation	USA	Plymouth, MI	100	100
Jiaxing HELLA Lighting Co. Ltd.	China	Jiaxing	100	100

A complete listing of the shares held by the Group can be found in an attachment to the notes to the consolidated financial statements.

03 Acquisition of subsidiaries

All of the shares in iParts Sp. z. o.o. were acquired for a purchase price of € 5,261 thousand on 10 October 2016, so that control is now obtained. The company, which is based in Rzeszów in Poland, offers auto parts to end and business customers in the automotive sector through e-commerce sales channels.

The acquisition of iParts, the leading online shop for auto parts in Poland, aims to strengthen the company's own e-commerce activities in the Aftermarket segment and speed up further expansion. It will focus here initially on Northern and Eastern Europe.

The fair values of the identifiable assets acquired and liabilities assumed as of the date of the business combination in this respect break down as follows:

€ thousand	Fair value
Cash and cash equivalents	340
Trade receivables	120
Inventories	71
Intangible assets	2,655
Property, plant and equipment	21
Other assets	5
Trade payables	-296
Current tax liabilities	-21
Deferred tax liabilities	-461
Provisions	-104
Other liabilities	-37
Net assets at the acquisition date	2,293

The acquisition resulted in the following, non-tax-deductible goodwill:

€ thousand	Fair value
Purchase price	5,261
Net assets at the acquisition date	2,293
Goodwill	2,967

The goodwill of € 2,967 thousand arising from the acquisition is attributable to the Aftermarket segment and relates to synergies arising in combination with the existing e-commerce activities.

The incidental acquisition costs of € 214 thousand were included in other income and expenses.

Trade receivables include impairments of € 25 thousand resulting from expected unrecoverable receivables.

The acquired subsidiary contributed € 1,947 thousand to consolidated sales and impacted earnings for the period with € 28 thousand.

If the business acquisition had been executed at the beginning of the fiscal year, the Group would have reported sales of € 3,115 thousand and a result of € 28 thousand for iParts.

04 Principles of consolidation

If the balance sheet date of a subsidiary is not the same as that of HELLA KGaA, interim financial statements are prepared effective 31 May.

BUSINESS COMBINATIONS

Acquired subsidiaries are accounted for using the purchase method. The acquisition costs correspond to the fair value of the assets acquired, the equity instruments issued and the liabilities arising or assumed on the transaction date. They also include the fair values of all recognised assets and liabilities arising from contingent consideration. Acquisition-related costs are recognised as expenses upon arising. Upon first consolidation, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value on the date of acquisition. Goodwill is recognised as the amount by which the business combination costs, the amount of the non-controlling shares in the acquired company already held on the acquisition date and the equity components measured at fair value exceed the net assets measured at fair value. If this figure is negative, the difference is recognised directly in the income statement after reassessment.

NON-CONTROLLING INTERESTS

In the case of each business combination, the Group determines whether the non-controlling interests in the acquired company are to be measured at their fair value or in accordance with the share which they hold in the net assets of the acquired company at the date of acquisition. Transactions for the purchase or sale of non-controlling interests that do

not result in a loss of control are recorded as equity transactions. Any difference between the figure by which the carrying amount of the non-controlling interests is adjusted to match the current share held in the company and the fair value of the consideration rendered or received is recognised directly within equity.

Any binding put options that have been agreed for non-controlling interests are recognised within financial liabilities and measured at their fair value on the basis of the agreed purchase price. If the put option is related to the purchase of a majority holding in the company concerned, its value is recognised as part of the business combination costs.

SUBSIDIARIES

Subsidiaries are entities that are controlled by the Group. The Group is deemed to control a subsidiary if it is exposed to varying returns from its involvement with the subsidiary or has rights to returns and has the ability to use its power over the subsidiary to affect these returns. The financial statements of subsidiaries are included in the consolidated financial statements as of the date on which the Group gains control over them and until the date on which control over them ends.

INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method comprise shares in joint ventures and associates.

Joint ventures are joint arrangements in which HELLA exercises joint control together with other partners and also has rights to the arrangement's equity.

Associates are entities over which the Group exercises material influence, but no control, and in which it usually holds 20% to 50% of the voting rights.

Shares in joint ventures and associates are accounted for using the equity method and are recorded at historical cost upon initial recognition. The Group's share also includes the goodwill arising on acquisition (less cumulative impairments).

The Group's share in the profits and losses is recognised in the income statement from the acquisition date. The cumulative changes following acquisition are deducted from or added to the carrying amount of the investment. If losses have reduced the fair value of the Group's share to zero, additional losses are only allowed for and recognised as liabilities to the extent that HELLA is subject to legal or constructive obligations to settle such losses. Gains at a later period are not taken into account until they are sufficient to cover the unrecognised loss.

INTRA-GROUP TRANSACTIONS

Intra-Group transactions, balances and unrealised gains or losses from intra-Group transactions are eliminated. However, the existence of unrealised losses is viewed as an indication that the transferred asset must be examined for impairment. The accounting and measurement methods applied by subsidiaries have been modified where necessary to ensure consistent accounting within the Group.

05 Currency translation

Changes in the fair value of financial securities that are denominated in a foreign currency and classified as available for sale are split into currency translation differences arising from changes in amortised cost, which are recognised in the income statement, and other changes in their carrying amount, which are recognised within equity.

Currency translation differences for non-monetary items, changes in which are recognised at fair value in the income statement (for example, equity instruments measured at fair value in the income statement), are reported in the income statement as part of the gain or loss from measurement at fair value. However, currency translation differences for non-monetary assets, changes in which are recognised at fair value within equity (for example, equity instruments classified as available for sale), are included in the revaluation reserve as part of other reserves.

FUNCTIONAL CURRENCY AND REPORTING CURRENCY

The items included in the financial statements of each of the Group companies are measured using the currency of the primary economic environment in which the company operates (functional currency). The consolidated financial statements are prepared in euros, the functional and reporting currency of HELLA KGaA Hueck & Co.

The net profit/loss and balance sheet items of all Group companies that have a functional currency other than the euro are treated as follows:

- ❶ Assets and liabilities are translated into euros for each balance sheet date using the spot exchange rate.
- ❷ Income and expenses are translated for each income statement using the average exchange rate (unless this fails to give an appropriate approximation of the cumulative effects that would have arisen from currency translation at the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing on the transaction dates).

- ❸ Any currency translation differences are recognised in equity as separate items within the currency translation reserve and, hence, in other comprehensive income.

TRANSACTIONS AND OUTSTANDING BALANCES

Foreign currency transactions are translated into the functional currency at the spot exchange rate applicable on the transaction date. Gains and losses from the settlement of such transactions as well as from the translation of financial assets and liabilities held in foreign currencies at the spot exchange rate are recognised in the income statement unless they are designated as qualified cash flow hedges, in which case they are recognised within equity.

Currency translation differences arising in connection with consolidation from the conversion of net investments in economically independent foreign operations, financial liabilities, and other foreign currency instruments designated as hedges of such investments, are recognised within equity. If a foreign business is sold, any currency translation differences hitherto recognised within equity are recycled to profit and loss as part of the profit or loss derived from the sale. Goodwill arising from business combinations and from disclosed hidden reserves and liabilities that are recognised as adjustments to the carrying amounts of the assets and liabilities of the company concerned are translated using the end-of-year spot exchange rate in the same way as that applied to assets and liabilities.

The exchange rates used to translate the main currencies for HELLA were as follows:

	Average		Reporting date	
	2016/2017	2015/2016	31 May 2017	31 May 2016
€ 1 = US dollar	1.0902	1.1098	1.1221	1.1154
€ 1 = Czech koruna	26.9747	27.0722	26.4220	27.0220
€ 1 = Japanese yen	118.3730	131.2057	124.4000	123.8300
€ 1 = Mexican peso	21.1450	18.9342	21.0559	20.5185
€ 1 = Chinese renminbi	7.4037	7.1136	7.6449	7.3363
€ 1 = South Korean won	1,246.7479	1,296.2668	1,255.0100	1,326.1100
€ 1 = Romanian leu	4.5073	4.4647	4.5655	4.5108
€ 1 = Danish krone	7.4387	7.4575	7.4398	7.4376

06 New accounting standards

THE GROUP HAS APPLIED THE FOLLOWING AMENDMENTS TO IFRS, WHICH WERE ENDORSED BY THE EU AS EUROPEAN LAW AND WERE SUBJECT TO MANDATORY APPLICATION FOR THE FIRST TIME IN THE FISCAL YEAR 2016/2017:

Amendments to IAS 1: Disclosure Initiative

The amendments to IAS 1 "Presentation of Financial Statements" concerned various reporting issues. They clarified that disclosures in the notes are only necessary provided they are material to the reporting company. This also expressly applies if a standard specifies a list of minimum disclosures. Furthermore, explanations were provided on the aggregation and disaggregation of items in the statement of financial position and the consolidated statement of comprehensive income. IAS 1 also requires the additional disclosure of profit or loss and other comprehensive income that is attributable to associates and joint ventures accounted for using the equity method. There was no impact on the consolidated financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

These amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" provide guidance on determining acceptable methods of depreciation and amortisation. Accordingly, revenue-based depreciation methods are not permitted for property, plant and equipment and revenue-based amortisation methods are only allowed for intangible assets in certain exceptional cases (rebuttable presumption of inadequacy). There was no impact on the consolidated financial statements.

Amendments to IAS 16 and IAS 41: Bearer plants

These amendments bring bearer plants which are used in the production of agricultural produce into the area of application of IAS 16 "Property, Plant and Equipment" and simultaneously remove them from the scope of IAS 41 "Agriculture". There was no impact on the consolidated financial statements.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendment to IAS 27 "Separate Financial Statements" allows the equity method of accounting to be used for measuring investments in subsidiaries, joint ventures and associates in the separate financial statements of an investor. There was no impact on the consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

The amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interest in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" clarify the application of the exception from the consolidation of subsidiaries. Under these amendments, a company may also apply the exemption from the duty to prepare consolidated financial statements if its ultimate or intermediate parent prepares IFRS financial statements in which the subsidiaries are measured at their fair value. In addition, a subsidiary that provides services related to its parent company's investment activities is not consolidated if the subsidiary itself is an investment entity. The amendments clarify that if the equity method is applied to an associate or a joint venture that is an investment entity, the parent that is not an investment entity can retain the fair-value measurement which the associate or joint venture applies to its subsidiaries. A parent company that is an investment entity and measures all its subsidiaries at their fair value must provide the disclosures relating to

investment entities required by IFRS 12. There was no impact on the consolidated financial statements.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

These modifications to IFRS 11 "Joint Arrangements" provide guidance on accounting for acquisitions of interests in joint operations that represent a business operation within the meaning of IFRS 3 "Business Combinations". In such cases, the buyer is required to apply the principles for accounting for business combinations in accordance with IFRS 3. So far, the HELLA Group only holds investments in joint ventures within the area of application of IFRS 11. There was no impact on the consolidated financial statements.

Improvements to IFRS 2012 – 2014

Amendments have been made to four standards as part of the annual improvement project. These provided clarification on four standards, including IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee Contributions to Defined Benefit Plans" and IAS 34 "Interim Financial Reporting". Adjustments to the wording of individual IFRSs served the purpose of clarifying the existing guidance. In this context, IFRS 5 was extended to include specific provisions on the accounting of assets classified as held for distribution to owners. There was no impact on the consolidated financial statements.

THE FOLLOWING NEW STANDARDS HAVE ALREADY BEEN ENDORSED BY THE EU AS EUROPEAN LAW BUT WILL NOT TAKE EFFECT UNTIL A LATER DATE:

IFRS 9: Financial Instruments

IFRS 9 "Financial Instruments" will be replacing the existing standard IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces a new approach for the classification of financial instruments based on the contractual cash flows of the financial instrument and the business model within which it is being held. The provisions for recognising impairments will be based on an expected loss model in the future. This impairment model is due to be applied to financial assets measured at their amortised cost or at their fair value with changes in fair value in other comprehensive income (FVOCI), to loan commitments under which there is currently an obligation to issue a loan, to financial guarantee contracts pursuant to IFRS 9, to lease obligations pursuant to IAS 17 and to contract assets pursuant to IFRS 15. Financial instruments with the exception of financial assets already impaired at the time of their addition are measured either according to the expected twelve-month loss or on the basis of the entire loss expected over the residual term of the in-

strument. Measurement over the entire residual term is necessary if the default risk has increased significantly since the date on which the financial instrument was added. Independently of the default risk, this measurement must additionally be applied to trade receivables and contract assets which do not constitute a financing arrangement pursuant to IFRS 15. By contrast, an accounting policy option exists in the case of contract assets and trade receivables which constitute a financing arrangement pursuant to IFRS 15 and for lease obligations. The company can recognise the entire loss expected over the residual term at the time of addition. In addition, IFRS 9 revises the guidance on hedge accounting, which is oriented more closely to the reporting entity's risk management. Moreover, further disclosures in the notes will be necessary. These amendments must be applied to fiscal years commencing on or after 1 January 2018. No early first-time application is planned. On the basis of the information currently available, the notes will essentially change as a result of the above-mentioned extensions and restructurings. Moreover, the new measurement models are expected to have a secondary effect on the net assets, financial position and results of operations of the HELLA Group.

IFRS 15: Revenue from Contracts with Customers

IFRS 15 "Revenue from Contracts with Customers" replaces the current guidance on the recognition of revenue in IAS 18 "Revenue" and IAS 11 "Construction Contracts". With the introduction of IFRS 15 the IASB aims to pool the extensive revenue provisions in a single standard and to establish clear principles which a company has to apply from contracts with customers. Revenue is recognised using a five-step model framework under which the contract with the customer and the separate performance obligations which it contains are identified. The next step involves determining the transaction price and to allocate it to the individual performance obligations. Finally, revenue is recognised in accordance with the allocated pro rata transaction price when and as the agreed performance obligation is satisfied or control is passed to the customer. IFRS 15 moreover extends the disclosures in the notes which through extended quantitative and qualitative information on contracts with customers are designed to enable the recipients of financial statements to gain a better understanding of these contracts and the revenue to be allocated to them. The new standard must be applied to accounting periods commencing on or after 1 January 2018. No early first-time application of IFRS 15 is planned. The clarifications relating to IFRS 15 have, however, not been adopted by the EU as yet although their adoption is expected before the date of first-time application.

In mid-2016 HELLA launched a project to introduce IFRS 15 and it continues to analyse the impact that the application of

IFRS 15 will have on financial reporting. In the first project phase the project team commissioned with this task examined the material business incidents and relevant contracts with customers. As part of the review, economic and legal provisions were analysed taking into account the five-step framework and a qualitative evaluation was performed to identify deviations from the currently applicable accounting and reporting. The findings will be examined in a second project phase with regard to an analogous effect on different judicial areas and customer relationships.

At present, no changes to the total amount of revenue entered for a customer contract are expected. However, depending on the contract terms there may be time delays in the realisation of revenue. Thus customer orders secured in the Automotive segment, for example (and to a minor extent in the Special Applications segment) regularly include not just series deliveries but also upstream development activities. These contract-specific development services constitute a performance obligation of their own, and the transaction price allocated to them must be reported as revenue in the period during which a legal entitlement to remuneration arises even if payment is made in a subsequent period.

Furthermore, the assessment as to whether a service for or delivery to a customer has the character of a separable performance obligation is subject to newly specified criteria. As a result, individual activities (particularly in toolmaking) could in future independently result in revenue when compared with the current reporting.

In the Aftermarket segment, so far no event has been identified that would result in a material change on application of IFRS 15 in reported revenue for the period.

Beyond the aspects described, various balance sheet items are changed in connection with the separate items for contract asset and contract liabilities demanded by IFRS 15. Moreover, further quantitative and qualitative disclosures in the notes will be necessary.

THE FOLLOWING NEW OR AMENDED IFRS HAVE NOT YET BEEN ENDORSED BY THE EU AS EUROPEAN LAW AND WILL NOT BE APPLICABLE UNTIL A LATER DATE:

The HELLA Group plans to apply the newly issued standards and amendments from the date of mandatory application subject to endorsement for application in the EU.

Amendments to IAS 7: Disclosure Initiative

The purpose of the amendments to IAS 7 "Statement of Cash Flows" is to improve the information conveyed to users of the

financial statements on the cash flow from financing activities. Companies must now prepare a statement reconciling the opening with the closing balances in the statement of financial position arising from the cash flow from financing activities. These amendments must be applied to fiscal years commencing on or after 1 January 2017. They will result in additional disclosures in the notes to the consolidated financial statements.

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments to IAS 12 "Income Taxes" clarify the recognition of deferred tax assets for unrealised losses on assets measured at fair value. Accordingly, unrealised losses on assets which are measured at their fair value and for which no corresponding adjustments are made for tax purposes result in deductible temporary differences. In addition, the adjustments permit a more precise calculation of taxable income for the recognition of deferred tax assets. These amendments must be applied to fiscal years commencing on or after 1 January 2017. The application of these amendments is not expected to have any material impact on the consolidated financial statements.

Amendment to IAS 40: Transfers of Investment Property

The amendments to IAS 40 "Transfers of Investment Property" have clarified that transfers of real estate to or from investment property holdings can take place only if there is a change in use. A change in use applies if the property fulfils or no longer fulfils the definition of investment property and this change in use can be evidenced. The new interpretation must be applied to fiscal years commencing on or after 1 January 2018. The amendments are not expected to have an impact on HELLA's consolidated financial statements.

Amendments to IFRS 2: Accounting for Share-Based Payment

The amendments to IFRS 2 "Share-Based Payment" clarify the recognition of cash-settled share-based payments. The main change is that IFRS 2 now contains guidance on the calculation of the fair value of the obligations arising from share-based payments. As with the approach for equity-settled share-based payments, only certain vesting conditions will be included in the calculation of the fair value in the future, whereas others only have an effect via the quantity. Accordingly, the specific guidance included in IFRS 2 overrides the general guidance found in IFRS 13 "Fair Value Measurement". These amendments must be applied to fiscal years commencing on or after 1 January 2018. The amendments are not expected to have an impact on HELLA's consolidated financial statements.

Amendments to IFRS 4: application of IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts"

The amendments to IFRS 4 "Insurance Contracts" seek to reduce the impact resulting from the different dates of first-time application of the standard for insurance contracts and of IFRS 9 "Financial Instruments". To this end, two optional approaches are introduced which can be used if specific criteria of companies issuing insurance contracts within the meaning of IFRS 4 are met: the overlay approach and the deferral approach. In the overlay approach, insurance companies can reclassify some of the income or expenses arising from designated financial assets from profit or loss to other comprehensive income. In the deferral approach, insurance companies have the option to defer application of IFRS 9 until the new IFRS 17 "Insurance Contracts" is applied for the first time. Application of the deferral approach is permitted only if the business activities of the insurer are predominantly connected with insurance. These amendments must be applied to fiscal years commencing on or after 1 January 2018 or by the date of early first-time application of IFRS 9. The application of these amendments will not have any material impact on the consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" eliminate an inconsistency between the two standards. In its current form, IFRS 10 requires full profit or loss recognition when a parent sells a subsidiary to an associate or joint venture. On the other hand, IAS 28 in its present form requires the profit or loss from the transaction between the entity and its associate or joint venture to be recognised only to the extent of the share in this company. In the future, the entire profit or loss from the transaction will only be recognised if the assets sold or contributed constitute a business as defined in IFRS 3 "Business Combinations". If these assets do not constitute a business, only the pro rata profit or loss is recognised. The date on which the modifications to IFRS 10 and IAS 28 are to be applied for the first time has been postponed indefinitely by the IASB. The possible impact on the consolidated financial statements is currently being analysed.

IFRS 14: Regulatory Deferral Accounts

IFRS 14 "Regulatory Deferral Accounts" permits first-time adopters of IFRS to continue to account, with some limited changes, for regulatory deferral accounts in accordance with the previously applied GAAP upon adoption of IFRS. IFRS 14 must be applied to fiscal years commencing on or after 1 January 2016. The European Commission will not adopt IFRS 14 for application in the EU because only a very small number of companies in the EU fall within the area of application of this

standard. As the standard is only relevant for first-time adopters of IFRS, it does not have any impact on the consolidated financial statements.

Clarification provided by IFRS 15: "Revenue from Contracts with Customers"

With the adoption on 12 April 2016 of clarifications to IFRS 15 "Revenue from Contracts with Customers" the IASB has set out targeted amendments to IFRS 15 in the areas of identifying promised services, the classification as principal versus agent and revenue from licences. The clarifications must be applied for fiscal years commencing on or after 1 January 2018. For the impact resulting from their application reference is made to the detailed section on IFRS 15 "Revenue from Contracts with Customers".

IFRS 16: Leases

On 13 January 2016, the IASB published IFRS 16 "Leases", which replaces IAS 17 "Leases" and the related interpretations. IFRS 16 primarily changes the manner in which the lessee accounts for leases. In addition to abolishing the distinction between finance and operating leases, the amended guidance requires all assets and liabilities under leases to be recognised in the statement of financial position except in the case of short-term or low-value leases. There is no material change in the recognition requirements for lessors compared with IAS 17. The new standard must be applied to fiscal years commencing on or after 1 January 2019.

In mid-2016 the HELLA Group launched a project to introduce IFRS 16 and it continues to analyse the impact that its application will have on financial reporting. In the first project phase the project team commissioned with this task examined the material leases particularly with regard to contracts so far not classified as finance leases. In particular, discretionary scopes and first-time application issues for representative material individual cases were determined. The findings will be validated across the Group in the following project phase and their impact on the balance sheet will be subject to further quantitative analysis. Based on the information currently available, total assets will increase by the future liabilities of contracts currently classified as operating leases and non-current assets will rise correspondingly. The first-time application is not expected to have an impact on reported equity.

IFRS 17: Insurance Contracts

On 18 May 2017, the IASB published IFRS 17 "Insurance Contracts", IFRS 17 sets out the principles with regard to the recognition, measurement, presentation and reporting of insurance contracts. The new standard will replace the current IFRS 4 "Insurance Contracts". Under IFRS 4, companies drawing up their balance sheets currently have the option to apply a large

number of accounting practices; furthermore, they are marked heavily by national accounting provisions. The new standard will therefore result in a standard and credible presentation of the accounting of insurance contracts. The new standard must be applied to fiscal years commencing on or after 1 January 2021. The application of these amendments will not have any material impact on the consolidated financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" clarifies the exchange rate to be used in the first-time accounting of a foreign currency transaction if the company receives or pays advance consideration in a foreign currency. The interpretation makes it clear that the date used to determine the exchange rate for the associated asset, income or expense is the transaction date of initial recognition of the non-monetary asset or non-monetary liability resulting from the advance consideration paid or received. IFRIC 22 must be applied to fiscal years commencing on or after 1 January 2018. The impact on HELLA's consolidated financial statements is currently being analysed.

IFRIC 23: Uncertainty over Income Tax Treatments

On 7 June 2017 IFRSIC published interpretation IFRIC 23, "Uncertainty over Income Tax Treatments", which clarifies the accounting for uncertainties in income taxes with regard to current and deferred tax assets and liabilities. Such uncertainties in income taxes arise if the application of the tax law on a specific transaction is uncertain and is therefore dependent on how its interpretation by the relevant tax authority, which is not known to the entity at the time the consolidated financial statements are prepared. An entity takes these uncertainties into account in the tax profit (tax losses) only if it is probable that the relevant tax amounts will be paid or reimbursed. The interpretation includes no additional information requirements that go beyond IAS 12 "Income Taxes". However, information on discretionary decisions and uncertainties in accordance with IAS 1 "Presentation of Financial Statements" regarding the accounting of income taxes may be required. IFRIC 23 must be applied to fiscal years commencing on or after 1 January 2019. The impact on HELLA's consolidated financial statements is currently being analysed.

Improvements to IFRS 2014 – 2016

Amendments have been made to three standards as part of the annual improvement project. Adjustments to the wording of individual IFRSs served the purpose of clarifying the existing guidance. The following standards were affected by this: IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 12 "Disclosure of Interest in Other Entities" and IAS 28 "Investments in Associates and Joint

Ventures". The amendments to IFRS 12 must be applied to fiscal years commencing on or after 1 January 2017, whereas amendments to IFRS 1 and IAS 28 must be applied for fiscal years commencing on or after 1 January 2018. The impact on HELLA's consolidated financial statements is currently being analysed.

07 Changes in accounting methods

REPORTING OF INTEREST PAYMENTS IN THE CONSOLIDATED CASH FLOW STATEMENT

In these consolidated financial statements the presentation of interest payments has been adjusted. As a result, net cash flow from operating activities comparable to earnings before interest and taxes will no longer be subject to movements from interest components. This reclassification eases the burden on net cash flow from operating activities while net cash flow from financing activities is increased by corresponding payments of the same amount; by contrast, the changes in cash and cash equivalents are wholly unaffected by this adjustment. This does not result in changes to other reporting elements. From the company's perspective, the reclassification of interest payments leads to a more appropriate allocation of payment flows from net cash flow from operating and financing activities, thus making more relevant and more reliable information on the company's payment flows available to the recipients of the financial statements. The quantitative impacts are shown in the following tables.

€ thousand	as reported 2015/2016	Reclassification	adjusted 2015/2016
Earnings before income taxes (EBT)	380,280	0	380,280
+ Depreciation and amortisation	395,753	0	395,753
+/- Change in provisions	-22,233	0	-22,233
+ Cash receipts for series production	83,120	0	83,120
- Non-cash sales transacted in previous periods	-101,086	0	-101,086
- Other non-cash income	-59,703	0	-59,703
+ Losses from the sale of property, plant and equipment and intangible assets	4,168	0	4,168
+ Net financial result	39,512	0	39,512
- Increase in trade receivables and other assets not attributable to investing or financing activities	-115,088	0	-115,088
- Increase in inventories	-34,264	0	-34,264
+ Increase in trade payables and other liabilities not attributable to investing or financing activities	121,707	0	121,707
+ Interest received	12,346	-12,346	0
- Interest paid	-32,978	32,978	0
+ Tax refunds received	12,766	0	12,766
- Taxes paid	-122,049	0	-122,049
+ Dividends received	39,903	0	39,903
= Net cash flow from operating activities	602,153	20,632	622,786
+ Cash receipts from the sale of property, plant and equipment	9,048	0	9,048
+ Cash receipts from the sale of intangible assets	4,940	0	4,940
- Payments for the purchase of property, plant and equipment	-489,869	0	-489,869
- Payments for the purchase of intangible assets	-70,735	0	-70,735
+ Repayments of loans to investments	4,866	0	4,866
- Payments for loans granted to investments	-4,147	0	-4,147
+ Cash receipts from capital decrease in investments	2,766	0	2,766
- Payments for capital increases in investments	0	0	0
+ Cash receipts from the disposal of subsidiaries (net of cash and cash equivalents transferred) and from liquidation of other investments	103	0	103
- Payments for the acquisition of subsidiaries, less cash and cash equivalents received	0	0	0
= Net cash flow from investing activities	-543,028	0	-543,028
- Payments for the repayment of financial liabilities	-59,427	0	-59,427
+ Cash proceeds from changes in financial debt	68,556	0	68,556
+ Net payments for the purchase and sale of securities	68,477	0	68,477
- Payments made for acquiring shares of non-controlling interests	-57,789	0	-57,789
+ Interest received	0	12,346	12,346
- Interest paid	0	-32,978	-32,978
- Dividends paid	-86,612	0	-86,612
= Net cash flow from financing activities	-66,795	-20,632	-87,427
= Net change in cash and cash equivalents	-7,670	0	-7,670
+ Cash and cash equivalents as at 1 June	602,744	0	602,744
+/- Effect of exchange rate changes on cash and cash equivalents	-9,941	0	-9,941
= Cash and cash equivalents as at 31 May	585,134	0	585,134

See also Note 40 for notes to the cash flow statement.

€ thousand	adjusted 2014/2015	adjusted 2015/2016	2016/2017
Earnings before income taxes (EBT)	393,625	380,280	462,923
+ Depreciation and amortisation	336,193	395,753	411,970
+/- Change in provisions	16,126	-22,233	34,053
+ Cash receipts for series production	130,518	83,120	131,503
- Non-cash sales transacted in previous periods	-89,816	-101,086	-116,176
- Other non-cash income	-53,185	-59,703	-81,565
+ Losses from the sale of property, plant and equipment and intangible assets	2,851	4,168	6,000
+ Net financial result	35,878	39,512	44,247
- Increase in trade receivables and other assets not attributable to investing or financing activities	-128,979	-115,088	-124,535
- Increase in inventories	-8,428	-34,264	-54,710
+ Increase in trade payables and other liabilities not attributable to investing or financing activities	39,978	121,707	68,811
+ Tax refunds received	6,181	12,766	16,227
- Taxes paid	-118,892	-122,049	-123,132
+ Dividends received	35,851	39,903	36,905
= Net cash flow from operating activities	597,901	622,786	712,521
+ Cash receipts from the sale of property, plant and equipment	16,458	9,048	11,932
+ Cash receipts from the sale of intangible assets	3,602	4,940	4,818
- Payments for the purchase of property, plant and equipment	-429,489	-489,869	-592,836
- Payments for the purchase of intangible assets	-68,449	-70,735	-72,888
+ Repayments of loans to investments	2,545	4,866	250
- Payments for loans granted to investments	-682	-4,147	0
+ Cash receipts from capital decrease in investments	13,200	2,766	0
- Payments for capital increases in investments	-16,927	0	0
+ Cash proceeds from the sale of shares in investments	21,505	0	0
+ Cash receipts from the sale of subsidiaries (net of cash and cash equivalents transferred) and from liquidation of other investments	0	103	5,538
- Payments for the acquisition of subsidiaries, less cash and cash equivalents received	-405	0	-4,921
= Net cash flow from investing activities	-458,642	-543,028	-648,107
- Repayment of bond issued in October 2009	-200,002	0	0
+ Cash receipts from the issuance of a bond	0	0	298,707
- Payments for the repayment of financial liabilities	-231,309	-59,427	-102,952
+ Cash proceeds from changes in financial debt	134,912	68,556	34,917
+/- Net payments for the purchase and sale of securities	-49,741	68,477	12,491
- Payments made for acquiring shares of non-controlling interests	-14,786	-57,789	0
+ Interest received	8,130	12,346	11,198
- Interest paid	-46,109	-32,978	-32,593
- Dividends paid	-59,060	-86,612	-86,766
+ Net cash proceeds from shares issued	272,456	0	0
= Net cash flow from financing activities	-185,509	-87,427	135,002
= Net change in cash and cash equivalents	-46,250	-7,670	199,416
+ Cash and cash equivalents as at 1 June	637,226	602,744	585,134
+/- Effect of exchange rate changes on cash and cash equivalents	11,768	-9,941	-675
= Cash and cash equivalents as at 31 May	602,744	585,134	783,875

See also Note 40 for notes to the cash flow statement.

08 Basis of preparation and accounting

EARNINGS RECOGNITION

Sales include the fair value of the consideration already received or still to be received for the sale of goods and performance of services in the normal course of business. Sales are stated excluding sales tax, returns, rebates and discounts and after elimination of internal Group sales.

The Group recognises sales when the amount of revenue can be reliably determined, it is sufficiently probable that the Company will derive economic benefits and the specific criteria set out below for each type of activity have been met. Sales from the sale of goods are recognised as soon as the material opportunities and risks relating to ownership of the goods, based on the provisions of the respective contract, have been transferred to the customer.

In the case of the sale of goods, this generally applies when the goods have been delivered. If, as part of series deliveries, advance payments are made in addition to the unit price, these payments are reported as other liabilities, deferred over the duration of series production and recognised in sales.

Income from the provision of services is recognised in accordance with the terms of the contract in question, provided the service has been rendered and expenses have arisen.

Interest income is recognised on a pro rata basis using the effective interest method.

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

FUNCTIONAL COSTS

Cross-functional costs contained in the consolidated income statement are reported in accordance with internal reporting requirements. Operating expenses are always initially allocated to the functional division in which they are primarily incurred. If the functional division performs services for which the economic benefit arises in another functional area, such expenses are allocated on a pro rata basis to the functional division for which the services were performed.

The offsetting of such amounts does not contain any direct reference to the primary cost type and is reported under "Reclassification of functional costs". This applies in particular to the allocation of energy costs, the use of buildings and IT expenses. These are initially recognised together with their respective cost types under administrative costs and then reclassified to the functions where the cost was incurred using prorated usage formulas.

EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the share of earnings after tax attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the fiscal year.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at historical cost less cumulative depreciation and impairments. Historical cost comprises the expenses directly attributable to the acquisition.

Subsequent cost, e.g. as a result of expansion or replacement investments, is only recognised as part of the historical cost of the asset or – if applicable – as a separate asset if it is probable that the Group will derive future economic benefits from them and the costs of the asset can be reliably measured. Expenses for repairs and maintenance that do not represent a material reinvestment are recognised as an expense in the income statement in the fiscal year in which they arise.

Tools manufactured or acquired by the Group for production purposes are capitalised at cost in accordance with IAS 16 and recorded separately in the statement of assets as operating equipment. Each item of property, plant and equipment with historical cost that represents a significant portion of the total value of the item is recognised and depreciated separately.

Land is not depreciated. All other assets are depreciated on a straight-line basis. In this case, their historical cost or fair value is written down to their residual carrying amount over their expected average useful life as follows:

Buildings	30 years
Machinery	8 years
Production equipment	3–5 years
Operating and office equipment	5 years

The residual carrying amounts and expected useful lives are reviewed and, if necessary, adjusted on each balance sheet date.

If the carrying amount of any item of property, plant and equipment exceeds its estimated recoverable amount, it is immediately written down to this amount.

GOVERNMENT GRANTS

Government grants are recognised if it is reasonably certain that the related conditions will be satisfied and the grants will actually be received. Grants for the purchase or

production of non-current assets (asset-related grants) are deducted from the historical cost of the assets in question and reduce future depreciation. Grants that are not awarded for non-current assets (performance-tied grants) are accounted for in the income statement in the same functional division as the related expense items. They are recognised in the income statement on a pro rata basis over the periods in which the expenses to be covered by the grants are incurred. Government grants awarded for future expenses are reported as deferred income.

INTANGIBLE ASSETS

Goodwill

Goodwill represents the amount by which the cost of a business combination exceeds the fair value of the Group's shares in the net assets of the entity acquired and the sum of all non-controlling interests at the time of acquisition. The goodwill arising from business combinations is recognised as an intangible asset. The goodwill resulting from the acquisition of an associate is included in the carrying amount of the investment and is therefore not tested for impairment separately but as part of the total carrying amount. The goodwill reported is tested for impairment on an annual basis and measured at historical cost less cumulative impairment. Write-ups are not reversed. Gains and losses from the sale of an entity include the carrying amount of the goodwill allocated to such entity. The goodwill is allocated to cash-generating units for the purpose of impairment testing. It is allocated to those cash-generating units or groups of cash-generating units (CGUs) that are expected to benefit from the business combination giving rise to the goodwill.

Capitalised development expenses

Costs related to development projects are recognised as intangible assets in accordance with IAS 38 if it is likely, given their economic and technical viability, that the project will be successful and the costs can be reliably determined. Otherwise, the research and development expenses are recognised in the income statement. Advances or reimbursements from customers are deducted from reported development expenses; advances collected in the follow-up periods after the start of use are reported as disposals in the consolidated statement of changes in assets. Capitalised development expenses are amortised on a straight-line basis over their expected useful life starting with the date on which the product goes into commercial production. Depreciation and amortisation is calculated over an average estimated useful life of three to five years. The depreciation/amortisation charged on capitalised development expenses is recognised in the cost of sales and is applied in the Automotive segment.

Acquired intangible assets

Acquired intangible assets are recorded at historical cost. Intangible assets with a definite useful life are amortised on a straight-line basis over their useful life of three to eight years.

IMPAIRMENT OF NON-MONETARY ASSETS

Assets with an indefinite useful life - primarily goodwill within the Group - are not depreciated or amortised but tested for impairment on an annual basis. Assets that are subject to depreciation or amortisation are tested for impairment when corresponding events or changes in circumstances indicate that the carrying amount may no longer be recoverable.

An impairment is recognised in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is either the fair value of the asset less the cost to sell or the value in use, whichever is higher. For the purposes of impairment testing, assets are aggregated at the lowest identifiable level for which cash flows can be generated for independent units (CGUs). The recoverable amount of a CGU is determined on the basis of the expected future discounted cash flows from planned use (value in use). These are based on Management Board forecasts covering a period of three years. With the exception of goodwill, non-monetary assets for which an impairment has been recognised in prior periods are reviewed at each balance sheet date to test whether the impairment must be reversed. The impairments and write-ups are included in the cost of sales.

INVENTORIES

Inventories are recognised at the lower of historical cost or net realisable value. Historical cost is determined using the moving average method. The historical cost of finished and unfinished goods includes the costs of product development, raw materials and supplies, direct personnel expenses, other direct costs, and the overheads attributable to production (based on normal plant capacity). The net realisable value is the estimated sales revenue achievable in the normal course of business less the necessary variable distribution expenses and the expected cost until completion.

CASH AND CASH EQUIVALENTS

Cash and cash equivalent consist of cash and bank balances as well as checks. Bills received are reported as cash equivalents if their maturity on receipt is less than three months and they can be directly converted into sight deposits almost without generating any loss. If maturity on receipt is more than three months or the bill cannot be converted directly into sight deposits, the bills are reported in the securities category within financial assets. Other subordinated bills in qualitative terms do not result in derecognition of the corresponding receivable.

EQUITY

Subscribed capital

The limited partner shares issued by the Company are classified as equity. The various issues of capital from profit participation certificates are recognised as liabilities.

Capital reserve

Cash deposits attributable to the issuance of new shares which exceed the nominal value of the shares issued are recognised under the capital reserve. Costs directly attributable to the issuance of new shares are recognised in equity net after tax as a deduction from the capital reserves.

Reserve for currency translation differences

The reserve for currency translation differences comprises all foreign currency translation differences stemming from the translation of the consolidated financial statements of foreign business divisions as well as the effective portion of any foreign currency translation differences arising as a result of hedges of a net capital expenditure in a foreign business division.

Reserve for financial instruments for cash flow hedging

The reserve for financial instruments for cash flow hedging comprises the effective portion of cumulative net changes in the fair value of the hedging tools used to hedge cash flows until such point as the hedged cash flows are recognised in profit or loss.

Reserve for available-for-sale financial instruments

The reserve for available-for-sale financial instruments contains the cumulative net changes in the fair value of available-for-sale financial assets until the derecognition or impairment of such assets.

Remeasurements of defined benefit plans

Remeasurements of net debt stemming from defined benefit plans comprise actuarial gains and losses attributable to changes in the actuarial assumptions upon which the calculation of defined benefit pension liabilities is based. It also includes the difference between the standardised and actual income generated by the plan assets as well as its impact on any asset ceiling in place.

Other retained earnings/profit carried forward

The item "Other retained earnings/profit carried forward" includes other retained earnings of the parent company and past earnings of consolidated companies are also included in the consolidated financial statements, unless they have been distributed. This item also includes the statutory reserve of the parent company. The statutory reserve is subject to the distribution restrictions specified in the German

Stock Corporation Act (Aktiengesetz – AktG). Offsetting of differences in assets and liabilities arising from the capital consolidation of subsidiaries consolidated before 1 June 2006, and the adjustments recognised directly in equity for the first-time adoption of IFRS are also included in this item.

TRADE PAYABLES

Trade payables are initially measured at their fair value. They are subsequently measured at amortised cost using the effective interest method.

CURRENT AND DEFERRED TAXES

Current tax expense is calculated in accordance with the tax legislation applicable in the countries in which the subsidiaries and associates operate. In accordance with IAS 12, deferred taxes are recognised for any temporary differences between the tax basis of the assets/liabilities and their carrying amount in the IFRS financial statements ("temporary concept"). Deferred taxes are also recognised for tax loss carryforwards. Deferred taxes are measured on the basis of the tax rates (and tax legislation) that apply on the balance sheet date or have essentially been legislated and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are only recognised to the extent to which it is likely that a taxable profit will be available to offset the temporary differences in assets or the unused losses.

Deferred tax assets and deferred tax liabilities are netted only if offsetting is legally permissible. In accordance with IAS 12, deferred tax assets and liabilities are not discounted.

EMPLOYEE BENEFITS

Pension liabilities

Pension provisions are calculated using actuarial methods on the basis of the projected unit credit method in accordance with IAS 19. As a rule, the pension liabilities are measured using the latest mortality tables as at 31 of the respective reporting year; in Germany, the calculations are based on the 2005 G actuarial tables of Klaus Heubeck.

In the case of funded pension plans, the pension liabilities calculated using the projected unit credit method are reduced by the fair value of the fund assets. If the fund assets exceed the liabilities, recognition of the assets is limited to the present value of future refunds from the plan or the reduction in future contributions.

Actuarial gains and losses arise from increases or decreases either in the present value of the defined benefit liabilities of the plan or in the fair value of the plan assets. This may be caused by changes in the calculation parameters, differences

between the estimated and actual risk exposure of the pension liabilities and returns on the fund assets, excluding amounts reported within net interest income and expenses.

Actuarial gains and losses are recognised directly in equity (other comprehensive income for the period) in the period in which they arise, such as remeasurement resulting from the application of an asset ceiling and income from the plan assets (excluding interest on net debt).

The service cost for pensions and similar liabilities is recognised as an expense in the operating result. The interest expense derived by multiplying the net provisions with the discount rate is likewise recognised within the corresponding items of net operating profit/loss.

Severance commitments

Benefits arising from the termination of employment are paid if an employee is laid off by a Group company before normal retirement age. The Group pays severance commitments if it is under an obligation to terminate the employment of current employees in accordance with a detailed formal plan that cannot be revoked or if it is under an obligation to pay compensation in the event of employment being terminated voluntarily by the employee. Payments that are due for settlement in more than twelve months after the balance sheet date are discounted to calculate their present value.

Profit-sharing and other bonuses

Liabilities and provisions are recognised for bonus payments and profit-sharing and the expected expenses reported on the basis of a measurement process. Provisions are set aside in the consolidated financial statements in cases in which there is contractual commitment or constructive obligation based on past business practice.

Partial retirement

The obligations from partial retirement according to the block model mostly have maturities of between two and six years. The size of top-ups is determined in line with pay-scale provisions. They are accumulated on a pro rata basis from the beginning of the commitment onwards. Payments that are due for settlement in more than twelve months after the balance sheet date are discounted to calculate their present value. Benefits are mostly invested in the form of fixed-income investments in order to take account of hedging in accordance with statutory provisions.

PROVISIONS

Provisions are recognised if the Group has a present legal or constructive obligation resulting from a past event, it is probable that the settlement of the obligation will result in an out-

flow of resources and the amount of the provision can be reliably estimated.

If there are a large number of similar liabilities (as is the case for statutory warranties), the likelihood of an outflow of resources is determined on the basis of this group of liabilities. Provisions are also recognised if there is a low probability of an outflow of resources related to a single liability within this group.

Provisions are measured at the present value of the expected expenses, using a pre-tax rate that reflects current market expectations regarding the interest effect and the risks specific to the liability. The increase in provisions resulting from the related interest expenses is recognised in the income statement within interest expense.

Should warranty obligations arise from contractual or statutory warranty obligations, HELLA creates provisions for these obligations. Specific warranty provisions are made for warranty claims that have arisen or been asserted individually. When carrying out the measurement, the parts concerned are identified based on the established total supplied products and a failure rate estimated for these products. Failure rates are appropriately estimated using historical failure rates and all other available data for each individual warranty case. Measurement is based on the estimated average costs (material and replacement costs).

HELLA creates provisions for severance payments likely to be paid if it is liable for the early termination of employment contracts and HELLA is unable to withdraw from this liability.

Provisions for supply and sales liabilities include liabilities under current third-party agreements from which future losses are expected.

The management uses historical figures from similar transactions to estimate the amount of the provisions, taking into account details of any events arising up until the consolidated financial statement is drawn up.

CONTINGENT LIABILITIES

Contingent liabilities are potential or existing liabilities towards third parties, for which an outflow of resources is unlikely or whose amount cannot be reliably determined. If no contingent liabilities were assumed under a business combination, these are not recognised in the statement of financial position. In the case of guarantees, the amount of the contingent liabilities stated in the notes corresponds to the liabilities existing on the balance sheet date.

FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset for one entity and, at the same time, a financial liability or equity instrument for another. Financial instruments include financial assets and liabilities and contractual entitlements and obligations relating to the exchange or transfer of financial assets. A distinction is drawn between non-derivative and derivative financial instruments. Financial assets and liabilities are assigned to measurement categories in accordance with IAS 39.

Financial assets

Financial assets are recognised in the statement of financial position if the Company is party to a contract concerning these assets. The purchase or sale of financial assets under normal market conditions is recognised or derecognised at the same value as at the settlement date.

Financial assets which are due for settlement in more than one year are classified as non-current. They are derecognised as soon as the contractual right to payments from the financial assets expires or the financial assets are transferred with all the significant risks and opportunities.

Financial assets are assigned to one of the following four categories:

- 1 Financial assets recognised in the income statement at fair value (or "held for trading")
- 2 Held-to-maturity financial assets
- 3 Loans and receivables
- 4 Available-for-sale financial assets

Financial assets recognised in the income statement at fair value

A financial asset measured in the income statement at fair value is initially recognised at its fair value and also subsequently recognised at its fair value. The fair value option is not utilised.

Within the HELLA Group, this applies to financial instruments traded by Group companies as well as embedded derivative financial instruments.

Contracts executed for the purpose of receiving or delivering non-financial items for the Group's own business requirements are not treated as derivatives but as executory contracts. If such contracts include embedded derivative financial instruments that are required to be separated, these are accounted for separately from the executory contracts. The changes in the fair values of the embedded derivative financial instruments are recognised in the income statement.

Held-to-maturity financial assets

Held-to-maturity financial assets are initially recognised at their fair value plus directly attributable acquisition costs. They are subsequently measured at amortised cost using the effective interest method.

At the reporting date, the Group did not have any financial assets in the "held-to-maturity" category.

Loans and receivables

Loans and receivables are initially recognised at their fair value plus directly attributable acquisition costs. They are subsequently measured at amortised cost using the effective interest method.

If there is any objective evidence of the impairment of an asset's value and the carrying amount is greater than the value determined in the impairment test, a corresponding impairment is recognised in the income statement. Objective evidence of the impairment of an asset may include the deterioration of a debtor's credit rating and associated payment delays or imminent insolvency. All impairments are recognised indirectly via an impairment account. Within the HELLA Group, this measurement category largely consists of trade receivables and certain other assets.

The accounting policies for derivative financial instruments with a positive fair value included under other assets are described separately in the section entitled "Derivative financial instruments".

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated as "available for sale" on initial recognition or cannot be classified under any of the above categories. However, these assets were not acquired for the purpose of being sold in the near future.

Non-current or current assets available for sale are recognised at their market value on the reporting date. The market price is used to determine the fair value of publicly traded financial assets. If there is no active market, the fair value is determined on the basis of the most recent market transactions or using a valuation method such as the discounted cash flow method.

They are initially recognised on the settlement date. Unrealised gains and losses are recognised within equity with due allowance made for any deferred taxes and are recycled to profit and loss upon the sale of the assets. If there is any objective evidence of the impairment of an asset's value and the carrying amount is greater than the value determined in the

impairment test, a corresponding direct impairment is taken to profit and loss.

Impairment losses are recognised via an impairment account. In these cases, the receivables are grouped into portfolios in which the reason for the impairment is identical in all cases and clearly separated from other receivables.

Impairments are recognised if and as soon as receivables are irrecoverable or it is probable that they cannot be recovered but only if the amount of the impairment can be reliably determined. An impairment must be recognised in the event of any objective evidence such as protracted default, the commencement of debt recovery actions, pending insolvency or overindebtedness or the petition for or commencement of insolvency proceedings. Non- or low-interest-bearing receivables that are due for settlement in more than one year are discounted, in which case the interest component is recorded within interest income on a pro rata basis until settlement of the receivable.

All the other investments included within financial assets belong to the “available-for-sale” category and are measured at historical cost as their market value cannot be reliably determined. The shares and bonds stated under securities are marked to the market.

Financial liabilities

During the fiscal year under review, as in the prior year, there were no non-derivative financial liabilities measured at fair value in the income statement or categorised as such. The accounting policies for the derivative financial liabilities measured at market value included under other liabilities are described separately in the section entitled “Derivative financial instruments”.

All other non-derivative financial liabilities in the HELLA Group are allocated to the “other liabilities at amortised cost” category. Non-derivative financial liabilities are initially measured at fair value less transaction costs. They are subsequently measured at their amortised cost using the effective interest method.

If an outflow of resources is expected after more than one year, these liabilities are classified as non-current. Liabilities are derecognised if the contractual commitments are settled, reversed or expire.

DERIVATIVE FINANCIAL INSTRUMENTS

The HELLA Group uses derivative financial instruments to hedge financial risks. Derivative financial instruments are recognised on the date on which the corresponding contract

is executed irrespective of their purpose and measured at fair value both initially and subsequently. The derivatives are measured on the basis of observable current market data using appropriate measurement methods. Forward exchange transactions and commodity futures transactions are measured on a case-by-case basis at the respective forward rate or price on the balance sheet date. The forward rates or prices are based on the spot rates and prices, allowing for forward premiums and discounts. The fair values of instruments to hedge interest rate risks are obtained by discounting the future cash inflows and outflows. Market interest rates are used for discounting and applied over the residual term of the instruments. The present value is calculated at the balance sheet date for each single interest rate, currency and interest rate/currency swap transaction. The counterparty's credit rating is usually included in the assessment on the basis of observable market data.

Depending on whether the derivatives have a positive or negative market value, they are reported within other financial assets or other financial liabilities. The recognition of changes in fair value depends on the accounting treatment applied. In principle, all derivative financial instruments are allocated to the “held for trading” category. Changes in the fair value of assets held in this category are recognised immediately in the income statement.

In individual cases, selected hedging positions are presented as cash flow hedges in the statement of financial position in accordance with hedge accounting rules. This means that the effective part of the change in fair value is recognised within equity, while the ineffective part is recognised in the income statement. The part of the change initially recognised within equity is recycled to profit and loss as soon as the underlying transaction is recognised in the income statement.

BORROWING COSTS

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or manufacture of a qualifying asset and can therefore be considered to form part of the historical cost of the asset concerned. All other borrowing costs are recognised as expenditure in the period in which they arise.

As in the prior year, there were no borrowing costs directly attributable to the acquisition, construction or manufacture of a qualifying asset in the fiscal year 2016 /2017. For this reason, borrowing costs were recognised directly as expenditure within the period.

LEASES

A lease is an agreement in which the lessor grants the lessee

the right to use an asset for a specified period in return for a payment or series of payments.

Operating leases

Leases in which the lessor retains a significant proportion of the risks and opportunities associated with ownership of the leased asset are classified as operating leases. Payments made in connection with an operating lease are recognised in the income statement on a straight-line basis over the duration of the operating lease.

Finance leases

Leases for property, plant and equipment under which the Group bears the significant risks and enjoys the benefits associated with ownership of the leased assets are classified as finance leases. Assets under finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payment. A lease liability is recognised in the same amount.

Each lease payment is split into an interest component and a reduction of the outstanding liability so that interest is applied consistently to the lease liability. The interest component of the lease payment is recognised as an expense in the income statement. The property, plant and equipment held under a finance lease is depreciated over the shorter of the two following periods: the asset's economic useful life or the term of the lease.

DIVIDEND DISTRIBUTIONS

Shareholder claims to dividend distributions are recognised as a liability in the period in which the corresponding resolution is adopted.

09 Discretionary decisions and management estimates

The preparation of the consolidated financial statements in accordance with IFRS requires estimates and assumptions to be made. In addition, the application of company-wide accounting policies requires management to make judgments.

All estimates and assessments are reviewed on a continual basis and are based on past experience and other factors including expectations concerning future events that appear reasonable given the circumstances.

DISCRETIONARY DECISIONS AND CRITICAL ACCOUNTING ESTIMATES

The Group makes forward-looking assessments and assumptions. It is in the nature of things that the resulting esti-

mates only very rarely correspond exactly to the actual, subsequent circumstances. The estimates and assumptions that engender a significant risk in the form of a material adjustment to the carrying amount of assets and liabilities in the following fiscal year are discussed below.

ESTIMATED GOODWILL IMPAIRMENT

In accordance with the accounting policies described herein, the Group tests goodwill for impairment on an annual basis. The recoverable amount from cash-generating units (CGUs) is calculated on the basis of the value in use. These calculations must be based on certain assumptions (see also Chapter 30).

ESTIMATED IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The Group tests intangible assets and property, plant and equipment for impairment as soon as any indication of impairment arises in a specific case (triggering event). An impairment loss is recognised by comparing the carrying amount with the estimated recoverable value. The most important estimates concern the definition of the useful lives of the individual intangible assets and property, plant and equipment, and the recoverable value of the non-current assets, particularly the cash flow forecasts and discount rates used in this context (see also Chapters 30 and 31). The underlying forecasts are based on experience as well as expectations regarding future market developments, particularly assumed sales volumes.

INCOME TAXES

The Group is required to pay income tax in a number of countries. Significant assumptions therefore need to be made to determine the global income tax provisions. There are many transactions and calculations for which the final tax amount cannot be conclusively determined in the normal course of business. The Group measures the amount of the provisions for the expected external tax audits based on estimates of whether and to what extent income taxes will be payable. If the final tax amount for these transactions differs from the amount initially assumed, this is recognised in the actual and deferred taxes in the period in which the tax amount is conclusively determined (see Chapter 17).

FAIR VALUE OF DERIVATIVE AND OTHER FINANCIAL INSTRUMENTS

The fair value of financial instruments not traded on an active market (for example, derivatives traded over the counter) is determined using appropriate measurement methods selected from a large number of methods. The assumptions used for this are predominantly based on the prevailing market conditions on the balance sheet date. The Group uses present value methods to determine the fair

value of numerous available-for-sale assets that are not traded on an active market (see Chapter 44).

CRITICAL ASSESSMENTS CONCERNING THE USE OF ACCOUNTING POLICIES

The Group complies with the provisions of IAS 39 to determine the impairment of available-for-sale assets. This decision

requires an extensive assessment to be made. As part of this assessment, the Group appraises the duration and extent of any difference between the fair value of an investment and its historical cost as well as the financial status and short-term business prospects of the entity in which the investment was made, among other things, taking into account such factors as industry and sector conditions.

10 Sales

Sales in the fiscal year 2016/2017 amounted to € 6,584,748 thousand (prior year: € 6,351,889 thousand). Sales are attrib-

utable entirely to the sale of goods and performance of services.

They can be classified as follows:

€ thousand	2016/2017	2015/2016
Sales from the sale of goods	6,393,895	6,183,634
Sales from the rendering of services	190,853	168,255
Total sales	6,584,748	6,351,889

Sales by region (based on the headquarters of HELLA's customers):

€ thousand	2016/2017	2015/2016
Germany	2,243,018	2,362,337
Europe without Germany	2,217,512	2,059,480
North, Central and South America	1,060,909	936,640
Asia / Pacific / RoW	1,063,310	993,432
Consolidated sales	6,584,748	6,351,889

11 Cost of sales

In the fiscal year € 4,772,735 thousand (prior year: € 4,663,691 thousand) was recognised as expense under cost of sales.

Apart from directly attributable material and production costs, the cost of sales also comprises currency gains and losses (largely from the purchase of materials) and gains and

losses from the disposal of fixed assets. Currency gains in the reporting period amounted to € 59,730 thousand (prior year: € 56,303 thousand), with currency losses at € 65,863 thousand (prior year: € 63,681 thousand). Gains from the disposal of fixed assets amounted to € 1,915 thousand (prior year: € 742 thousand) and € 7,916 thousand (prior year: € 4,910 thousand) respectively.

€ thousand	2016/2017	2015/2016
Material expenses	-3,380,046	-3,308,416
Personnel expenses	-695,746	-650,777
Depreciation/amortisation	-342,843	-326,020
Other	-350,359	-371,291
Reclassification of functional costs	-3,740	-7,187
Cost of sales	-4,772,735	-4,663,691

12 Research and development expenses

The research and development expenses serve to generate future sales and mainly consist of personnel expenses and

material expenses. The reported expenses in the fiscal year were € 636,243 thousand (prior year: € 623,459 thousand).

€ thousand	2016/2017	2015/2016
Material expenses	-51,485	-57,939
Personnel expenses	-388,937	-371,874
Depreciation/amortisation	-17,578	-15,979
Other	-104,794	-113,754
Reclassification of functional costs	-73,449	-63,913
Research and development expenses	-636,243	-623,459

13 Distribution expenses

The distribution expenses include all downstream production costs that can, however, be attributable directly to the provision of goods or services to customers. This covers storage,

supplying customers locally, and outbound freight. The classification as distribution expenses is carried out at Group level as well as within individual companies.

€ thousand	2016/2017	2015/2016
Material expenses	-5,987	-8,400
Personnel expenses	-235,644	-226,801
Depreciation/amortisation	-10,321	-12,316
Other	-239,747	-236,077
Reclassification of functional costs	-14,620	-10,319
Distribution expenses	-506,319	-493,913

14 Administrative expenses

The administrative expenses recognised cover all central functions that are not directly related to production, development,

or distribution. These essentially consist of the financial, human resources, IT, and similar departments.

€ thousand	2016/2017	2015/2016
Material expenses	-47,974	-44,324
Personnel expenses	-197,882	-186,097
Depreciation/amortisation	-39,738	-37,842
Other	-343,129	-317,570
Reclassification of functional costs	399,095	367,594
Administrative expenses	-229,627	-218,239

15 Other income and expenses

Other income amounted to € 48,936 thousand in the fiscal year 2016/2017 (prior year: € 48,577 thousand). This also includes € 8,103 thousand (prior year: € 6,472 thousand) in government grants, release of provisions of € 2,693 thousand (prior year: € 2,446 thousand) and insurance indemnification of € 832 thousand (prior year: € 1,231 thousand). Moreover, other income includes reimbursements of marketing expenses incurred in prior periods and outbound freight. The deconsolidation successes from the disposals of HELLA Ireland Limited totalling € 552 thousand and Chinese company Changchun HELLA Shouxin LED Lighting Co. Ltd. amounting to € 115 thousand were also recorded in other income.

Of other expenses totalling € 33,971 thousand (prior year: € 34,659 thousand) € 16,163 thousand are connected with the European Commission's fine proceedings currently being initiated against HELLA for possible fine payments, third-party claims for damages and further lawyer's fees. Goodwill impairment came to € 2,527 thousand (prior year: € 5,611 thousand) (see Chapter 30). Moreover, restructuring measures in Germany led to expenses totalling € 10,242 thousand (prior year: € 9,432 thousand) during the reporting period. This expense is reported in the other expenses outside the functional divisions; in addition, this item is not allocated to any segment.

16 Net financial result

Currency gains of € 511 thousand (prior year: € 14,080 thousand) are reported in other financial income and corresponding currency losses of € 26,525 thousand (prior year:

€ 37,655 thousand) incurred in financial transactions are reported in other financial expenses.

€ thousand	2016/2017	2015/2016
Interest income	11,166	12,330
Income from securities and other loans	3,350	6,105
Other financial income	511	14,080
Financial income	15,027	32,515
Interest expenses	-32,749	-34,372
Other financial expenses	-26,525	-37,655
Financial expenses	-59,274	-72,027
Net financial result	-44,247	-39,512

17 Income taxes

€ thousand	2016/2017	2015/2016
Current income tax expense	-110,866	-119,119
Deferred income tax expense	-8,950	10,700
Total income taxes	-119,816	-108,419

Of actual income taxes, € -5,764 thousand is attributable to prior years (prior year: € -15,945 thousand).

Deferred taxes are calculated based on the tax rates applicable or announced, depending on the legal situation, in the individual countries at the expected time of realisation. The prevailing corporate income tax rate of 15% plus municipal trade tax and the solidarity surcharge results in an average

tax rate of 31% for German companies. The tax rates outside Germany range from 10% to 38%.

The development of the actual taxes on income derived from the expected tax expense is shown below. A tax rate of 30% (prior year: 30%) is taken as a basis.

€ thousand	2016/2017	2015/2016
Earnings before tax	462,923	380,280
Expected income tax expense	-138,877	-114,084
Utilisation of previously unrecognised loss carryforwards	5,986	2,806
Reversal of previously unrecognised temporary differences	3,059	728
Unrecognised deferred tax assets	-18,086	-17,256
Subsequent recognition of deferred tax assets	15,892	17,681
Deferred tax assets from outside basis differences	-6,085	-1,416
Tax effect of changes in tax rates and laws	-1,892	30
Tax-free income effects	4,862	3,440
Investments accounted for using the equity method	15,581	15,894
Tax effect of non-deductible operating expenses	-14,252	-14,098
Tax effect for prior years	-5,764	-15,945
Non-deductible foreign withholding tax	-3,391	-3,575
Tax rate deviations	18,703	16,803
Other	4,448	573
Reported income tax expense	-119,816	-108,419

Of the deferred tax assets subsequently recognised, € 13,108 thousand are attributable to temporary differences in China. The profitability of the companies has been increased further through restructuring measures, making it

likely that this item will be used. Of the deferred tax assets subsequently recognised in the prior year, € 9,152 thousand were attributable to loss carryforwards in the USA.

18 Personnel

The average number of employees in the companies included in the consolidated financial statements totals 37,639 (prior year: 35,201) during the fiscal year 2016/2017.

Number	2016/2017	2015/2016
Direct employees	9,856	8,687
Indirect employees	25,572	24,021
Permanent employees	35,428	32,708
Temporary employees	2,211	2,493
Total employees	37,639	35,201

The average number of permanent employees in the HELLA Group in the fiscal year 2016/2017 was 35,428 (prior year: 32,708). The number of employees is stated as a headcount.

Direct employees are directly involved in the manufacturing process, while indirect employees are employed mainly in the

areas of quality, research and development, as well as administration and distribution. The number of apprentices stood at 499 during the fiscal year (prior year: 449). "Temporary employees" comprises employees from a fully consolidated company.

Permanent employees in the HELLA Group by region:

Number	2016/2017	2015/2016
Germany	9,704	9,656
Europe without Germany	14,566	12,720
North, Central and South America	5,021	4,551
Asia / Pacific / RoW	6,137	5,781
Permanent employees worldwide	35,428	32,708

Personnel expenses (including temporary employees) can be broken down as follows:

€ thousand	2016/2017	2015/2016
Wages and salaries	1,229,978	1,164,906
Social security and retirement benefit expenses	288,231	270,642
Total	1,518,209	1,435,548

19 Earnings per share

Basic earnings per share are calculated by dividing the share of earnings attributable to the shareholders of HELLA KGaA Hueck & Co. by the weighted average number of ordinary shares issued.

Basic earnings per share amounted to € 3.08 and are equivalent to diluted earnings per share.

Number of shares	31 May 2017	31 May 2016
Weighted average number of shares in circulation during the period		
Basic ordinary shares	111,111,112	111,111,112
Diluted ordinary shares	111,111,112	111,111,112
€ thousand	2016/2017	2015/2016
Share of profit attributable to owners of the parent company	341,733	268,500
€	2016/2017	2015/2016
Basic earnings per share	3.08	2.42
Diluted earnings per share	3.08	2.42

20 Appropriation of earnings

The Management Board will propose to the Annual General Meeting of HELLA KGaA Hueck & Co. that a dividend of € 0.92 per share (prior year: € 0.77) be distributed from the net profit reported in the separate financial statements prepared for the parent company under commercial law for the fiscal year 2016/2017, with the remainder of the net profit carried forward. The proposed dividend represents a distribution amount of € 102,222 thousand (prior year: € 85,556 thousand).

21 Adjustment of special effects in earnings before interest and taxes

The HELLA Group is managed by the Management Board through financial key performance indicators. The key performance indicators of adjusted sales growth and adjusted EBIT margin take on prominent importance compared to the other financial key performance indicators in the management of the HELLA Group. A major guideline in assessing the suitability of management indicators is that they have to provide a transparent picture of operational performance. In this process, the non-recurring or exceptional effects in their type or size, referred to as special effects, can lead to distortions with regard to the EBIT margin, for example, and thus adversely affect the ability to assess the Company's performance.

Special effects are non-recurring or exceptional effects in their type and size which are clearly differentiated from the usual operational business. They are tracked uniformly and consistently in the Group and the method used to calculate adjusted earnings figures must not vary over the course of time in order to facilitate periodic comparison.

For this reason, the adjusted EBIT margin has been defined as one of the most important key performance indicators for

the steering of the Group's activities. The adjusted EBIT margin as a key performance indicator is not defined in the International Financial Reporting Standards. Rather it is reported by the HELLA Group as additional information in its financial reporting because it is also used for internal management and because, from the Company's perspective, it presents the results of operations – adjusted for special effects – in a more transparent form and facilitates a comparison over time.

The expense for the restructuring measures in Germany of € 10,242 thousand and the expense of € 16,163 thousand for the fine proceedings initiated against HELLA and others by the European Commission are adjusted in the current reporting period. The corresponding expenses are not allocated to any segment. Reported earnings for the fiscal year 2015/2016 were adjusted for restructuring costs and the effects connected with the loss of a Chinese supplier.

The corresponding reconciliation statement for the fiscal years 2016/2017 and 2015/2016 is as follows:

€ thousand	2016/2017 as reported	Restructuring	Legal affairs	2016/2017 adjusted
Sales	6,584,748	0	0	6,584,748
Cost of sales	-4,772,735	0	0	-4,772,735
Gross profit	1,812,014	0	0	1,812,014
Research and development expenses	-636,243	0	0	-636,243
Distribution expenses	-506,319	0	0	-506,319
Administrative expenses	-229,627	0	0	-229,627
Other income and expenses	14,965	10,242	16,163	41,370
Earnings from investments accounted for using the equity method	51,937	0	0	51,937
Other income from investments	443	0	0	443
Earnings before interest and taxes (EBIT)	507,170	10,242	16,163	533,575

€ thousand	2015/2016 as reported	Restructuring	Loss of supplier	2015/2016 adjusted
Sales	6,351,889	0	0	6,351,889
Cost of sales	-4,663,691	0	27,070	-4,636,622
Gross profit	1,688,198	0	27,070	1,715,267
Research and development expenses	-623,459	0	0	-623,459
Distribution expenses	-493,913	0	0	-493,913
Administrative expenses	-218,239	0	337	-217,901
Other income and expenses	13,918	9,432	19,789	43,139
Earnings from investments accounted for using the equity method	52,979	0	0	52,979
Other income from investments	308	0	0	308
Earnings before interest and taxes (EBIT)	419,792	9,432	47,196	476,420

22 Segment reporting

External segment reporting is based on internal reporting (so-called management approach). Segment reporting is based solely on financial information used by the company's decision makers for the internal management of the company and to make decisions regarding the allocation of resources and measurement of profitability.

THE HELLA GROUP'S BUSINESS ACTIVITIES ARE DIVIDED INTO THREE SEGMENTS: AUTOMOTIVE, AFTERMARKET AND SPECIAL APPLICATIONS:

The Lighting business division and the Electronics business division are reported together in the Automotive segment. Both business divisions serve a similar customer base worldwide. Consequently, both segments are subject to broadly

similar economic cycles and market developments. In addition, the individual products have comparable lifecycles. Original Equipment provides lighting and electronics components to automobile manufacturers and other tier-1 suppliers worldwide through an integrated distribution network. The product portfolio of the Lighting business division includes headlamps, signal lights, interior lights, and lighting electronics. The Electronics business division focuses on the product areas of body electronics, energy management, driver assistance systems and components (for example sensors and engine compartment actuators). The Automotive segment develops, produces and sells vehicle-specific solutions, and develops and brings to market technological innovations. The margins attainable within the segment are mainly dependent

on the respective technology used, and to a lesser extent on customers, regions, and products.

The Aftermarket business segment is responsible for the trade in automotive parts and accessories, and the wholesale business. The trade product portfolio includes service parts for the Lighting, Electrical, Electronics, and Thermal Management segments. In addition, the automotive parts and accessories businesses and workshops receive sales support through a modern, rapid information and order system, as well as through competent technical service. The Aftermarket segment makes only limited use of the Automotive segment's resources, and largely produces the independently developed items in its own plants.

The Special Applications segment comprises original equipment for special-purpose vehicles such as buses, caravans, agricultural and construction machinery, municipal vehicles and trailers. Technological competence is closely linked to Automotive business, which means that the range of applications in LED and electronic products can be expanded appropriately and synergies leveraged at the same time.

The segments together generated sales of € 834,275 thousand (prior year: € 805,080 thousand) with a single customer in the reporting year and therefore accounted for more than 10 % of consolidated sales.

All other Group segments are subordinate in terms of their economic significance and are therefore not segmented further. Their functions relate mainly to Group financing.

Sales as well as adjusted operating profit/loss before interest and taxes (EBIT) are the key performance indicators used to manage the business segments; assets and liabilities are not reported. The internal reporting applies the same accounting and measurement principles as the consolidated financial statements. Special items that are not included in the segment results are identified for the individual reporting periods. These special items are presented in the reconciliation table.

REORGANISATION OF THE AFTERMARKET AND SPECIAL APPLICATIONS SEGMENTS

In May 2016 the street and industry lighting and airfield lighting businesses were divested as part of product portfolio optimisation within the Special Applications segment. Synergies and functional overlaps with the Aftermarket segment were examined in order to ensure the segment's successful alignment. As a result, the organisational structure of the two segments was changed and the management structures were brought more in line with the business objectives of both segments at the end of the fiscal year 2016/2017.

In accordance with the new structure the reporting for the Aftermarket segment was adjusted and is now as follows:

€ thousand	as reported 2015/2016	Reclassification	adjusted 2015/2016
Sales with external customers	1,197,249	-67,835	1,129,415
Intersegment sales	49,491	0	49,491
Cost of sales	-831,126	50,481	-780,645
Gross profit	415,614	-17,354	398,260
Research and development expenses	-15,045	3,349	-11,696
Distribution expenses	-310,504	3,706	-306,797
Administrative expenses	-30,076	9,256	-20,819
Other income and expenses	13,507	-2,194	11,313
Earnings from investments accounted for using the equity method	6,596	0	6,596
Earnings before interest and taxes (EBIT)	80,092	-3,236	76,856
Additions to property, plant and equipment and intangible assets	28,118	-8,337	19,781

In accordance with the new structure the reporting for the Special Applications segment was adjusted and is now as follows:

€ thousand	as reported 2015/2016	Reclassification	adjusted 2015/2016
Sales with external customers	314,682	67,835	382,517
Intersegment sales	1,172	0	1,172
Cost of sales	-211,988	-50,481	-262,469
Gross profit	103,866	17,354	121,220
Research and development expenses	-16,902	-3,349	-20,252
Distribution expenses	-67,107	-3,706	-70,813
Administrative expenses	-15,310	-9,256	-24,566
Other income and expenses	434	2,194	2,628
Earnings from investments accounted for using the equity method	0	0	0
Earnings before interest and taxes (EBIT)	4,981	3,236	8,217
Additions to property, plant and equipment and intangible assets	16,316	8,337	24,652

After the adjustments made for the Aftermarket segment the interim reporting periods of the fiscal year 2016/2017 are as follows:

€ thousand	adjusted Q1 2016/2017	adjusted Q2 2016/2017	adjusted Q3 2016/2017
Sales with external customers	295,221	588,789	863,665
Intersegment sales	11,466	21,337	29,258
Cost of sales	-203,779	-402,969	-585,256
Gross profit	102,908	207,156	307,667
Research and development expenses	-2,797	-6,551	-9,581
Distribution expenses	-79,160	-159,638	-240,389
Administrative expenses	-6,212	-12,324	-18,741
Other income and expenses	2,032	5,137	8,043
Earnings from investments accounted for using the equity method	2,150	3,632	4,815
Earnings before interest and taxes (EBIT)	18,920	37,411	51,814
Additions to property, plant and equipment and intangible assets	3,154	7,822	12,114

After the adjustments made for the Special Applications segment the interim reporting periods of the fiscal year 2016/2017 are as follows:

€ thousand	adjusted Q1 2016/2017	adjusted Q2 2016/2017	adjusted Q3 2016/2017
Sales with external customers	88,218	186,646	276,875
Intersegment sales	427	506	504
Cost of sales	-57,673	-128,640	-190,646
Gross profit	30,972	58,513	86,733
Research and development expenses	-5,876	-10,455	-14,350
Distribution expenses	-16,452	-32,004	-47,581
Administrative expenses	-6,396	-14,281	-21,173
Other income and expenses	319	3,011	4,961
Earnings from investments accounted for using the equity method	0	0	0
Earnings before interest and taxes (EBIT)	2,567	4,784	8,590
Additions to property, plant and equipment and intangible assets	3,357	9,556	13,852

In line with the new structure the segment information has been adjusted. It is now as follows for the fiscal years 2016/2017 and 2015/2016:

€ thousand	Automotive		Aftermarket		Special Applications	
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016
Sales with external customers	4,979,830	4,803,835	1,184,766	1,129,415	384,479	382,517
Intersegment sales	49,084	38,983	37,513	49,491	506	1,172
Cost of sales	-3,751,205	-3,671,482	-804,938	-780,645	-260,847	-262,469
Gross profit	1,277,709	1,171,336	417,340	398,260	124,138	121,220
Research and development expenses	-604,613	-591,782	-13,112	-11,696	-18,599	-20,252
Distribution expenses	-120,180	-116,193	-323,049	-306,797	-62,925	-70,813
Administrative expenses	-178,101	-171,022	-28,694	-20,819	-27,926	-24,566
Other income and expenses	23,823	4,455	14,226	11,313	5,059	2,628
Earnings from investments accounted for using the equity method	45,650	46,383	6,287	6,596	0	0
Earnings before interest and taxes (EBIT)	444,288	343,177	72,999	76,856	19,747	8,217
Additions to property, plant and equipment and intangible assets	558,312	447,753	20,939	19,781	25,866	24,652

Sales with external third parties in the fiscal years 2016/2017 and 2015/2016 are as follows:

€ thousand	Automotive		Aftermarket		Special Applications	
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016
Sales from the sale of goods	4,830,648	4,673,397	1,179,202	1,128,263	384,046	381,987
Sales from the rendering of services	149,182	130,439	5,564	1,152	434	529

Sales reconciliation:

€ thousand	2016/2017	2015/2016
Total sales of the reporting segments	6,636,176	6,405,412
Sales in other divisions	87,238	96,459
Elimination of intersegment sales	-138,666	-149,982
Consolidated sales	6,584,748	6,351,889

Reconciliation of the segment results with consolidated net profit:

€ thousand	2016/2017	2015/2016
EBIT of the reporting segments	537,034	428,250
EBIT of other divisions	-3,459	974
Unallocated income	-26,405	-9,432
Consolidated EBIT	507,170	419,792
Net financial result	-44,247	-39,512
Consolidated EBT	462,923	380,280

EBIT of other areas includes expenses for strategic investments in potential new technologies and business segments, depreciation and amortisation of assets not used for operations and expenses for central functions. The expense of € 16,163 thousand for the fine proceedings initiated against

HELLA and others by the European Commission and the expense totalling € 10,242 thousand (prior year: € 9,432 thousand) for the restructuring measures in Germany are not allocated to any segment.

Non-current assets by region:

€ thousand	2016/2017	2015/2016
Germany	1,012,253	904,262
Europe without Germany	840,314	753,872
North, Central and South America	349,322	292,719
Asia / Pacific / RoW	425,141	409,385
Consolidated non-current assets	2,627,030	2,360,239

23 Adjustment of special effects in the segment results

The negative effects on earnings resulting from the loss of a Chinese supplier were reported in the Automotive segment in the prior year. This resulted in a strain on earnings before income and taxes in the past reporting period, which has been adjusted to ensure better comparability with the current reporting period. The cost of sales included higher production

and logistics costs, as well as expense for expected further losses, while other income and expenses included a goodwill impairment of € 5,611 thousand. The income statement for the Automotive segment was not adjusted for the fiscal year 2016/2017. As a result, the EBIT margin also corresponds to the adjusted EBIT margin.

The prior year's adjusted income statement for the Automotive segment is as follows:

€ thousand	2015/2016 as reported	Loss of supplier	2015/2016 adjusted
Sales	4,803,835	0	4,803,835
Intersegment sales	38,983	0	38,983
Cost of sales	-3,671,482	27,070	-3,644,412
Gross profit	1,171,336	27,070	1,198,406
Research and development expenses	-591,782	0	-591,782
Distribution expenses	-116,193	0	-116,193
Administrative expenses	-171,022	337	-170,685
Other income and expenses	4,455	19,789	24,244
Earnings from investments accounted for using the equity method	46,383	0	46,383
Earnings before interest and taxes (EBIT)	343,177	47,196	390,373

24 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and bank balances, cheques and bills received.

25 Financial assets

€ thousand	31 May 2017		31 May 2016	
	Non-current	Current	Non-current	Current
Securities	14,918	313,440	175	328,117
Other investments	9,581	0	10,420	0
Loans	5,558	372	6,407	339
Other financial assets	37	574	31	334
Total	30,094	314,386	17,033	328,790

26. Trade receivables

Trade receivables of € 1,067,979 thousand include receivables due from associates, non-consolidated affiliated companies and companies in which an interest is held amounting to € 61,350 thousand (prior year: € 50,961 thousand).

Other non-current assets include non-current trade receivables amounting to € 38,342 thousand (prior year: € 29,661 thousand).

€ thousand	31 May 2017	31 May 2016
Trade receivables	61,350	50,961
with associates and investments	60,834	50,371
with affiliated companies not included in the consolidated financial statements	515	590

27 Other receivables and non-financial assets

€ thousand	31 May 2017	31 May 2016
Other current assets	29,077	27,248
Insurance receivables	5,983	4,928
Positive market value of currency hedges	11,324	6,475
Subtotal other financial assets	46,384	38,651
Other non-financial assets	0	5,054
Advance payments	6,954	9,071
Prepaid expenses	34,475	26,151
Receivables for partial retirement	63	654
Advance payments to employees	4,385	2,251
Other tax receivables	63,477	64,544
Total	155,738	146,376

28 Inventories

Inventories are broken down as follows:

€ thousand	31 May 2017	31 May 2016
Raw materials and supplies	196,123	184,833
Unfinished goods	233,485	184,867
Finished goods	69,519	74,693
Merchandise	202,029	192,961
Other	3,380	8,690
Gross inventories	704,536	646,044
Advance payments received	-41,004	-38,460
Total inventories	663,533	607,584

The carrying amounts of the inventories recognised at fair value less cost of sales amounted to € 210,183 thousand (prior year: € 170,513 thousand).

Impairments of € 24,979 thousand (prior year: € 17,717 thousand) were recognised in the income statement under the cost of sales in the reporting year.

Impairments amounting to € 19,701 thousand (prior year: € 12,032 thousand) were reversed in the past fiscal year, as the impaired inventories were sold at higher values. Write-ups on inventory assets are recognised in the cost of sales, in line with impairments.

Overall, the following impairments on inventories were recognised:

€ thousand	31 May 2017	31 May 2016
Raw materials and supplies	22,208	18,809
Unfinished goods	4,035	3,611
Finished goods	9,509	7,918
Merchandise	7,874	8,010
Total inventories	43,626	38,348

Acquisition and manufacturing costs of inventories amounting to € 3,449,997 thousand (prior year: € 3,382,205 thousand) were recognised as expenses in the cost of sales in the re-

porting period, as were reductions in inventory of € 37,216 thousand (prior year: € 38,083 thousand).

29 Non-current assets held for sale

The land and buildings of closed-down production sites reported as non-current assets held for sale in the prior fiscal year were sold in the fiscal year 2016/2017. The assets were not allocated to a segment requiring reporting. The measurement

of the non-current assets held for sale did not result in an impairment in the fiscal year 2016/2017 (prior year: € 433 thousand).

30 Intangible assets

€ thousand	Capitalised develop- ment expenses	Goodwill	Acquired intangible assets	Total
Acquisition or manufacturing costs				
As at 1 June 2015	335,514	86,390	171,825	593,729
Currency translation	-3,633	-1,974	-849	-6,456
Additions	55,067	0	15,668	70,735
Disposals	-14,998	-458	-1,639	-17,095
Reclassifications	-60	0	60	0
As at 31 May 2016	371,890	83,958	185,065	640,913
Cumulative depreciation and amortisation				
As at 1 June 2015	212,308	24,868	135,692	372,868
Currency translation	-1,098	-930	-493	-2,521
Additions	22,533	0	16,948	39,481
Disposals	-10,287	-174	-1,633	-12,094
Recorded impairments	12,534	5,611	13	18,158
As at 31 May 2016	235,990	29,375	150,527	415,892
Carrying amounts 31 May 2016	135,900	54,583	34,539	225,021

€ thousand	Capitalised develop- ment expenses	Goodwill	Acquired intangible assets	Total
Acquisition or manufacturing costs				
As at 1 June 2016	371,890	83,958	185,065	640,913
Changes in the scope of consolidation	0	0	2,655	2,655
Currency translation	-535	-243	18	-761
Additions	56,354	2,967	16,534	75,855
Disposals	-4,243	0	-8,380	-12,624
As at 31 May 2017	423,466	86,681	195,891	706,038
Cumulative depreciation and amortisation				
As at 1 June 2016	235,990	29,375	150,527	415,892
Currency translation	-99	-368	-2	-469
Additions	25,371	0	15,850	41,220
Disposals	-296	0	-8,718	-9,015
Recorded impairments	625	2,527	407	3,559
As at 31 May 2017	261,591	31,534	158,063	451,188
Carrying amounts 31 May 2017	161,875	55,147	37,828	254,850

All capitalised development expenses resulted from internal developments, the relevant impairments were created due to reduced earnings expectations and are included in the cost of sales in the Automotive segment. The discount rate used in the context of the impairment loss was 6.92% (prior year: 7.11%).

Intangible assets include carrying amounts of € 115 thousand (prior year: € 126 thousand) relating to finance leases. These serve as collateral for finance lease liabilities. Please refer to Chapter 47 "Information on leases" for additional information on future lease payments.

GOODWILL

Goodwill is broken down into the business segments as follows:

€ thousand	31 May 2017	31 May 2016
Automotive	4,150	6,729
Aftermarket	50,996	47,854
Special Applications	0	0
Total	55,147	54,583

Goodwill impairment monitoring in the HELLA Group is based on the CGUs in the operative segments. A cash generating unit does not extend beyond its business segment. CGUs represent the smallest group of assets that generate cash flows, and are, hence, the smallest reporting units. A CGU can either be a legal entity or – insofar as a legal entity operates in different segments – a segmented business division of this legal entity or a sub-group.

If it is determined that the recoverable amount of a CGU is lower than its carrying amount, an impairment loss is recognised. The recoverable amount is determined on the basis of the expected future discounted cash flows from planned use (value in use). These are based on plans approved by the Management Board covering a period of at least three years. These plans are based on experience, as well as expectations regarding future market developments.

The discount rates applied within the scope of the measurement are calculated on the basis of market data. As in the prior year, consistent growth rates were used to extrapolate cash flows after the detailed planning phase. The growth rates are based on analyses conducted by a specialist service provider and do not exceed the non-current growth rates for the sector or the region in which the CGUs are active.

To take into account the increasing differentiation between segments a specific peer group was used to determine the discount rates. The weighted capital cost of segments is thus based on the capital structure of the relevant group of listed companies to which the segment in question is comparable in terms of its risk/reward structure. For the CGU of the Automotive segment a capital cost of between 6.92% and 10.80% was used and a figure ranging between 5.17% and 15.46% for the Aftermarket segment; the ranges were caused by regional characteristics.

	Discount rates		Growth rates	
	31 May 2017	31 May 2016	31 May 2017	31 May 2016
Automotive	6.92% to 10.80%	7.84% to 12.83%	1% to 2%	1% to 3%
Aftermarket	5.17% to 15.46%	7.84% to 18.41%	1% to 3%	0% to 3%

The risk-free interest rate applied is 1.29 % (prior year: 1.29 %) and the market risk premium (incl. country risk) ranges between 6 % and 10.33 % (prior year: between 6.00 % and 9.66 %). The inflation spreads applied ranged between -0.38 % and 6.48 % (prior year: between -0.17 % and 6.33 %).

The goodwill impairment of € 2,527 thousand is attributable to a company in the Automotive segment. Due to the current market situation, lower earnings prospects for a company based in China that develops and produces electronic components are the reason for the impairment loss. This impairment loss was reported under other income and expenses of the Automotive segment (see Chapter 15). The discount rate applied when determining the recoverable amount was 8.51 % (prior year: 9.86 %).

HELLA reports material goodwill in the amount of € 38,733 thousand (prior year: € 38,733 thousand) stemming from the CGU HELLA Gutmann Holding GmbH. The significant valuation parameters for this CGU are a discount rate of 5.17 %

(prior year: 7.84 %) and a growth rate of 1.3 % (prior year: 2 %). Sales growth of 6 % (prior year: 4 %) is anticipated during the detailed forecast period. The estimated achievable amount of the CGU substantially exceeds its carrying amount. A possible change in the measurement parameters of this CGU may result in the carrying amount exceeding the achievable amount. If the discount rate were to increase by around 2.07 percentage points to a figure of 7.23 %, the achievable amount would correspond to the reported carrying amount.

In addition to impairment testing, two sensitivity analyses were carried out for each group of cash-generating units. The most important sensitivity indicators for the impairment test are the discount rate and long-term growth rate. A sensitivity analysis performed for the results aggregated at business segment level shows that a one percentage point increase in the WACC or a one percentage point reduction in the long-term growth rate would not change the outcome of the impairment test in the Aftermarket and Automotive segments.

The following impairments (-) would arise:

	31 May 2017		31 May 2016	
	Change in € thousand	Change in € thousand	Change in € thou- sand	Change in € thou- sand
Automotive segment				
Change in percentage points	WACC	Long-term growth rate	WACC	Long-term growth rate
- 1 percentage point	0	0	0	0
+ 1 percentage point	0	0	0	0
Aftermarket segment				
Change in percentage points	WACC	Long-term growth rate	WACC	Long-term growth rate
- 1 percentage point	0	0	0	0
+ 1 percentage point	-43	0	0	0

31 Property, plant and equipment

€ thousand	Land and buildings	Machinery	Production equipment	Operating and office equipment	Assets under construction	Total
Acquisition or manufacturing costs						
As at 1 June 2015	729,226	2,065,396	1,077,375	469,014	273,160	4,614,171
Currency translation	-19,714	-49,347	-1,590	-15,022	-11,090	-96,763
Additions	34,504	124,124	58,747	37,219	235,361	489,955
Disposals	-11,646	-48,528	-51,874	-13,394	-3,496	-128,939
Reclassifications	13,890	6,805	236,298	-26,223	-230,770	0
As at 31 May 2016	746,260	2,098,450	1,318,956	451,594	263,165	4,878,425
Cumulative depreciation and amortisation						
As at 1 June 2015	332,812	1,440,466	899,737	328,780	45	3,001,840
Currency translation	-4,507	-28,842	-1,132	-8,804	0	-43,285
Additions	22,592	165,601	102,102	37,337	0	327,632
Disposals	-9,183	-45,963	-48,917	-11,720	0	-115,783
Recorded impairments	0	8,242	1,857	133	250	10,482
Reclassifications	103	-107,759	122,717	-15,061	0	0
As at 31 May 2016	341,817	1,431,745	1,076,364	330,665	295	3,180,886
Carrying amounts 31 May 2016	404,443	666,705	242,592	120,929	262,870	1,697,539

€ thousand	Land and buildings	Machinery	Production equipment	Operating and office equipment	Assets under construction	Total
Acquisition or manufacturing costs						
As at 1 June 2016	746,260	2,098,450	1,318,956	451,594	263,165	4,878,425
Changes in the scope of consolidation	-1,596	0	0	-950	0	-2,546
Currency translation	-3,307	-10,114	1,248	-1,194	-1,535	-14,901
Additions	29,724	123,154	79,588	40,621	330,293	603,381
Disposals	-5,568	-67,039	-31,822	-30,108	-1,870	-136,408
Reclassifications	14,444	-21,356	211,707	14,546	-219,342	0
As at 31 May 2017	779,957	2,123,095	1,579,678	474,509	370,711	5,327,950
Cumulative depreciation and amortisation						
As at 1 June 2016	341,817	1,431,745	1,076,364	330,665	295	3,180,886
Changes in the scope of consolidation	-897	0	0	-605	0	-1,503
Currency translation	-690	-4,612	679	-486	0	-5,109
Additions	25,931	162,636	125,883	38,469	0	352,918
Disposals	-3,068	-58,957	-31,366	-26,799	0	-120,191
Recorded impairments	0	14,231	0	41	0	14,272
Reclassifications	5	-95,192	92,402	2,970	-185	0
As at 31 May 2017	363,098	1,449,850	1,263,961	344,255	110	3,421,274
Carrying amounts 31 May 2017	416,859	673,245	315,717	130,254	370,601	1,906,676

Restrictions on the powers of disposition over property, plant and equipment exist in the form of land charges and assignments to the amount of € 2,062 thousand (prior year: € 2,629 thousand).

Property, plant and equipment include carrying amounts of € 5 thousand (prior year: € 913 thousand) relating to finance leases. Please refer to Chapter 47 "Information on leases" for additional information on future lease payments.

Impairments are recognised in the cost of sales.

The impairment loss on property, plant and equipment totaling € 9,431 thousand is allocated to the Automotive segment.

The current assessment of the market setting and the associated lower expected revenues of a business unit located in Brazil and the reduced earnings prospects of a company based in China on account of the current market situation are the reason for the impairment loss. The discount rates used in the context of the impairment loss was 13.78 % in Brazil and 8.51 % in China. Moreover, within the Special Applications segment property, plant and equipment was subject to non-scheduled depreciation and amortisation of € 4,800 thousand of a business entity based in Spain because the earnings expected over the long term are forecast to decline. The discount rate used in the context of the impairment loss was 5.17 %.

32 Investments accounted for using the equity method

The following is a list of the Group's main investments accounted for using the equity method. The summarised financial information represents the IFRS financial statements of the joint ventures that were the basis for the at-equity measurement in the Group.

BHTC

Behr-HELLA Thermocontrol Group (BHTC) consists of eight companies that are controlled and reported together by Behr-HELLA Thermocontrol GmbH in Germany. BHTC develops, produces and distributes air-conditioning control devices for

the automotive industry. It also focuses on the assembling of printed circuit boards and mounting of operating units, blower controllers and electronic control units for electric heater boosters.

€ thousand	31 May 2017	31 May 2016
Share of equity (%)	50	50
Cash and cash equivalents	57,370	34,693
Other current assets	104,209	98,024
Non-current assets	272,846	261,048
Total assets	434,425	393,765
Current financial liabilities	87,036	16,567
Other current liabilities	136,283	105,270
Non-current financial liabilities	39,882	106,630
Other non-current liabilities	34,734	33,077
Total liabilities	297,935	261,544
Net assets (100%)	136,490	132,221
Pro rata share of the net assets	68,245	66,110
Sales	422,577	386,410
Depreciation and amortisation	-45,286	-39,164
Interest income	90	158
Interest expenses	-2,357	-2,067
Taxes on income	-8,115	-9,152
Earnings before interest and income taxes (EBIT)	33,188	27,517
Earnings for the period	22,806	16,457
Other comprehensive income for the period	-3,537	-6,792
Comprehensive income for the period (100%)	19,270	9,665
Share of comprehensive income for the period	9,635	4,832
Dividends received	7,500	7,500

BHS

Behr HELLA Service (BHS) comprises five companies that are controlled and reported together by Behr HELLA Service GmbH in Germany. It serves the global independent after-

market for vehicle air conditioning and cooling spare parts and accessories.

€ thousand	31 May 2017	31 May 2016
Share of equity (%)	50	50
Cash and cash equivalents	12,900	4,701
Other current assets	57,979	64,367
Non-current assets	41,569	41,463
Total assets	112,448	110,531
Current financial liabilities	93	322
Other current liabilities	20,008	20,155
Non-current financial liabilities	40,000	40,000
Other non-current liabilities	513	413
Total liabilities	60,614	60,890
Net assets (100%)	51,834	49,641
Pro rata share of the net assets	25,917	24,821
Sales	141,906	141,759
Depreciation and amortisation	-67	-332
Interest income	220	149
Interest expenses	-643	-644
Taxes on income	-4,414	-4,852
Earnings before interest and income taxes (EBIT)	16,279	17,491
Earnings for the period	11,705	11,863
Other comprehensive income for the period	487	-991
Comprehensive income for the period (100%)	12,192	10,872
Share of comprehensive income for the period	6,096	5,436
Dividends received	5,000	6,234

HBPO

HELLA Behr Plastic Omnium (HBPO), consisting of 24 companies that are controlled and reported together by HBPO Beteiligungsgesellschaft mbH in Germany, has global opera-

tions in the fields of development, production planning, quality management, assembly and distribution of front-end modules.

€ thousand	31 May 2017	31 May 2016
Share of equity (%)	33	33
Cash and cash equivalents	57,749	43,554
Other current assets	308,835	260,925
Non-current assets	116,985	102,523
Total assets	483,569	407,002
Current financial liabilities	0	0
Other current liabilities	361,340	301,858
Non-current financial liabilities	0	0
Other non-current liabilities	8,376	8,975
Total liabilities	369,716	310,833
Net assets (100 %)	113,853	96,169
Pro rata share of the net assets	37,947	32,053
Sales	1,916,074	1,766,219
Depreciation and amortisation	-20,439	-18,256
Interest income	92	70
Interest expenses	-459	-274
Taxes on income	-18,048	-13,980
Earnings before interest and income taxes (EBIT)	65,877	52,682
Earnings for the period	47,485	40,171
Other comprehensive income for the period	199	-3,923
Comprehensive income for the period (100 %)	47,684	36,248
Share of comprehensive income for the period	15,893	12,081
Dividends received	10,000	10,000

The Group also has shares in further joint ventures and associates, which are also accounted for using the equity method;

their summarised financial information is presented below:

€ thousand	31 May 2017	31 May 2016
100 % basis		
Sales	1,105,398	990,791
Earnings before interest and income taxes (EBIT)	80,428	63,730
Group's total share of:		
Sales	497,379	433,658
Earnings before interest and income taxes (EBIT)	37,941	26,933
Share of consolidated earnings for the period	18,645	20,530
Share of other comprehensive income for the period	2,274	-5,922
Comprehensive income for the period recognised in the Group	20,919	14,608
Carrying amount of the remaining companies accounted for using the equity method	134,861	131,753

The financial information for all joint ventures and all associates is as follows:

€ thousand	31 May 2017	31 May 2016
100 % basis		
Sales	3,585,955	3,285,180
Earnings before interest and income taxes (EBIT)	195,772	161,420
Group's total share of:		
Sales	1,418,247	1,286,424
Earnings before interest and income taxes (EBIT)	84,632	66,996
Share of consolidated earnings for the period	51,937	52,979
Share of other comprehensive income for the period	-577	-13,670
Comprehensive income for the period recognised in the Group	51,360	39,309

Impairments of € 5,209 thousand (prior year: € 0 thousand) were recognised in comprehensive income for the period recognised in the Group. The share of losses not recognised

for the aforementioned companies accounted for using the equity method is € 1,163 thousand (prior year: € 4,343 thousand).

The recognised net assets of all joint ventures and all associates is broken down as follows:

€ thousand	31 May 2017	31 May 2016
Pro rata share of net assets of BHTC	68,245	66,110
Pro rata share of net assets of BHS	25,917	24,821
Pro rata share of net assets of HBPO	37,947	32,053
Goodwill	7,140	7,140
Eliminations	-208	-429
Net assets of material companies accounted for using the equity method	139,041	129,695
Group's carrying amount of the net assets of the other companies accounted for using the equity method	146,129	134,739
Goodwill, eliminations and impairment	-11,268	-2,986
Net assets of other companies accounted for using the equity method	134,861	131,753
Investments accounted for using the equity method	273,901	261,448
€ thousand	31 May 2017	31 May 2016
Pro rata share of the net assets as at 1 June	261,448	266,768
Share of consolidated earnings for the period	51,937	52,979
Share of other comprehensive income for the period	-577	-13,682
Capital reduction	0	-2,766
Dividends	-38,905	-41,852
Pro rata share of net assets as at 31 May	273,901	261,448

33 Deferred tax assets/liabilities

The deferred tax assets of € 117,488 thousand (prior year: € 122,954 thousand) and deferred tax liabilities of € 32,371 thousand (prior year: € 25,767 thousand) mainly relate to differences from the tax balance sheet values. Before offsetting and

impairment, the current portion of the deferred tax assets and liabilities amounts to € 115,544 thousand and € -74,268 thousand, respectively (prior year: € 93,724 thousand and € -51,786 thousand).

The deferred tax assets and liabilities are broken down as follows:

€ thousand	Deferred tax assets	Deferred tax liabilities	Net deferred taxes as at 31 May 2016	Recognised in profit or loss
Intangible assets	16,381	35,172	-18,790	-2,891
Property, plant and equipment	31,481	67,352	-35,871	14,641
Financial assets	5,382	2,255	3,127	-1,605
Other non-current assets	513	232	281	-8,095
Receivables	1,599	113	1,486	468
Inventories	14,666	2,630	12,036	-8,273
Other current assets	4,826	13,365	-8,539	3,210
Non-current financial liabilities	2,238	0	2,238	-36
Provisions for pensions and similar obligations	52,910	3,914	48,996	6,060
Other non-current provisions	13,348	0	13,348	-3,658
Other non-current liabilities	397	1,148	-751	185
Liabilities	901	663	238	727
Other liabilities and accruals	65,907	34,695	31,212	3,425
Other current liabilities	5,825	320	5,505	3,788
Subtotal	216,374	161,859	54,514	7,948
Loss carryforwards	42,672	0	42,672	-16,898
Netting	-136,092	-136,092	0	0
Total	122,954	25,767	97,186	-8,950

It is guaranteed with sufficient probability that the loss carryforwards for which deferred tax assets are recognised will be realised. The amount of the loss carryforwards for which no deferred tax assets are recognised was € 222,903 thousand as at 31 May 2017 (prior year: € 289,558 thousand). Future offsetting against taxable profits is unlikely. Of this amount, € 53,714 thousand will mature in the next five years, and € 169,189 thousand thereafter. Tax assets arising from temporary differences for which no deferred tax assets were recognised amounted to € 21,277 thousand at 31 May 2017 (prior year: € 3,060 thousand).

On 31 May 2017 a temporary difference amounting to a liability of € 3,970 thousand (prior year: € 334 thousand) was recorded in connection with shares in subsidiaries and joint ventures. No deferred tax liabilities were recognised for this difference under IAS 12.39, however, because the subsidiaries' dividend policy is determined by the Group's Management Board. The Group can thus control the reversal of these temporary differences. The Management Board does not expect the temporary difference to be reversed in the foreseeable future.

Recognised in other comprehensive income	Acquired in business combinations	Other changes	Net deferred taxes as at 31 May 2017	Deferred tax assets	Deferred tax liabilities
-20	-461	0	-22,162	19,580	41,742
-1,246	0	-144	-22,620	47,706	70,325
15	0	0	1,536	3,014	1,477
-1,129	0	0	-8,943	1,976	10,919
58	0	0	2,012	2,094	82
103	0	0	3,866	15,848	11,982
-3,237	0	0	-8,566	5,798	14,364
9	0	0	2,211	2,211	0
-206	0	0	54,851	56,400	1,550
2,971	0	0	12,661	12,661	0
1	0	0	-565	337	902
-4	0	0	961	2,733	1,772
616	0	0	35,253	80,322	45,069
-444	0	0	8,849	9,848	999
-2,514	-461	-144	59,344	260,527	201,184
0	0	0	25,774	25,774	0
0	0	0	0	-168,813	-168,813
-2,514	-461	-144	85,117	117,488	32,371

34 Other non-current assets

€ thousand	31 May 2017	31 May 2016
Receivables from finance leases	34,827	29,057
Other non-current assets	3,515	604
Subtotal other financial assets	38,342	29,661
Advance payments	320	1,233
Prepaid expenses	3,190	3,523
Plan assets	2,168	1,827
Total	44,021	36,244

See Chapter 47 for more detailed explanations about receivables from leases.

35 Trade payables

In the past fiscal year, there were liabilities to associates, non-consolidated affiliated companies and companies in which participating interests are held in the amount of € 28,173 thousand (prior year: € 30,585 thousand).

€ thousand	31 May 2017	31 May 2016
Materials and services	546,472	515,534
Capital expenditures	98,243	87,699
Related parties	28,173	30,585
with associates and investments	26,990	29,098
with affiliated companies not included in the consolidated financial statements	1,183	1,487
Total trade payables	672,888	633,818

36 Other liabilities

€ thousand	31 May 2017		31 May 2016	
	Non-current	Current	Non-current	Current
Derivatives	79,299	8,828	88,843	5,622
Other financial liabilities	13,843	197,942	10,765	157,123
Subtotal other financial liabilities	93,142	206,770	99,608	162,744
Other taxes	95	55,602	0	46,782
Accrued personnel liabilities	0	195,085	0	190,645
Advance payments received on orders	1,814	20,120	0	22,701
Deferred income	87,270	138,396	93,517	115,904
Other non-financial liabilities	0	19,961	159	19,267
Total	182,320	635,935	193,284	558,043

The advance payments received and reported relate primarily to services not yet rendered in full. Other financial liabilities

include mainly liabilities from outstanding invoices or credit notes of € 170,799 thousand (prior year: € 126,170 thousand).

37 Provisions

The main components of provisions are presented below:

€ thousand	31 May 2017		31 May 2016	
	Non-current	Current	Non-current	Current
Pension provisions	271,460	246	242,478	218
Other provisions	79,643	100,235	88,410	65,041
Total	351,103	100,481	330,888	65,259

PENSION PROVISIONS

The HELLA Group provides pension benefits to the vast majority of its employees in Germany. Employees in many of the international HELLA companies also receive occupational pension benefits. There are both defined benefit and defined contribution pension plans.

The benefits provided by the German companies mainly consist of pension payments, the amount of which is based on length of service and which are paid in the form of old age, disability, and survivors' pensions. In addition, one company has a pension scheme whereby members receive a fixed sum depending on the income band in which they are classified. All employees can also participate in a contribution-based scheme through deferred compensation.

The companies continue to remain liable for fulfilment of the pension entitlements assigned to the pension fund, acting as guarantor in the event of non-performance, meaning that the pension liabilities and trust assets will be included on a net basis in the consolidated statement of financial position.

The defined benefit pension scheme in Great Britain and Ireland was closed to newcomers to the company. The same scenario is true for the old-age pension provision in the Dutch company, which also has a defined benefit arrangement. The benefits of both of these schemes are calculated on the basis of length of service and salary and are paid out when retirement age is reached or in the event of disability or death. The Dutch scheme also allows for additional employee contributions. The plan of the Norwegian company has also been closed to newcomers

to the company and provides for pension payments. However, the benefits under the employer-financed plan are calculated taking into account statutory pension provision. During the fiscal year most plan participants were transferred to the defined contribution plan.

Besides these systems, whose benefits are paid on an annuity basis, employees of the companies in Mexico, Korea, India and the Philippines receive benefits in the form of a single capital payment. The amount of the obligation from the respective defined benefit plan is determined on the basis of the salary and number of years of service. In Mexico, the guaranteed pension benefits are supplemented by a contribution-based Flex Plan into which the employer can pay variable contributions. Employees in Bosnia, Slovenia, and France receive a

one-off lump capital sum on retirement based on their salary. In Italy and Turkey, capital is paid out at the end of the working relationship, irrespective of the reason for the relationship ending.

Granting of defined benefit plans entails the customary long life, inflation, interest rate and market (investment) risks; these risks are regularly monitored and assessed.

In the USA, Australia, and Mexico, as well as in many European and Asian companies, employees receive company pension benefits in the form of defined contribution plans. Furthermore, in the USA there are liabilities for the medical care of active employees, although the costs of these benefits are not borne for former employees after retirement.

The funding status and the reconciliation to the balance sheet amounts are presented below:

€ thousand	31 May 2017	31 May 2016
Defined Benefit Obligation (DBO) at end of fiscal year	385,561	376,765
Fair value of plan assets at the end of the fiscal year	-116,024	-135,853
Recognised amount	269,537	240,912

The amounts carried are made up of the following balance sheet items:

€ thousand	31 May 2017	31 May 2016
Assets from covered pension plans	-2,168	-1,784
Pension provisions	271,705	242,696
Sum of the individual amounts	269,537	240,912

Asset cover for the pension provisions was as follows:

€ thousand	31 May 2017		31 May 2016	
	Present value	Plan assets	Present value	Plan assets
Without asset cover	264,918	0	233,106	0
At least partial asset cover	120,643	116,024	143,659	135,853
Total	385,561	116,024	376,765	135,853

Change in the present value of pension liabilities:

€ thousand	31 May 2017	31 May 2016
DBO at the beginning of the fiscal year	376,765	382,153
Current service cost	9,908	8,632
Expenses (-)/income (+) plan settlements	-146	-332
Interest expense	7,713	7,490
Actuarial gains (-)/losses (+) due to changes in demographic assumptions	31	-430
Actuarial gains (-)/losses (+) due to changes in financial assumptions	11,522	-8,450
Actuarial gains (-)/losses (+) due to changes in experience-based assumptions	-2,428	-753
Pension payments	-10,670	-11,280
Payments for plan settlements	-6,402	-295
Tax payments	-32	-67
Contributions by plan participants	59	2,315
Transfers	-222	0
Currency effects	-537	-2,218
DBO at end of fiscal year	385,561	376,765

Development of plan assets:

€ thousand	31 May 2017	31 May 2016
Fair value of plan assets at the beginning of the fiscal year	135,853	142,444
Expected income from the plan assets	2,393	2,731
Actuarial gains (+)/losses (-) from plan assets	4,000	-2,269
Employer contributions	747	1,386
Contributions by plan participants	59	2,315
Pension payments from plan assets	-8,691	-9,423
Payments for plan settlements	-6,402	-295
Administrative costs	-64	-86
Currency effects	-578	-950
Reclassification of retirement benefits	-11,293	0
Fair value of plan assets at the end of the fiscal year	116,024	135,853

Development of the asset ceiling:

€ thousand	31 May 2017	31 May 2016
Asset ceiling at the beginning of the fiscal year	0	4
Actuarial gains (-)/losses (+)	0	-4
Asset ceiling at end of fiscal year	0	0

The pension cost of the pension plans is broken down as follows:

€ thousand	31 May 2017	31 May 2016
Current service cost	9,908	8,632
Expenses (-)/income (+) plan settlements	-146	-332
Administrative costs	64	86
Net interest expense	5,320	4,759
Expense for defined benefit plans recognised in the consolidated earnings for the period	15,146	13,145
Actuarial gains (-)/losses (+) from scope of obligations	9,125	-9,633
Actuarial gains (-)/losses (+) from the plan assets	-4,000	2,269
Actuarial gains (-)/losses (+) from the asset ceiling	0	-4
Income (-)/ expense (+) from revaluation recognised in other comprehensive income	5,125	-7,368
Expense for defined benefit plans recognised in comprehensive income	20,271	5,777

Development of the balance sheet amounts

€ thousand	31 May 2017	31 May 2016
Balance sheet amount at the beginning of the fiscal year	240,912	239,713
Service costs	9,826	8,386
Net interest expense	5,320	4,759
Expense from remeasurement recognised in other comprehensive income	5,125	-7,368
Pension payments	-1,979	-1,857
Employer contributions	-747	-1,386
Tax payments	-32	-67
Transfers	-222	0
Currency effects	41	-1,268
Reclassification of retirement benefits	11,293	0
Balance sheet amount at the end of the fiscal year	269,537	240,912

Actuarial gains/losses recognised in equity:

€ thousand	31 May 2017	31 May 2016
Actuarial gains (+)/losses (-) at at the beginning of the fiscal year	- 91,877	- 99,487
Actuarial gains (+)/losses (-) during the fiscal year	-5,125	7,368
Currency effects	76	240
Other changes	0	2
Actuarial gains (+)/losses (-) at the end of the fiscal year	-96,926	- 91,877

The present value was measured on the basis of the following assumptions:

	Germany		International	
	31 May 2017	31 May 2016	31 May 2017	31 May 2016
DBO (in € thousand)	352,273	337,638	33,288	39,127
Discount rate (in %)	1.84	2.02	3.06	3.00
Wage and salary trend (in %)	3.00	3.00	2.26	2.31
Pension trend (in %)	1.75	1.75	1.23	1.19

The cost of the pension plans was calculated on the basis of the following assumptions:

Weighted average in %	Germany		International	
	2016/2017	2015/2016	2016/2017	2015/2016
Discount rate	2.02	1.92	3.00	2.74
Wage and salary trend	3.00	3.00	2.31	2.32
Pension trend	1.75	1.75	1.19	1.24

The discount rate was determined in 2017 on the basis of the yields on the capital markets in the various relevant regions.

The following table shows how the present value of the defined pension liabilities would have changed at the balance sheet date if individual key assumptions had varied.

€ thousand		31 May 2017	31 May 2016
Discount rate	+0.5 percentage points	-8.1 %	-8.2 %
	-0.5 percentage points	9.4 %	9.4 %
Pension dynamics	+0.5 percentage points	5.9 %	5.9 %
	-0.5 percentage points	-5.4 %	-5.2 %
Salary dynamics	+0.5 percentage points	0.2 %	0.4 %
	-0.5 percentage points	-0.2 %	-0.3 %
Mortality risk	+ 10 percentage points	-3.0 %	-3.0 %
	-10 percentage points	3.4 %	3.3 %

The average duration of the defined pension liabilities, weighted on the basis of the present values, is 18 years (prior year: 18 years).

Breakdown of plan assets:

€ thousand	31 May 2017	31 May 2016
Shares	3.67 %	5.39 %
Fixed-income securities	52.04 %	55.27 %
thereof: no price quotation in an active market	0.09 %	2.04 %
Real estate	0.04 %	0.52 %
thereof: no price quotation in an active market	0.04 %	0.52 %
Investment funds	0.07 %	0.47 %
Insurance	42.82 %	36.09 %
thereof: no price quotation in an active market	42.82 %	36.09 %
Cash and cash equivalents	1.34 %	1.87 %
Other investments	0.02 %	0.39 %
Total investment types	100.00 %	100.00 %

The domestic plan assets are largely managed by a pension fund. Proper management and use of the trust assets is supervised by external trustees. The pension fund is moreover subject to monitoring by the German Federal Financial Supervisory Authority, BaFin.

The plan assets do not include any own financial instruments or assets used by the Group itself.

Current income from the plan assets amounted to € 6,393 thousand in the past fiscal year (prior year: € 462 thousand).

The probable contributions for defined benefit pension plans for 2017/2018 are € 627 thousand (prior year: € 1,181 thousand).

The following overview shows the payments expected for the next ten fiscal years (not discounted, excluding payments from the plan assets):

€ thousand	
2017/2018	11,519
2018/2019	12,366
2019/2020	12,656
2020/2021	21,469
2021/2022	14,649
Total of the years 2022/2023 to 2026/2027	73,225

Group liabilities arising from defined contribution pension plans were recognised in profit and loss in the operating result. The expenses amounted to € 86,813 thousand in the past fiscal year (prior year: € 78,259 thousand). These expenses

also include contributions to public pension insurance funds outside HELLA KGaA, which total € 77,843 thousand (prior year: € 73,032 thousand) for the fiscal year.

OTHER PROVISIONS

€ thousand	31 May 2016	Additions	Reversals	Compounding	Other	Utilisation	31 May 2017
Severance commitments	1,777	8,364	-380	0	-30	-1,194	8,537
Partial retirement programme	18,458	8,652	0	142	1,316	-16,439	12,128
Profit-sharing and other bonuses	33,181	22,437	-1,317	638	-359	-6,752	47,827
Warranty obligations	52,400	42,633	-9,801	59	-580	-28,328	56,383
Onerous contracts	35,778	19,288	-9,516	253	-257	-7,314	38,232
Other provisions	11,857	10,658	-1,288	0	-53	-4,405	16,769
Total	153,451	112,032	-22,302	1,092	37	-64,432	179,878

Provisions for warranty obligations comprise burdens for concrete isolated cases in the Automotive segment, in particular, for which the current portion amounts to € 29,557 thousand (prior year: € 28,969 thousand).

Provided it meets the capitalisation requirements, the compensation expected in connection with warranty claims is

accounted for under other assets (€ 5,983 thousand, prior year: € 4,928 thousand).

Provisions for supply and sales liabilities include liabilities under current third-party agreements from which future losses are expected.

€ thousand	31 May 2017	31 May 2016
Present value of obligation	39,603	47,248
Fair value of plan assets	-27,474	-28,790
Provision for partial retirement programme	12,128	18,458

The provision for partial retirement programmes corresponds to the present value of the obligation on the reporting date less the fair value of plan assets on the reporting date. A discount rate of 0.31 % was applied (prior year: 0.45 %). The

deducted plan assets are securities. The change in the fair value of the plan asset is recognised under "Other" in the provisions table.

38 Financial liabilities

Current financial liabilities maturing within a year amounted to € 340,481 thousand (prior year: € 86,880 thousand). They include the bond of € 299,874 thousand (prior year: € 299,426) maturing on 7 September 2017 with a nominal volume of € 300,000 and an interest rate of 1.25%.

Non-current financial debt came to € 1,036,205 thousand (prior year: € 1,064,789 thousand) and includes two bonds with a nominal volume totalling € 800,000 thousand. The term of the bond of € 498,318 thousand (prior year: € 497,723) with a nominal volume of € 500,000 and an interest rate of 2.375% ends on 24 January 2020. To refinance the bond maturing in September 2017 a new bond amounting to € 298,713 thousand with a nominal volume of € 300,000, an interest

rate of 1.0% and a term until 17 May 2024 was issued in May 2017. Financial debt also includes € 96,463 thousand (prior year: € 96,907 thousand) attributable to notes certificates denominated in yen issued in fiscal years 2002 and 2003 with a 30-year maturity, and € 85,082 thousand (prior year: € 85,223 thousand) attributable to a loan granted in yen with a 30-year maturity, both of which are fully currency-hedged to a value totalling € 175,177 thousand (prior year: € 175,177 thousand).

Capital from profit participation certificates of € 5,000 thousand (prior year: € 5,000 thousand), and finance lease liabilities amounting to € 38 thousand (prior year: € 60 thousand) are also recognised.

€ thousand	31 May 2017	31 May 2016
Cash and cash equivalents	783,875	585,134
Financial assets	314,386	328,790
Current financial liabilities	-340,481	-86,880
Non-current financial liabilities	-1,036,205	-1,064,789
Net financial debt	-278,425	-237,745

39 Equity

On the liabilities side, nominal capital is recognised at its nominal value under the "Subscribed capital" item. The nominal capital amounts to € 222,222 thousand. The no-par value shares are issued to the bearer. All issued shares are fully paid up. Each share confers a right to vote and a right to dividends if distributions are agreed.

In addition to "Other retained earnings/profit carried forward" and the capital reserve, "reserves and unappropriated surplus" include the differences stemming from the currency translation of the annual financial statements of foreign subsidiaries not recognised in the income statement and the impact arising from the measurement of derivative financial instruments acquired for hedging purposes also not recognised in profit or loss, as well as financial instruments from the available-for-sale category. Also included are the results from the remeasurement of defined benefit plans. A detailed overview of the composition and changes in the results recognised directly in equity is presented in the consolidated statement of changes in equity.

Actuarial losses before taxes of € 5,125 thousand (prior year: losses of € 7,368) were recognised during the reporting peri-

od. The change in value of the defined benefit liabilities or of the assigned plan assets is attributable to calculation parameters and in particular the discount rate used here, which was 1.84% at the end of May 2017 (May 2016: 2.02%).

On 29 September 2016, dividends totalling € 85,556 thousand (€ 0.77 per no-par value share) were distributed to owners of the parent company. Dividends in the amount of € 1,210 thousand were paid to non-controlling interests during the period.

In the fiscal year 2016/2017 shares in Chinese company Changchun HELLA Shouxin LED Lighting Co. Ltd. (51%) were sold to the other shareholder, Jilin Shouxin Industry Group Stock Co., Ltd. The resultant deconsolidation proceeds totalling € 115 thousand were booked in other income and expenses. The disposal of the non-controlling interests is reported in the consolidated statement of changes in equity.

Moreover, 100% of shares in HELLA Ireland Limited were sold during the reporting period. The deconsolidation proceeds totalling € 552 thousand were reported in other income and expenses.

On 30 September 2015, further shares in the Polish company Inter-Team were acquired. The company now holds a 100% share in Inter-Team after the purchase. The purchase price was € 33,296 thousand. This did not lead to any change in the accounting method, as Inter-Team was already fully consolidated. The changes in equity are reported under transactions with shareholders.

Furthermore, during the prior-year period the remaining 21.01% share in the Danish automotive parts wholesaler FTZ was acquired for a purchase price of € 24,493 thousand. The company holds a 100% share in FTZ after the purchase. As FTZ was already fully consolidated, this did not lead to any change in the accounting method. The changes in equity are reported under transactions with shareholders.

In the past fiscal year the remaining 40% of the American company HELLA Mining were also acquired and the company was subsequently merged with HELLA Inc. The negative share of non-controlling interests of € 145 thousand was reclassified accordingly as a capital reserve.

The Group aims to maintain a strong equity base. The Group strives to strike a balance between a higher return on equity, which would be possible through greater leverage, and the advantages and security offered by a solid equity position. The Group is aiming for a ratio of less than 1.0 for net debt to earnings before interest, taxes, depreciation and amortisation (EBITDA) in the long term. On 31 May 2017 the ratio was 0.3.

40 Notes to the cash flow statement

HELLA makes considerable investments in customer-specific operating equipment, which is capitalised as economic property in the Group's property, plant and equipment. Due to the considerable up-front investments in such operating equipment, HELLA sometimes receives from customers – as an advance on delivery of parts – reimbursement payments, which are reported as deferred income as prepayment on sales. The reimbursements are included in "cash receipts for series production" and increase net cash flow from operating activities. The reversal of the liability item "deferred income" recognised in subsequent years, which increased sales, will accordingly be taken into account as non-cash component in "non-cash sales transacted in previous periods" of net cash flow from operating activities.

Payments for procuring production equipment are allocated to net cash flow from investing activities in the cash flow

statement according to IAS 7, whereas cash proceeds from customer reimbursements are assigned to net cash flow from operating activities as prepayments for economic purposes.

41 Adjustment of special effects in cash flow

Adjusted free cash flow (from operating activities) was used as a performance indicator for internal HELLA Group management. Adjusted free cash flow (from operating activities) is a key performance indicator which is not defined in the International Financial Reporting Standards. Rather it is reported by the HELLA Group as additional information in its financial reporting because it is also used for internal management and because, from the Company's perspective, it presents the cash flows from the operating activities – adjusted for special effects – in a more transparent form and facilitates a comparison over time.

Cash flow from operating activities after capital expenditure and cash inflows from the sale or liquidation of investments are used for this purpose and adjusted for non-recurring cash flows.

The increase in trade receivables from the discontinuation of the factoring programme is adjusted in the current reporting period. The programme comprises genuine sales without any rights of recourse, resulting in a reduction in balance sheet receivables of € 70,000 thousand as at the end of May 2016. Accordingly, the trade liabilities rose during the current reporting period. In addition, the cash flows (€ 9,984 thousand) attributable to the restructuring measures in Germany are adjusted in adjusted free cash flow (from operating activities).

Besides the special effects from the factoring programme (€ 30,000 thousand) and the restructuring measures (€ 15,094 thousand), the prior year's adjusted free cash flow (from operating activities) was adjusted in particular for the cash-relevant loss of the Chinese supplier (€ 33,758 thousand).

The performance of the adjusted free cash flow (from operating activities) for the fiscal years 2016/2017 and 2015/2016 is shown in the following tables:

€ thousand	2016/2017 as reported	Reduction in factoring	Legal affairs	Restructuring	2016/2017 adjusted
Earnings before income taxes (EBT)	462,923	0	16,163	10,242	489,328
+ Depreciation and amortisation	411,970	0	0	0	411,970
+/- Change in provisions	34,053	0	-5,763	-440	27,850
+ Cash receipts for series production	131,503	0	0	0	131,503
- Non-cash sales transacted in previous periods	-116,176	0	0	0	-116,176
- Other non-cash income	-81,565	0	0	0	-81,565
+ Losses from the sale of property, plant and equipment and intangible assets	6,000	0	0	0	6,000
+ Net financial result	44,247	0	0	0	44,247
- Increase in trade receivables and other assets not attributable to investing or financing activities	-124,535	70,000	0	0	-54,535
- Increase in inventories	-54,710	0	0	0	-54,710
+ Increase in trade payables and other liabilities not attributable to investing or financing activities	68,811	0	-10,400	182	58,593
+ Tax refunds received	16,227	0	0	0	16,227
- Taxes paid	-123,132	0	0	0	-123,132
+ Dividends received	36,905	0	0	0	36,905
= Net cash flow from operating activities	712,521	70,000	0	9,984	792,505
+ Cash receipts from the sale of property, plant and equipment	11,932	0	0	0	11,932
+ Cash receipts from the sale of intangible assets	4,818	0	0	0	4,818
- Payments for the purchase of property, plant and equipment	-592,836	0	0	0	-592,836
- Payments for the purchase of intangible assets	-72,888	0	0	0	-72,888
+ Cash receipts from the sale of subsidiaries and liquidation of other investments, less cash and cash equivalents	5,538	0	0	0	5,538
= Free cash flow (from operating activities)	69,084	70,000	0	9,984	149,068

€ thousand	2015/2016 as reported	Loss of supplier	Reduction in factoring	Restructuring	2015/2016 adjusted
Earnings before income taxes (EBT)	380,280	47,196	0	9,432	436,908
+ Depreciation and amortisation	395,753	-13,500	0	0	382,253
+/- Change in provisions	-22,233	0	0	-3,750	-25,983
+ Cash receipts for series production	83,120	0	0	0	83,120
- Non-cash sales transacted in previous periods	-101,086	0	0	0	-101,086
- Other non-cash income	-59,703	0	0	0	-59,703
+ Losses from the sale of property, plant and equipment and intangible assets	4,168	0	0	0	4,168
+ Net financial result	39,512	0	0	0	39,512
- Increase in trade receivables and other assets not attributable to investing or financing activities	-115,088	0	30,000	0	-85,088
- Increase in inventories	-34,264	-1,587	0	0	-35,851
+ Increase in trade payables and other liabilities not attributable to investing or financing activities	121,707	7,628	0	9,412	138,747
+ Tax refunds received	12,766	0	0	0	12,766
- Taxes paid	-122,049	-6,979	0	0	-129,028
+ Dividends received	39,903	0	0	0	39,903
= Net cash flow from operating activities	622,786	32,758	30,000	15,094	700,637
+ Cash receipts from the sale of property, plant and equipment	9,048	0	0	0	9,048
+ Cash receipts from the sale of intangible assets	4,940	0	0	0	4,940
- Payments for the purchase of property, plant and equipment	-489,869	1,000	0	0	-488,869
- Payments for the purchase of intangible assets	-70,735	0	0	0	-70,735
+ Cash receipts from the sale of subsidiaries and from the liquidation of other investments, net of cash and cash equivalents	103	0	0	0	103
= Free cash flow (from operating activities)	76,273	33,758	30,000	15,094	155,124

42 Information on related party relationships

HELLA KGaA Hueck & Co. and its subsidiaries maintain business relationships with many companies and individuals in the course of their normal operations. In addition to the business relationships with fully consolidated companies, relationships exist with joint ventures, associates and companies in which an interest is held that are classified as related parties under IAS 24.

There are supply and service relationships between companies within the scope of consolidation and related parties, particularly with associates and non-consolidated affiliates. The outstanding items from the purchase and sale of goods and services between companies in the scope of consolidation and associates, as well as non-consolidated affiliates, are presented under the respective items. For further information on goods and services, see Chapters 26 and 35.

The following transactions were made with related parties:

€ thousand	2016/2017	2015/2016
Income from the sale of goods and services	160,662	201,679
with associates	18,415	14,748
with joint ventures	141,715	186,174
with affiliated companies not included in the consolidated financial statements	532	757
Expenses from the purchase of goods and services	180,604	158,799
with associates	212	831
with joint ventures	151,032	123,850
with investments	1,968	1,038
with affiliated companies not included in the consolidated financial statements	27,392	33,080

The business relationships with related parties operate under normal market conditions. They do not fundamentally differ from supply and service relationships with third parties. The HELLA Group concluded no significant transactions with related party individuals.

For assuming personal liability in its role as General Partner, HELLA Geschäftsführungsgesellschaft mbH receives a fee of € 1 thousand (prior year: € 1 thousand).

In addition, the Company is entitled to reimbursement by HELLA KGAA Hueck & Co. for all of the expenses arising in connection with the management of the company's business activities, including the remuneration of the management bodies.

Remuneration for management in key positions:

€ thousand	2016/2017	2015/2016
Short-term benefits	15,893	16,753
Post-employment benefits	440	386
Other long-term benefits	3,336	846
Termination benefits	0	6,720
Total	19,669	24,705

Members of the management in key positions at HELLA KGaA Hueck & Co. are the Management Board (the Managing General Partner Dr. Jürgen Behrend and the managing directors

of HELLA Geschäftsführungsgesellschaft GmbH), as well as members of the Shareholder Committee and the Supervisory Board.

Total remuneration paid to the management bodies:

€ thousand	2016/2017	2015/2016
Total remuneration paid to the active institution members	19,166	16,753
Management Board	17,881	15,453
Supervisory Board	400	400
Shareholder Committee	885	900
Total remuneration paid to the former institution members and their surviving dependants	278	7,068
Management Board	278	7,068
Supervisory Board	0	0
Shareholder Committee	0	0

The Chairman of the Supervisory Board, Prof. Dr. Michael Hoffmann-Becking, is a partner in a law firm which provides legal advisory services to HELLA KGaA Hueck & Co. and the Group in several different fields of law, including company law, securities law, labour law and competition law. During the fiscal year 2016/2017, the Group was billed a total of € 297 thousand plus sales tax for these advisory services (prior year: € 456 thousand plus sales tax). The advisory services provided in the fiscal year 2016/2017 particularly included the preparation and execution of the Annual General Meeting of HELLA KGaA Hueck and Co. Otherwise, no other payments or benefits were granted to members of the Supervisory Board for products and services, in particular for advisory and placement services.

Provisions for the pension liabilities towards former members of the Management Board and their surviving dependants came to € 9,165 thousand (prior year: € 8,990 thousand). This was transferred to Allianz Pensionsfonds AG in the amount of € 3,890 thousand (prior year: € 4,001 thousand). The net obligation of the share transferred to Allianz Pensionsfonds AG comes to € 205 thousand (prior year: € 261 thousand).

No loans or advances were granted to the members of the Management Board, the Supervisory Board or the Shareholder Committee.

43 Declaration of Conformity with the Corporate Governance Code

On 28 May 2015, the General Partners as well as the Shareholder Committee and the Supervisory Board of KGaA Hueck & Co. ("Company") approved a joint Declaration of Conformity in accordance with Section 161 Aktiengesetz (AktG – German Stock Corporation Act) which states that the recommendations of the German Corporate Governance Code have

been and will be complied with as well as which recommendations have not been or are not being applied. This version and the update of 31 May 2017 have been made permanently accessible on the Company's website at www.HELLA.de/declarationofconformity.

44 Disclosures on financial instruments

GENERAL INFORMATION ON FINANCIAL INSTRUMENTS

We set out below the carrying amounts and fair values of classes of financial instruments and the carrying amounts in accordance with IAS -39 measurement categories as at 31 May 2017 and the prior year.

€ thousand	Measurement category under IAS 39	Carrying amount 31 May 2017	Fair value 31 May 2017	Carrying amount 31 May 2016	Fair value 31 May 2016	Fair value hierarchy
Cash and cash equivalents	LaR	783,875	783,875	585,134	585,134	
Trade receivables	LaR	1,067,979	1,067,979	937,471	937,471	
Financial assets						
Financial instruments available-for-sale	AfS	313,440	313,440	328,117	328,117	Level 1
Loans	LaR	372	372	339	339	
Other bank balances	LaR	574	574	334	334	
Other financial assets						
Derivatives used for hedging	n.a.	6,572	6,572	1,751	1,751	
Derivatives not used for hedging	HfT	4,752	4,752	4,724	4,724	
Other receivables associated with financing activities	LaR	35,060	35,060	32,176	32,176	
Current financial assets		2,212,625	2,212,625	1,890,046	1,890,046	
Financial assets						
Financial instruments available-for-sale	AfS	24,499	24,499	10,595	10,595	Level 2
Loans	LaR	5,558	5,558	6,407	6,407	Level 2
Other receivables associated with financing activities	LaR	37	37	31	31	Level 2
Other financial assets						
Trade receivables	LaR	38,342	38,342	29,661	29,661	Level 2
Non-current financial assets		68,436	68,436	46,694	46,694	
Financial assets		2,281,061	2,281,061	1,936,740	1,936,740	
Financial liabilities						
Financial liabilities to banks and bond	FLAC	340,399	340,399	85,901	85,901	
Financial lease liabilities	n.a.	82	82	979	979	
Trade payables	FLAC	672,888	672,888	633,818	633,818	
Other financial liabilities						
Derivatives used for hedging	n.a.	4,241	4,241	4,378	4,378	Level 2
Derivatives not used for hedging	HfT	4,587	4,587	1,244	1,244	Level 2
Other financial liabilities	FLAC	197,942	197,942	157,123	157,123	
Current financial liabilities		1,220,139	1,220,139	883,442	883,442	
Financial liabilities						
Financial liabilities to banks	FLAC	142,799	196,082	170,673	223,269	Level 2
Bonds	FLAC	893,369	965,274	894,056	971,568	Level 1
Financial lease liabilities	n.a.	38	38	60	60	
Other financial liabilities						
Derivatives used for hedging	n.a.	79,299	79,299	88,843	88,843	Level 2
Derivatives not used for hedging	HfT	0	0	0	0	Level 2
Other financial liabilities	FLAC	13,843	13,843	10,765	10,765	
Non-current financial liabilities		1,129,347	1,254,536	1,164,397	1,294,505	
Financial liabilities		2,349,486	2,474,675	2,047,839	2,177,947	
Of which aggregated under IAS 39 measurement categories:						
Financial assets held for trading (HfT)		4,752	4,752	4,724	4,724	
Loans and receivables (LaR)		1,931,798	1,931,798	1,591,553	1,591,553	
Financial assets available-for-sale (AfS)		337,939	337,939	338,712	338,712	
Financial liabilities held for trading (HfT)		4,587	4,587	1,244	1,244	
Financial liabilities measured at amortised cost (FLAC)		2,261,240	2,386,429	1,952,336	2,082,444	
Financial assets, derivatives used for hedging		6,572	6,572	1,751	1,751	
Financial liabilities, derivatives used for hedging		83,540	83,540	93,221	93,221	

Level 1: Measurement of market value based on listed, unadjusted prices on active markets.

Level 2: Measurement of market value based on criteria for assets and financial liabilities that can be either directly or indirectly derived from prices on active markets.

Level 3: Measurement of market value based on criteria that cannot be derived from active markets.

The Group reports possible transfers between different levels of the fair value hierarchy at the end of the reporting period in which the change occurred. As in the prior year, no transfers were made between different levels of the fair value hierarchy during the 2016/2017 reporting period. The carrying amounts of current financial instruments at the balance sheet date correspond to the market value owing to their short residual term and the fact that they are recognised at market value.

The carrying amounts of non-current financial liabilities also largely correspond to the market values. Non-current financial instruments on the assets side are mainly determined by the other investments, securities as cover assets for pension provisions and loans. The fair values of these equity components measured at acquisition costs could not be determined as no

stock exchange or market prices were available. The other investments and non-consolidated affiliates reported here are measured at acquisition cost of € 9,581 thousand (prior year: € 10,595 thousand) because the fair values cannot be established with a sufficient degree of reliability. The change in value compared with the prior year is due to a permanent impairment.

At the balance sheet date, there were no plans to sell the other investments and non-consolidated affiliates measured at acquisition cost.

PLEGDED COLLATERAL

As at 31 May 2017, fixed-term deposits of € 27,474 thousand (prior year: € 28,773 thousand) were pledged to a trustee as statutory insolvency protection for partial retirement fund assets. They are netted against the obligations from partial retirement. Occasionally, collateral is pledged from the business assets to a limited extent as security for bank loans. These may, for example, be categorised as receivables.

NET PROFIT/LOSS PER MEASUREMENT CATEGORY

The following table shows the net result from financial instruments for each IAS 39 measurement category:

€ thousand	Interests	Dividends	Fair value measurement	Currency gains / losses	2016/2017
Loans and receivables	7,307	0	-307	-391	6,609
Available for sale	3,860	1,099	322	0	5,280
Liabilities measured at amortised cost	-32,749	0	0	302	-32,448
Financial derivatives held for trading (net)	0	0	-5,261	0	-5,261
Total	-21,583	1,099	-5,245	-89	-25,819

€ thousand	Interests	Dividends	Fair value measurement	Currency gains / losses	2015/2016
Loans and receivables	7,612	0	-1,890	754	6,476
Available for sale	4,718	1,160	-2,963	0	2,915
Liabilities measured at amortised cost	-34,372	0	0	443	-33,929
Financial derivatives held for trading (net)	0	0	-24,121	0	-24,121
Total	-22,042	1,160	-28,974	1,198	-48,659

The fair value measurement of the loans and receivables corresponds to the impairments of unrecoverable elements.

When determining the net result from financial instruments, goodwill impairments/write-ups, income and expense resulting from the application of the effective interest method, income and expenses from currency translation, gains or losses on disposals, and other changes in the fair value of financial instruments recognised in the income statement are taken into account.

FINANCIAL RISK MANAGEMENT

The HELLA Group is exposed to various financial risks in the course of its operations. In particular, these include liquidity, currency and interest rate risk. Risk management is carried out by the central financial management department in accordance with the guidelines adopted by the corporate bodies. Detailed information is provided in the management report.

On the procurement side, commodity price risks and risks relating to the general security of supply exist, among others. Moreover, credit risks arise from trade receivables, and also from receivables relating to financial transactions, such as the investment of cash or cash equivalents or the acquisition of securities. Liquidity risk can arise from a significant decline in the operating business performance as well as from the risk categories mentioned above.

Management of liquidity risks

HELLA works with mainly centralised liquidity structures in order to pool liquidity across the Group. The centralised liquidity is calculated on a regular basis and planned using a bottom-up process. HELLA actively manages its loan portfolio on the basis of the liquidity planning.

The following tables show the maximum settlements. The presentation shows the worst-case scenario for HELLA, i.e. the earliest possible contractual payment date. This takes into account creditor cancellation rights. Foreign currency positions are always converted at the spot rate applicable on the reporting date. Interest payments for positions with variable interest rates are always measured at the reference interest rate applicable on the balance sheet date. In addition to non-derivative financial instruments, derivative financial instruments (e.g. foreign currency forwards and interest rate swaps) are taken into account. For derivatives where gross payments are settled between the parties involved, only the settlements are presented in line with the worst-case scenario. These settlements are offset by cash proceeds, which are also presented. In addition, loans granted but not yet drawn in full and financial guarantees issued are included in the settlements.

Maximum future settlements as at 31 May 2017

€ thousand	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Non-derivative financial liabilities	1,128,497	551,058	552,131	2,231,686
Derivative financial instruments	1,022,067	50,400	326,791	1,399,258
Loan commitments/ financial guarantees	0	0	0	0
Total	2,150,564	601,458	878,922	3,630,944
Cash receipts from gross derivatives	1,018,418	31,326	247,131	1,296,875

Maximum future settlements as at 31 May 2016

€ thousand	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Non-derivative financial liabilities	906,817	1,107,115	360,176	2,374,108
Derivative financial instruments	594,684	64,644	340,661	999,989
Loan commitments/ financial guarantees	0	0	0	0
Total	1,501,501	1,171,759	700,837	3,374,097
Cash receipts from gross derivatives	587,576	34,200	254,757	876,533

The Group's liquidity supply is also sufficiently assured through cash and bank balances on hand, marketable short-term securities on hand, and the available unused bank lines of credit.

The table below sets out the main liquidity instruments:

€ thousand	31 May 2017	31 May 2016
Cash and cash equivalents	783,875	585,134
Marketable securities	313,440	328,117
Cash line of credit	695,281	705,553
Total	1,792,596	1,618,804

The total of the cash lines of credit available to the HELLA Group amounts to roughly € 695,281 thousand (prior year: € 705,553 thousand). This figure is made up of a syndicated loan sized at € 450,000 thousand (maturing in 2022, utilisation as at 31 May 2017: 0%) and short-term money market lines of credit in the amount of € 245,281 thousand (utilisation as at 31 May 2017: 3%). In some cases, standard creditor cancellation rights apply to the latter (as part of financial covenants). These covenants are reviewed on an ongoing basis as part of corporate planning and are currently rated as non-critical. Owing to the broad and international base of its core banks, the funding risk is considered very low.

Management of currency risks

Currency risks (in the context of transaction risks) arise from receivables, liabilities, liquid funds, securities, and executory contracts in a currency other than the functional currency. Currency derivatives, primarily foreign currency forwards, are used to hedge against exchange rate-related fluctuations impacting these payments and positions. The currency risk of the HELLA Group is continuously monitored and managed on the basis of the net exposures calculated for the Group. Net exposure is calculated by aggregating planned foreign currency cash flows.

As at 31 May 2017, significant net exposures of the HELLA Group for the fiscal year 2017/2018 were identified in USD (301 long, prior year: 4 million short), MXN (2,708 million short, prior year: 800 million long), CNY (651 million long, prior year: 531 million long) and CZK (1,214 million short, prior year: 4,192 million short); (information is provided in the respective currency).

Currency derivatives are only used to hedge the currency risks arising from underlying transactions. Speculative transactions are not permitted.

In principle, the fair value of currency derivatives is recognised. In the case of cash flow hedge accounting within the meaning of IAS 39, the unrealised gains and losses from the hedging transaction are initially recognised in the statement of changes in equity, with no impact on the income statement. The gains and losses are only realised when the hedged underlying transaction is also recognised in the income statement.

HELLA mainly designated currency derivatives to hedge foreign currency cash flows from funding in yen maturing in 2032 or 2033 under cash flow hedge accounting. Other currency derivatives used to hedge currency risks from operating cash flow, with a maturity of less than one year in almost all cases, were also designated as cash flow hedge accounting.

Hedge accounting was not applied to other currency derivatives used to hedge underlying financial transactions. Measurement changes are recognised in the income statement.

In the fiscal year 2016/2017, changes in the market value of the above-mentioned derivatives used for cash flow hedge accounting amounting to € 13,693 thousand (prior year: € 29,700 thousand) were recognised in equity. All in all, market values of currency derivatives used for hedging purposes amounting to € -86,103 thousand (prior year: € -94,109 thousand) were recognised in equity at the reporting date. Equity gains of € 5,693 thousand were recognised in the income statement in the fiscal year 2016/2017 (prior year: € 461 thousand). Currency derivatives not presented in accordance with hedge accounting showed changes in the market value of currency derivatives recognised in the income statement of € 256 thousand (prior year: € 4,431 thousand).

The following sensitivity analyses show the effects a 10% change in the exchange rate of each foreign currency would have on equity or on net profit/loss for the year (before taxes). The analysis is based on the respective risk position on the reporting date and only takes into account the largest gross exposure in the HELLA Group:

€ thousand		31 May 2017		31 May 2016	
		Foreign currency	depreciates by 10%	appreciates by 10%	depreciates by 10%
Exchange rate	CNY	4,583	-5,602	1,717	-2,099
	CZK	-15,202	18,580	-2,038	2,491
	JPN	-13,160	15,704	-10,794	13,951
	MXN	0	0	-4,596	5,618
	PLN	155	-190	44	-54
Change in equity owing to fluctuations in the market value of currency derivatives used for hedging purposes (cash flow hedge accounting)	USD	-3,766	4,602	4,909	-6,000
	CNY	-7,741	9,461	-6,583	8,045
	CZK	4,179	-5,108	14,102	-17,236
	JPN	2,235	-2,732	979	-1,196
	MXN	11,694	-14,293	-3,548	4,337
Change in net profit/loss for the year owing to unhedged currency exposures in the case of non-derivative financial instruments and fluctuations in the market value of derivative financial instruments	PLN	-3,655	4,468	-3,612	4,414
	USD	-24,402	29,824	365	-446

The relatively high sensitivity of the equity to exchange rate fluctuations of the JPY results from the hedging of the funding issued in this currency (AFLAC). The relatively high sensitivity of the net profit/loss for the year is largely attributable to market fluctuations of non-derivative financial instruments and planned cash flows that are not hedged within the meaning of IAS 39. The sensitivity analysis is performed on the basis of the hedging ratios as at the balance sheet date. They are reviewed regularly in the course of the fiscal year and may be above or below the level at the balance sheet date.

Management of interest rate risks

Interest rate risks arise when fluctuations in interest rates lead to changes in the value of financial assets and liabilities on the statement of financial position of HELLA. These may affect the amount of the interest income and expenses in the fiscal year as well as the market value of the derivatives concluded and other financial assets measured at fair value. As at 31 May 2017, interest rate-sensitive net debt stood at € 847 million (prior year: € 573 million).

These risks are managed by the HELLA Group through natural hedging, i.e. the elimination of interest rate risks by assuming offsetting items and through the targeted use of derivatives. The derivative financial instruments used are usually interest rate swaps. Interest rate derivatives are generally used to mitigate cash flow risks.

As with currency derivatives, interest rate derivatives are settled mainly by HELLA KGaA Hueck & Co. Moreover, the use of interest rate derivatives is always tied to underlying transactions. Interest rate derivatives used to hedge interest rate risks from non-derivative financial instruments are designated as cash flow hedge accounting. Speculative transactions are not permitted.

The following sensitivity analyses show how a one percentage point movement in the respective market interest rate would change equity and net profit/loss for the year (in each case before taxes). The analysis is based on the respective risk position on the reporting date. The calculation method used is the net present value method.

€ thousand	31 May 2017		31 May 2016	
	rises by 1 percentage point	falls by 1 percentage point	rises by 1 percentage point	falls by 1 percentage point
Market interest rate				
Change in equity owing to fluctuations in the market value of fixed-income securities recognised directly in equity at fair value	-11,654	16,228	-15,649	20,356
Change in net profit/loss for the year owing to variable interest items in the case of non-derivative financial instruments and fluctuations in the market value of derivative financial instruments	8,471	-8,471	5,726	-5,726

MANAGEMENT OF COMMODITY PRICE RISKS

The HELLA Group is exposed to various commodity price risks through the purchase of components. These risks are managed by the HELLA Group through natural hedging, i.e. the elimination of commodity price risks by means of offsetting effects from purchasing and sales, and through the targeted use of derivatives. The derivatives used are commodity swaps.

As at 31 May 2017, there were no commodity derivatives with a material market value (market value in the prior year: € 0 thousand).

Commodity (net) exposure for 2017/2018 is expected to amount to € 15.1 million (prior year: € 2.0 million).

The following sensitivity analysis shows what effects fluctuations of 10% in the market prices of underlying commodities would have had on net profit/loss for the year (before taxes).

€ thousand	31 May 2017		31 May 2016	
	rises by 10%	falls by 10%	rises by 10%	falls by 10%
Commodity price				
Change in net profit/loss for the year owing to fluctuations in the market value of hedged items and commodity derivatives used	-1,507	1,507	-198	198

MANAGEMENT OF OTHER PRICE RISKS

Other price risks arise for HELLA through investments in current or non-current, non-interest-bearing securities, largely equities and funds that are classified as "available for sale" and therefore measured at fair value in equity. In addition, price risks arise from other investments that belong to the "available-for-sale" category, provided they are measured

at fair value. These items are shown in the following table. Investments measured at acquisition cost because the fair value cannot be reliably determined are not exposed to balance sheet risk and are therefore not included in the presentation.

€ thousand	31 May 2017	31 May 2016
Price risk positions of the non-derivative assets	34,420	27,239

HELLA actively manages the price risks. By continuously observing and analysing the markets, it is possible to manage investments in real time. Negative developments on the capital markets can thus be identified at an early stage and appropriate measures taken. Derivatives are only used to manage other price risks in exceptional cases.

The following sensitivity analyses show what effects fluctuations of 10% in the market values of non-derivative and derivative financial instruments would have had on equity or on net profit/loss for the year (before tax). The analysis is based on the respective volumes on the reporting date.

€ thousand	31 May 2017		31 May 2016	
	rises by 10%	falls by 10%	rises by 10%	falls by 10%
Securities price				
Change in equity owing to changes in prices of unimpaired securities and investments in public funds	2,577	-2,577	2,607	-2,607
Change in net profit/loss for the year owing to changes in prices of impaired securities	865	-865	117	-117

MANAGEMENT OF DEFAULT RISKS

Default risks arise for the HELLA Group from its business operations and from financial investments and financial derivatives with positive fair values.

The maximum default risk for the financial assets corresponds to their carrying amount. Netting off is not carried out due to the full or partial lack of offsetting criteria under IAS 32. Collateral is accepted in individual cases as described below which means that the actual default risk is smaller.

Derivative transactions are concluded by HELLA KGaA Hueck & Co. solely on the basis of the German Master Agreement for Financial Derivatives Transactions (DRV). This does not meet the requirements for netting off, since offsetting of outstanding amounts would be legally enforceable only subject to future events, such as the insolvency of a contractual partner. The table below shows the potential for offsetting the financial instruments that are recognised by HELLA KGaA Hueck & Co. and are subject to the stated agreements.

€ thousand	31 May 2017				
	Gross	IAS 32.42	Net prior to potential for offsetting	Potential for offsetting	Net
Assets – derivatives	11,318	0	11,318	6,466	4,852
Liabilities – derivatives	-88,067	0	-88,067	6,466	-81,601

€ thousand	31 May 2016				
	Gross	IAS 32.42	Net prior to potential for offsetting	Potential for offsetting	Net
Assets – derivatives	6,475	0	6,475	2,458	4,017
Liabilities – derivatives	-94,448	0	-94,448	2,458	-91,990

Financial derivatives and financial investments are only entered into with banks with good credit ratings.

Operational risk is mainly managed by continuously monitoring receivables. If a specific default risk is identified, this risk is taken into account by recognising impairments in the corresponding amount.

In individual cases, HELLA Group companies also demand collateral to secure receivables. This includes warranties, performance guarantees, and advance securities. HELLA has a directive in place regarding the acceptance of securities. The only acceptable collateral providers are banks and

insurance firms with good credit ratings. Furthermore, many supplies to customers are subject to retention of title.

Lending commitments to companies that are not fully consolidated or to third parties are only made by HELLA Group companies in a few isolated cases. The default risk here is limited to the loan amount. As at 31 May 2017, there were no lending commitments to companies that are not fully consolidated and external third parties (prior year: € 0 thousand).

Trade receivables are essentially spread over key accounts from the automotive and automotive supply industry. The

recoverability of all the receivables, which do not include overdue or impaired financial assets, is considered very high. This assessment is based primarily on the fact that the HELLA Group has a long-standing business relationship with most

of its customers and on the ratings of the major rating agencies. The historical default rate for these trade receivables is extremely low.

Financial assets that are overdue but not impaired are shown below:

€ thousand	31 May 2017				31 May 2016			
	up to 30 days	31 days to 60 days	61 days to 90 days	more than 90 days	up to 30 days	31 days to 60 days	61 days to 90 days	more than 90 days
Trade receivables	12,193	1,197	413	2,224	20,980	1,139	3,530	2,922
Financial receivables	0	0	0	0	0	0	0	0
Other financial assets	0	0	0	0	0	0	0	0
Total	12,193	1,197	413	2,224	20,980	1,139	3,530	2,922

An analysis of the individual impaired financial assets is shown below:

€ thousand	31 May 2017			31 May 2016		
	Gross carrying amount	Impairment	Net carrying amount	Gross carrying amount	Impairment	Net carrying amount
Trade receivables	1,116,965	10,644	1,106,321	980,855	13,723	967,132
Financial receivables	792,496	2,691	789,805	594,613	2,732	591,881
Other financial assets	386,468	1,533	384,935	379,260	1,533	377,727
Total	2,295,929	14,868	2,281,061	1,954,728	17,988	1,936,740

The following table shows the development of impairments in respect of financial assets in the fiscal year 2016/2017 and the prior year:

€ thousand	Trade receivables	Financial receivables	Other financial assets	Total
As at 31 May 2015	16,417	1,763	1,533	19,712
Additions	2,261	969	0	3,230
Utilisation	-4,607	0	0	-4,607
Reduction	-330	0	0	-330
Other effects	-18	0	0	-18
As at 31 May 2016	13,723	2,732	1,533	17,988
Additions	450	0	0	450
Utilisation	-3,415	-41	0	-3,456
Reduction	-470	0	0	-470
Other effects	355	0	0	355
As at 31 May 2017	10,643	2,691	1,533	14,867

With regard to the financial assets that are neither overdue nor impaired, there is currently no indication that further value adjustments will be needed due to defaults.

Capital risk management

The HELLA Group manages its capital with the aim of ensuring that all Group companies can continue to operate as going concerns. By optimising the debt-equity ratio as needed, capital costs are kept as low as possible. These measures help to maximise shareholder income.

The capital structure consists of the current and non-current liabilities in the statement of financial position less the cash representing net borrowings and the balance sheet equity. The Risk Management Committee assesses and reviews the Group's capital structure on a regular basis. Risk-adjusted capital costs are taken into account in this assessment.

The overall capital risk management strategy pursued in the current fiscal year has not changed from the prior year.

45 Contractual commitments

There were contractual obligations to purchase or use property, plant and equipment amounting to € 32,476 thousand as at the reporting date (prior year: € 5,218 thousand). There

were no contractual commitments for the acquisition of intangible assets in the fiscal year 2016/2017 (prior year: € 27 thousand).

46 Contingent liabilities

On 31 May 2017 no contingent liabilities existed within the HELLA Group.

47 Information on leases

HELLA KGaA regularly acts as lessee. They are both operating and finance leases.

OPERATING LEASES AS LESSEE

The expenses under operating leases recognised in the income statement amounted to € 30,881 thousand in the fiscal

year (prior year: € 28,273 thousand). Some lease contracts include extension options. HELLA's liability from operating leases largely relates to leases for passenger vehicles, buildings, office equipment and smaller machinery.

Distribution of the present values of minimum lease payments:

€ thousand	31 May 2017	31 May 2016
Up to 1 year	18,006	14,890
Between 1 and 5 years	34,473	29,630
More than 5 years	10,604	2,424
Total	63,084	46,944

LIABILITIES ARISING FROM FINANCE LEASES AS LESSEE

The leased items contained in the statement of financial position in the context of finance leases largely relate to development services and machine leasing. The lease terms gener-

ally range from three to six years. Some leases contain extension or purchase options.

Distribution of minimum lease payments (not discounted):

€ thousand	31 May 2017	31 May 2016
Up to 1 year	82	963
Between 1 and 5 years	38	77
More than 5 years	0	0
Future financing costs under finance leases	0	-1
Total	120	1,039

Distribution of the present values of minimum lease payments:

€ thousand	31 May 2017	31 May 2016
Up to 1 year	82	979
Between 1 and 5 years	38	60
More than 5 years	0	0
Total	120	1,039

RECEIVABLES FROM FINANCE LEASES AS LESSEE

In the Aftermarket segment, HELLA concludes finance lease agreements with workshops for its portfolio of diagnostic testing equipment, garage equipment and air conditioning service

units. These agreements generally have 5-year terms. All lease agreements are concluded in euros and relate exclusively to business within the EU.

Distribution of minimum lease payments (not discounted):

€ thousand	31 May 2017	31 May 2016
Up to 1 year	17,021	14,764
Between 1 and 5 years	39,319	31,774
More than 5 years	0	0
Future financing costs under finance leases	-6,232	-4,811
Total	50,109	41,727

Distribution of the present values of minimum lease payments:

€ thousand	31 May 2017	31 May 2016
Up to 1 year	14,452	12,670
Between 1 and 5 years	35,657	29,057
More than 5 years	0	0
Total	50,109	41,727

As at 31 May 2017, impairments for unrecoverable receivables amounted to € 183 thousand (prior year: € 207 thousand).

48 Events after the balance sheet date

There were no events after the balance sheet date which required reporting.

49 Audit fees

The total fee for the services of the auditor KPMG AG Wirtschaftsprüfungsgesellschaft invoiced for the fiscal year 2016/2017 amounts to € 1,006 thousand (prior year: € 1,063 thousand) and includes the fees and expenses for the audit.

An additional € 33 thousand (prior year: € 11 thousand) for other audit services, € 98 thousand (prior year: € 370 thousand) for tax consulting services and € 213 thousand (prior year: € 213 thousand) for other services were recognised as expenses.

Lippstadt, 24 July 2017

The Managing General Partners of HELLA KGaA Hueck & Co.



Dr. Jürgen Behrend

HELLA Geschäftsführungsgesellschaft mbH



Dr. Rolf Breidenbach
(President and CEO)



Markus Bannert



Dr. Werner Benade



Stefan Osterhage



Bernard Schäferbarthold



Dr. Matthias Schöllmann

Scope of consolidation

Fiscal year 2016/2017

Affiliated companies included in the consolidated financial statements:

Number	Company	Country	City	Investment	
				in %	in
1	HELLA KGaA Hueck & Co.	Germany	Lippstadt	100.0	
2	HELLA Innenleuchten-Systeme GmbH*	Germany	Wembach	100.0	1
3	HELLA Innenleuchten-Systeme Bratislava, s.r.o.	Slovakia	Bratislava	100.0	2
4	HELLA Fahrzeugkomponenten GmbH*	Germany	Bremen	100.0	1
5	HFK Liegenschaftsgesellschaft mbH	Germany	Bremen	100.0	4
6	HELLA Electronics Engineering GmbH*	Germany	Regensburg	100.0	1
7	HELLA Aglaia Mobile Vision GmbH*	Germany	Berlin	100.0	1
8	HELLA Distribution GmbH*	Germany	Erwitte	100.0	1
9	RP Finanz GmbH*	Germany	Lippstadt	100.0	1
10	HELLA Finance Nederland	The Netherlands	Nieuwegein	100.0	9
11	HELLA Finance International	The Netherlands	Nieuwegein	100.0	1
12	Docter Optics SE*	Germany	Neustadt an der Orla	95.8	1
13	Docter Optics Inc.	USA	Gilbert, AZ	100.0	12
14	Docter Optics Components GmbH	Germany	Neustadt an der Orla	100.0	12
15	Docter Optics s.r.o.	Czech Republic	Skalice u České Lípy	100.0	12
16	HORTUS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Neustadt / Orla KG	Germany	Düsseldorf	94.0	12
17	Docter Optics Asia Ltd.	South Korea	Seoul	100.0	12
18	HELLA Saturnus Slovenija d.o.o.	Slovenia	Ljubljana	100.0	1
19	HELLA Werkzeug Technologiezentrum GmbH*	Germany	Lippstadt	100.0	1
20	HELLA Corporate Center GmbH*	Germany	Lippstadt	100.0	1
21	HELLA Gutmann Holding GmbH*	Germany	Ihringen	100.0	1
22	HELLA Gutmann Solutions GmbH*	Germany	Ihringen	100.0	21
23	HELLA Gutmann Anlagenvermietung GmbH*	Germany	Breisach	100.0	21
24	HELLA Gutmann Solutions International AG	Switzerland	Hergiswil	100.0	21
25	HELLA Gutmann Solutions A / S	Denmark	Viborg	100.0	21
26	HELLA Gutmann Solutions AS	Norway	Porsgrunn	100.0	25
27	HELLA 000	Russia	Moscow	100.0	1
28	avitea GmbH work and more	Germany	Lippstadt	100.0	1
29	avitea Industrieservice GmbH	Germany	Lippstadt	100.0	28
30	HELLA Geschäftsführungsgesellschaft mbH**	Germany	Lippstadt	100.0	1
31	HELLA Holding International GmbH*	Germany	Lippstadt	100.0	1
32	HELLA Shanghai Electronics Co., Ltd.	China	Shanghai	100.0	31
33	HELLA Changchun Tooling Co., Ltd.	China	Changchun	100.0	31
34	HELLA Corporate Center (China) Co., Ltd.	China	Shanghai	100.0	31
35	Changchun HELLA Automotive Lighting Ltd.	China	Changchun	100.0	31
36	Beifang HELLA Automotive Lighting Ltd.	China	Beijing	100.0	31
37	HELLA (Xiamen) Automotive Electronics Co. Ltd.	China	Xiamen	100.0	31
38	HELLA Asia Pacific Pty Ltd.	Australia	Mentone	100.0	31
39	HELLA Australia Pty Ltd.	Australia	Mentone	100.0	38
40	HELLA-New Zealand Limited	New Zealand	Auckland	100.0	38
41	HELLA-Phil., Inc.	Philippines	Dasmariñas	90.0	38
42	HELLA Asia Pacific Holdings Pty Ltd.	Australia	Mentone	100.0	38

Number	Company	Country	City	Investment	
				in %	in
43	HELLA Korea Inc.	South Korea	Seoul	100.0	42
44	HELLA India Automotive Private Limited	India	Gurgaon	100.0	42
45	HELLA UK Holdings Limited	Great Britain	Banbury	100.0	31
46	HELLA Limited	Great Britain	Banbury	100.0	45
47	HELLA Corporate Center USA, Inc.	USA	Plymouth, MI	100.0	31
48	HELLA Electronics Corporation	USA	Plymouth, MI	100.0	47
49	HELLA Inc.	USA	Peachtree City, GA	100.0	47
50	HELLA Ventures, LLC	USA	Delaware	100.0	47
51	HELLA España Holdings S. L.	Spain	Madrid	100.0	31
52	Manufacturas y Accesorios Electricos S.A.	Spain	Madrid	100.0	51
53	HELLA S.A.	Spain	Madrid	100.0	51
54	HELLA Handel Austria GmbH	Austria	Vienna	100.0	31
55	HELLA Fahrzeugteile Austria GmbH	Austria	Großpetersdorf	100.0	54
56	HELLA S.A.S.	France	Le Blanc Mesnil-Cedex	100.0	31
57	HELLA Engineering France S.A.S.	France	Toulouse	100.0	56
58	HELLA Benelux B.V.	The Netherlands	Nieuwegein	100.0	31
59	HELLA S.p.A.	Italy	Caleppio di Settala	100.0	31
60	Nordic Forum Holding A / S	Denmark	Odense	100.0	31
61	INTER-TEAM Sp. z o.o.	Poland	Warsaw	100.0	60
62	FTZ Autodele & Værktøj A / S	Denmark	Odense	100.0	60
63	P/F FTZ Føroyar	Faroe Islands	Tórshavn	70.0	62
64	HELLAnor A / S	Norway	Skytta	100.0	60
65	Automester A / S	Norway	Skytta	100.0	64
66	Ucando GmbH	Germany	Berlin	100.0	60
67	Ucando Sp. z o. o.	Poland	Warsaw	100.0	66
68	iParts Sp. z o. o.	Poland	Rzeszów	100.0	67
69	HELLA Lighting Finland Oy	Finland	Salo	100.0	31
70	HELLA Autotechnik Nova s.r.o.	Czech Republic	Mohelnice	100.0	31
71	HELLA CZ, s.r.o.	Czech Republic	Zruč nad Sázavou	100.0	31
72	HELLA Hungária Kft.	Hungary	Budapest	100.0	31
73	HELLA Polska Sp. z o.o.	Poland	Warsaw	100.0	31
74	Intermobil Otomotiv Mümesillik Ve Ticaret A.S.	Turkey	Istanbul	56.0	31
75	HELLA Centro Corporativo Mexico S.A. de C.V.	Mexico	Tlalnepantla	100.0	31
76	HELLA Automotive Mexico S.A. de C.V.	Mexico	Tlalnepantla	100.0	75
77	Grupo Administracion Tecnica S.A. de C.V.	Mexico	Tlalnepantla	100.0	75
78	Petosa S.A. de C.V.	Mexico	Tlalnepantla	100.0	75
79	HELLAmex S.A. de C.V.	Mexico	Naucalpan	100.0	75
80	Sistemas Iluminacion S.A. de C.V.	Mexico	Tlalnepantla	100.0	31
81	HELLA A / S	Denmark	Aabenraa	100.0	31
82	HELLA India Lighting Ltd.	India	New Delhi	82.5	31
83	HELLA Asia Singapore Pte. Ltd.	Singapore	Singapore	100.0	31
84	HELLA Trading (Shanghai) Co., Ltd.	China	Shanghai	100.0	83
85	HELLA Auto Service Center Ltd.	China	Shanghai	100.0	84

Number	Company	Country	City	Investment	
				in %	in
86	HELLA Slovakia Holding s.r.o.	Slovakia	Kočovce	100.0	31
87	HELLA Slovakia Signal-Lighting s.r.o.	Slovakia	Bánovce nad Bebravou	100.0	86
88	HELLA Slovakia Front-Lighting s.r.o.	Slovakia	Kočovce	100.0	86
89	HELLA Romania s.r.l.	Romania	Ghiroda-Timișoara	100.0	31
90	HELLA do Brazil Automotive Ltda.	Brazil	São Paulo	100.0	31
91	HELLA Automotive South Africa Pty. Ltd.	South Africa	Uitenhage	100.0	31
92	HELLA Middle East FZE	United Arab Emirates	Dubai	100.0	31
93	HELLA-Bekto Industries d.o.o.	Bosnia and Herzegovina	Goražde	70.0	31
94	HELLA China Holding Co., Ltd.	China	Shanghai	100.0	31
95	HELLA (Xiamen) Electronic Device Co. Ltd	China	Xiamen	100.0	94
96	Jiaxing HELLA Lighting Co. Ltd.	China	Jiaxing	100.0	94
97	HELLA (Thailand) Ltd.	Thailand	Bangkok	100.0	31
98	HELLA Vietnam Company Limited	Vietnam	Ho Chi Minh City	100.0	31

* As in the previous year, the company exercises the exemption pursuant to Section 264 (3) of the German Commercial Code (HGB).

** The company exercises the exemption pursuant to Section 264 (3) of the German Commercial Code (HGB).

Associates:

Number	Company	Country	City	Investment	
				in %	in
99	Behr-HELLA Thermocontrol GmbH	Germany	Lippstadt	50.0	1
100	Behr-HELLA Thermocontrol (Shanghai) Co., Ltd.	China	Shanghai	100.0	99
101	Behr-HELLA Thermocontrol Inc.	USA	Wixom, MI	100.0	99
102	Behr-HELLA Thermocontrol India Private Limited	India	Pune	100.0	99
103	Behr-HELLA Thermocontrol Japan K.K.	Japan	Tokyo	100.0	99
104	Behr-HELLA Thermocontrol EOOD	Bulgaria	Sofia	100.0	99
105	BHTC Mexico S.A. de C.V.	Mexico	Queretaro	100.0	99
106	BHTC Servicios S.A. de C.V.	Mexico	San Miguel de Allende	100.0	105
107	Behr-HELLA Service GmbH	Germany	Schwäbisch Hall	50.0	1
108	Behr HELLA Service South Africa Pty Ltd.	South Africa	Johannesburg	100.0	107
109	Behr HELLA Comércio de Peças Automotivas S.A.	Brazil	Arujá	100.0	107
110	Behr Service IAM USA Inc.	USA	Troy, MI	100.0	107
111	Behr HELLA Service North America, LLC	USA	Peachtree City, GA	100.0	107
112	Beijing SamLip Automotive Lighting Ltd.	China	Beijing	24.5	42
113	Beijing Haohua Special Lighting Ltd.	China	Beijing	49.0	112
114	HSL Electronics Corporation	South Korea	Daegu	50.0	42
115	Mando HELLA Electronics Corp.	South Korea	Incheon	50.0	31
116	Mando-HELLA Electronics (Suzhou) Co. Ltd	China	Suzhou	100.0	115
117	Mando-HELLA Electronics Automotive India Private Limited	India	Sriperumbudur	100.0	115
118	Asia Aftermarket Holding GmbH	Germany	Poing	50.0	31
119	HBPO Beteiligungsgesellschaft mbH	Germany	Lippstadt	33.3	1
120	HBPO GmbH	Germany	Lippstadt	100.0	119
121	HBPO Germany GmbH	Germany	Meerane	100.0	120
122	HBPO Slovakia s.r.o.	Slovakia	Lozorno	100.0	120
123	HBPO Automotive Spain S.L.	Spain	Arazuri	100.0	120
124	HBPO Mexico S.A. de C.V.	Mexico	Cuautlancingo	100.0	120

Number	Company	Country	City	Investment	
				in %	in
125	HBPO Czech s.r.o.	Czech Republic	Mnichovo Hradiště	100.0	120
126	HBPO North America Inc.	USA	Troy, MI	100.0	120
127	HBPO UK Limited	Great Britain	Banbury	100.0	120
128	HBPO Canada Inc.	Canada	Windsor	100.0	120
129	HBPO Rastatt GmbH	Germany	Rastatt	100.0	120
130	HBPO Ingolstadt GmbH	Germany	Ingolstadt	100.0	120
131	HBPO China Ltd.	China	Shanghai	100.0	120
132	HBPO Manufacturing Hungary Kft	Hungary	Kecskemét	100.0	120
133	SHB Automotive Module Company Ltd.	South Korea	Gyeongbuk	50	120
134	HBPO Automotive Hungaria Kft.	Hungary	Győr	100.0	120
135	HBPO Regensburg GmbH	Germany	Regensburg	100.0	120
136	HBPO Pyeongtaek Ltd.	South Korea	Pyeongtaek	100.0	120
137	HBPO Beijing Ltd.	China	Beijing	100.0	120
138	HBPO Asia Ltd.	South Korea	Seoul	100.0	120
139	HICOM HBPO SDN BHD	Malaysia	Shah Alam	40.0	120
140	HBPO Management Sevices MX S.A.	Mexico	Cuautlancingo	100.0	120
141	HBPO Services MX S.A.	Mexico	Cuautlancingo	100.0	120
142	HBPO Brasil Automotive Servicos Ltda	Brazil	São Paulo	95.0	120
143	ARTEC Advanced Reman Technology	Germany	Illingen	50.0	1
144	ARTEC Reman Magyarország Kft	Hungary	Hernád	100.0	143
145	Changchun HELLA Faway Automotive Lighting Co., Ltd.	China	Changchun	49.0	32
146	Chengdu HELLA Faway Automotive Lighting Co., Ltd.	China	Chengdu	100.0	145
147	InnoSenT GmbH	Germany	Donnersdorf	50.0	1
148	HELLA Pagid GmbH	Germany	Essen	50.0	1
149	Beijing HELLA BHAP Automotive Lighting Co., Ltd.	China	Beijing	50.0	94
150	HELLA BHAP (Sanhe) Automotive Lighting Co., Ltd.	China	Sanhe	100.0	149
151	HELLA BHAP (Tianjin) Automotive Lighting Co., Ltd.	China	Tianjin	100.0	149

The companies listed below were not consolidated as they are of minor significance for the Group's net assets, financial position, and results of operations. For this reason, the other

disclosures under Section 313 (2) (4) HGB could also be omitted. The Group's shares in these companies were recognised at fair value.

Companies not included in the consolidated financial statements:

Number	Company	Country	City	Investment	
				in %	in
152	hvs Verpflegungssysteme GmbH	Germany	Lippstadt	100.0	1
153	Electra HELLA's S.A.	Greece	Athens	73.0	31
154	HELLA Japan Inc.	Japan	Tokyo	100.0	31
155	AutoMester Danmark ApS	Denmark	Odense	100.0	62
156	Din Bilpartner Aps	Denmark	Odense	100.0	62
157	CMD Industries Pty Ltd.	Australia	Mentone	100.0	42
158	Tec-Tool S.A. de C.V.	Mexico	El Salto, Jalisco	100.0	75
159	HELLA Property Investments Limited	Great Britain	Banbury	100.0	45
160	Astra-Phil., Inc.	Philippines	Manila	30.0	38
161	HELLA-Stanley Holding Pty Ltd.	Australia	Mentone	50.0	1
162	H+S Invest GmbH & Co. KG	Germany	Pirmasens	50.0	1
163	FWB Kunststofftechnik GmbH	Germany	Pirmasens	20.1	162
164	H+S Verwaltungs GmbH	Germany	Pirmasens	50.0	1
165	INTEDIS GmbH & Co. KG	Germany	Würzburg	50.0	1
166	INTEDIS Verwaltungs-GmbH	Germany	Würzburg	50.0	1

Since no significant influence is exercised over the following companies, they were treated as investments.

Investments

Number	Company	Country	City	Investment	
				in %	in
167	PARTSLIFE GmbH	Germany	Neu-Isenburg	9.7	1
168	TecAlliance GmbH	Germany	Ismaning	7.0	1
169	EMC Test NRW GmbH electromagnetic compatibility	Germany	Dortmund	11.6	1
170	CarTec Technologie- und EntwicklungsCentrum GmbH	Germany	Lippstadt	16.7	1
171	KFE Kompetenzzentrum Fahrzeug Elektronik GmbH	Germany	Lippstadt	12.0	1

Auditor's report

"We have audited the consolidated financial statements prepared by HELLA KGaA Hueck & Co., Lippstadt, comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes in shareholders' equity and the notes to the consolidated financial statement together with the Group management report for the fiscal year from 1 June 2016 to 31 May 2017. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (Handelsgesetzbuch – HGB) are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report on the basis of our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group, and expectations as to possible misstatements, are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group

management report are examined primarily on the basis of spot checks within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in the scope of consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Bielefeld, 2 August 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Ufer
Wirtschaftsprüfer

Dr. Hain
Wirtschaftsprüfer

Responsibility statement

on the consolidated financial statements, annual financial statements, Group management report and management report of HELLA KGaA Hueck & Co. dated 31 May 2017.

To the best of our knowledge, the consolidated financial statements and annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and the company in accordance with applicable accounting principles, and the Group management report and management report include a fair review of the

development and performance of the business and the position of both the Group and the company, together with a description of the principal opportunities and risks associated with the expected development of the group.

Lippstadt, 24 July 2017



Dr. Jürgen Behrend
(Managing General Partner of
HELLA KGaA Hueck & Co.)



Dr. Rolf Breidenbach
(President and CEO of HELLA
Geschäftsführungsgesellschaft mbH)



Markus Bannert
(Managing Director of HELLA
Geschäftsführungsgesellschaft mbH)



Dr. Werner Benade
(Managing Director of HELLA
Geschäftsführungsgesellschaft mbH)



Stefan Osterhage
(Managing Director of HELLA
Geschäftsführungsgesellschaft mbH)



Bernard Schäferbarthold
(Managing Director of HELLA
Geschäftsführungsgesellschaft mbH))



Dr. Matthias Schöllmann
(Managing Director of HELLA
Geschäftsführungsgesellschaft mbH)

Bodies of HELLA KGaA Hueck & Co.

Supervisory Board of HELLA KGaA Hueck & Co.

Prof. Dr. Michael Hoffmann-Becking

Attorney-at-law, Chairman of the Supervisory Board

Alfons Eilers

Trade union secretary, First Deputy Chairman

Laura Behrend

Shareholder, until 29 September 2016

Paul Berger

Member of the works council

Michaela Bittner

Senior executive

Heinrich Georg Bölter

Member of the works council

Manuel Frenzel

Shareholder

Elisabeth Fries

Shareholder

Stephanie Hueck

Entrepreneur

Susanna Hülsbömer

Member of the works council

Klaus Kühn

Former member of the Board of Management of Bayer AG

Manfred Menningen

Trade union secretary on the Executive Board of the German Metalworkers' Union (IG Metall)

Claudia Owen

Culture manager, since 29 September 2016

Manuel Rodriguez Cameselle

Member of the works council

Marco Schweizer

Master mechanic

Dr. Konstanze Thämer

Doctor

Christoph Thomas

Architect

Shareholder Committee

Manfred Wennemer

Formerly CEO of Continental AG, Chairman of the Shareholder Committee

Moritz Friesenhausen

Business consultant, until 29 March 2017

Roland Hammerstein

Attorney-at-law, Deputy Chairman

Dr.-Ing. Gerd Kleinert

Formerly CEO of Kolbenschmidt Pierburg AG

Klaus Kühn

Former member of the Board of Management of Bayer AG

Dr. Matthias Röpke

Engineer

Dipl.-Ing. Dipl.-Wirtsch.-Ing. Konstantin Thomas

Entrepreneur

Management Board

Dr. Jürgen Behrend

Managing General Partner

HELLA Geschäftsführungsgesellschaft mbH

General Partner

Dr. Rolf Breidenbach

President and CEO

Markus Bannert

Dr. Werner Benade

since 1 April 2017

Dr. Wolfgang Ollig

until 30 June 2016

Stefan Osterhage

Bernard Schäferbarthold

since 1 November 2016

Dr. Matthias Schöllmann

Glossary

AFLAC (American Family Life Assurance Company)

American insurance company specialised in health and life insurance.

AfS (available-for-sale)

Available-for-sale financial assets.

Asia/Pacific/RoW

The Asia / Pacific region comprises the countries of Asia as well as Australia and New Zealand. "Rest of world" (RoW) is the term used to cover all other countries outside of those regions mentioned specifically, such as the African states.

Associates

Associates are companies over which the Group exercises significant influence but no control.

At equity

Inclusion in the consolidated financial statements using the equity method with proportional equity.

Adjusted EBITDA margin

Adjusted EBITDA in relation to reported sales.

Adjusted EBIT margin

Adjusted EBIT in relation to reported sales.

Adjusted free cash flow

Net cash flow from operating activities after capital expenditure, adjusted for factoring, legal affairs and restructuring measures.

Adjusted EBITDA

Earnings before interest, income taxes, depreciation and amortisation, adjusted for the one-off charge resulting from the loss of a supplier in China, legal affairs and restructuring measures.

Adjusted EBIT

Earnings before interest and income taxes, adjusted for the one-off charge resulting from the loss of a supplier in China, legal affairs and restructuring measures.

Compliance

Adherence to statutory and internal Company provisions.

DBO (defined benefit obligation)

Value of obligations arising from the company pension scheme.

EBIT (earnings before interest and taxes)

Earnings before interest payments and income taxes.

EBIT margin

Return on sales (ratio of EBIT to sales).

EBITDA (earnings before interest, taxes and depreciation and amortisation)

Earnings before interest, income taxes, depreciation and amortisation.

EBITDA margin

Ratio of EBITDA to sales.

EBT (earnings before taxes)

Earnings before income taxes.

Return on equity

The return on equity is a ratio calculated by dividing net income by shareholders' equity.

Europe without Germany

This region comprises all countries in Europe including Turkey and Russia but excluding Germany.

FLAC (financial liabilities at amortised cost)

Financial liabilities measured at amortised cost (FLAC).

Free cash flow

Net cash flow from operating activities after capital expenditure, excluding company acquisitions.

R&D

Research and development.

Joint ventures

Joint ventures are joint arrangements in which HELLA exercises joint control together with other partners and also has rights to the arrangement's equity.

IFRS (International Financial Reporting Standards)

International accounting rules for company financial statements to guarantee international comparability of annual and consolidated financial statements.

HfT (held for trading)

Financial assets held for trading and financial liabilities held for trading.

KGaA (Kommanditgesellschaft auf Aktien)

The KGaA combines the elements of a stock corporation with those of a limited partnership.

LaR (loans and receivables)

Loans and receivables.

NAFTA (North American Free Trade Agreement)

The North American Free Trade Agreement is a trade association between Canada, the USA and Mexico, and forms a free trade zone in North America.

Net financial debt

Net financial debt as the balance of cash and cash equivalents and current financial assets and current and non-current financial liabilities.

Net capital expenditure

Payments for the acquisition of property, plant and equipment and intangible assets less cash proceeds from the sale of property, plant and equipment and intangible assets as well as payments received for series production.

North, Central and South America

This region comprises all countries of North, Central and South America.

Rating

In terms of financial accounting, the rating is a method for classifying creditworthiness. This rating is issued by independent rating agencies on the basis of a company analysis.

RoIC (return on invested capital)

The ratio of operating income before financing costs and after taxes (return) to invested capital.

Segment sales

Sales with third-party companies and other business segments.

Segment sales of the business division

Sales with third-party companies, other business segments and other business divisions of the same business segment.

SOE, Special OE (Special Original Equipment)

Designation of "Special Original Equipment" at HELLA. In this division HELLA systematically taps customer target groups outside the automotive original equipment market, such as manufacturers of caravans, agricultural machinery and construction machinery and municipalities.

Tier-1 supplier

First-level supplier.

Legal notice

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This report is available in German and English.
Both versions are available for download at
www.HELLA.de/geschaeftsbericht (German) and
www.HELLA.com/annualreport (English).

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Key performance indicators

	2016/2017	2015/2016	2014/2015	
Currency and portfolio-adjusted sales growth	4.3%	7.5%	6.9%	
Adjusted EBIT margin	8.1%	7.5%	7.6%	
In € million	2016/2017	2015/2016	2014/2015	
Sales	6,585	6,352	5,835	
<i>Change compared to prior year</i>	4%	9%	9%	
Adjusted earnings before interest and taxes (adjusted EBIT)	534	476	445	
<i>Change compared to prior year</i>	12%	7%	12%	
Earnings before interest and taxes (EBIT)	507	420	430	
<i>Change compared to prior year</i>	21%	-2%	24%	
Adjusted earnings before interest, taxes, depreciation and amortisation (adjusted EBITDA)	946	858	781	
<i>Change compared to prior year</i>	10%	10%	10%	
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	919	816	766	
<i>Change compared to prior year</i>	13%	7%	17%	
Earnings for the period	343	272	295	
<i>Change compared to prior year</i>	26%	-8%	29%	
Earnings per share (in €)	3.08	2.42	2.70	
<i>Change compared to prior year</i>	27%	-11%	21%	
Adjusted free cash flow	149	155	158	
Free cash flow	69	76	142	
Net capital expenditure	517	463	347	
<i>Change compared to prior year</i>	12%	33%	-6%	
Research and development (R&D) expenses	636	623	544	
<i>Change compared to prior year</i>	2%	15%	6%	
	2016/2017	2015/2016	2014/2015	
EBIT margin	7.7%	6.6%	7.4%	
Adjusted EBITDA margin	14.4%	13.5%	13.4%	
EBITDA margin	14.0%	12.8%	13.1%	
R&D expenses in relation to sales	9.7%	9.8%	9.3%	
	31 May 2017	31 May 2016	31 May 2015	
Net financial debt (in € million)	278	238	131	
Net financial debt / EBITDA	0.3x	0.3x	0.2x	
Equity ratio	39.5%	39.6%	38.8%	
Return on equity	17.3%	14.2%	22.0%	
Employees	37,716	33,689	31,864	
	1st quarter (1 June to 31 August 2016)	2nd quarter (1 September to 30 November 2016)	3rd quarter (1 December 2016 to 28 February 2017)	4th quarter (1 March to 31 May 2017)
Currency and portfolio-adjusted sales growth	5.2%	-0.1%	5.7%	6.5%
Sales (in € million)	1,553	1,645	1,578	1,809
Adjusted EBIT margin	7.6%	9.1%	6.6%	8.9%
Earnings before interest and taxes (EBIT, in € million)	117	129	103	159

Please note that where sums and percentages in the report have been rounded, differences may arise as a result of commercial rounding. Further information can be found in the financial statements for the Fiscal Year 2016/2017.