



# Group management report and consolidated financial statements of HELLA GmbH & Co. KGaA

Fiscal year 2017/2018

41	<b>GROUP MANAGEMENT REPORT</b>
42	General information on the HELLA Group
52	Economic report
64	Opportunity and risk report
72	Forecast report
74	Corporate Governance of HELLA GmbH & Co. KGaA
86	Remuneration report
92	<b>NON-FINANCIAL REPORT</b>
100	<b>REPORT BY THE SUPERVISORY BOARD</b>
104	<b>CONSOLIDATED FINANCIAL STATEMENTS</b>
188	<b>INDEPENDENT AUDITOR'S REPORT</b>
193	<b>RESPONSIBILITY STATEMENT</b>
194	<b>OVERVIEW OF BODIES</b>
196	<b>GLOSSARY</b>
198	<b>LEGAL NOTICE</b>
199	<b>KEY PERFORMANCE INDICATORS</b>

# General information on the HELLA Group

## Business model

HELLA GmbH & Co. KGaA (formerly: HELLA KGaA Hueck & Co.) is a global, listed, family-owned company with more than 125 locations in around 35 countries. With sales of € 7.1 billion in fiscal year 2017/2018 HELLA is one of the top 40 international automotive suppliers and among the 100 largest German industrial companies. The company's business activities are divided into three segments: Automotive, Aftermarket and Special Applications.

The Automotive segment combines the company's business activities in original equipment and the corresponding original replacement part business. 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. The product portfolio of the business division Lighting includes business with headlamps, rear combination lamps, car body lighting, interior lights and radomes. The business division Electronics focuses on the product divisions of body electronics, energy management, driver assistance systems and components, steering as well as lighting electronics.

In the Aftermarket business segment, HELLA combines the automotive parts and accessories business with workshop equipment in the independent spare parts market. Additionally, HELLA acts as a service partner for wholesalers and workshops and complements these activities with a range of high-grade workshop equipment, such as professional diagnostic tools and workshop devices and services as well as vehicle data, which enable specialist vehicle repair and maintenance at the workshop. In addition, HELLA is currently active as a wholesaler in markets of specific countries. However, in July 2018, HELLA announced that it will sell the Danish wholesale distribution company FTZ and the

Polish wholesale distribution company Inter-Team. Subject to approval from the responsible cartel authorities, the sale is expected to be concluded in the third quarter of the 2018 calendar year.

In the Special Applications segment, HELLA develops, manufactures and distributes lighting technology and electronic products for specialist vehicles such as construction and agricultural machinery, buses, motor homes and the marine sector.

**Please refer to the company profile starting on PAGE 10 of the annual report for more information on the business model.**

## Goals and strategies

### CORPORATE STRATEGY

HELLA pursues the overall goal of following a profitable growth path. This strategic alignment encompasses four pillars overall. First is the constant expansion of the company's technological and innovation leadership. Second is ensuring and further strengthening a leading market position in prioritized business fields. Third is maintaining a stable, low-risk business model. Fourth is further improving operational excellence.

HELLA promotes the expansion of its technological and innovation leadership through consistent positioning along key market trends in the automotive industry. The trends of autonomous driving, efficiency and electrification, connectivity and digitalization as well as individualization are particularly significant for HELLA. The individual segments and business divisions pursue distinct strategic approaches in this context. In the business division Lighting, HELLA offers

a full range of lighting technology products for vehicles. In the business division Electronics, HELLA focuses on service activities in specific product fields—based on its core competencies as well as regional or global focuses, such as business with sensors and actuators.

HELLA is active in the Aftermarket segment, offering solutions catered to target groups in the areas of aftermarket spare parts and workshop services and as a wholesaler in the markets of certain countries. As part of a strategic realignment of the segment, the activities in the independent spare parts market, which are based on the the company's expertise in the area of original equipment, and those in the workshop equipment business will be further strengthened and interlinked with each other and new business models will be developed gradually in areas, such as the digital diagnostics and maintenance services area. In this context, HELLA also announced the disposal of the Danish wholesale distribution company FTZ and the Polish wholesale distribution company Inter-Team to Swedish wholesaler Mekonomen. In conjunction with the realignment of the aftermarket segment, HELLA also performs regular and systematic reviews of the strategic set-up of the existing Aftermarket network some of which relate to the joint venture Behr Hella Service.

The Special Applications segment predominantly applies technological concepts, innovations and competencies from the Automotive segment to meet the individual needs of manufacturers of commercial vehicles such as trucks, trailers, agricultural machinery and construction vehicles but also for ship lighting, caravans and vans.

Secondly, for prioritized business fields, HELLA pursues the strategic goal of a leading market position. This is achieved by a specific segment, product line and region. The economies of scale achieved in this way contribute to strengthening the company's competitiveness and profitability. In relation to the Automotive segment, HELLA strives to attain a position among the three leading providers in the respective competitive market segments. The most important regional markets of the segment are Europe, China and the NAFTA area. In order to expand its position in these core markets further, HELLA is investing in expanding its international development and production network. HELLA also strives to attain a leading market position in the Aftermarket and Special Applications segments in each of the relevant target group markets and sales regions. The Aftermarket business activities focus on the European market in addition to international business in Asia/Pacific as well as North, Central and South America. Europe is the core market of the Special Applications business segment.

The goal of market leadership is also supported by an established network strategy. In this context, the company forges partnerships 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. Due to the increasing innovation dynamics on the market, HELLA is also relying more heavily on open, flexible partnerships as part of the network strategy.

Third, HELLA pursues the goal of a resilient and risk-diversified business model. In this way, HELLA tries to maintain balanced and stable business development, which is as independent as possible of economic fluctuations and market cycles. First, the international position and the associated diversification of the company's customer portfolio reduce economic dependence on individual customers and markets. It also enables participation in the growth opportunities in core markets of the automotive industry. That is why HELLA continuously expands its global network in this context. Second, the Aftermarket and Special Applications segments contribute to stable business development. 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 than Automotive business.

In the context of the fourth strategic pillar, HELLA promotes continuous improvement of operational excellence in relation to all processes at the company. The foundation of this includes consistent, effective quality management. In addition, HELLA strengthens operational excellence through optimization of global production and development capacities and through long-term process standardization as well as systematic promotion and further education of its staff.

#### **FINANCIAL STRATEGY**

A solid financial strategy is an integral part of HELLA's corporate strategy and the basis for corporate action with a long-term focus and investments in further profitable growth. In this context, HELLA strives for a strong equity base and a balanced ratio between equity and borrowing. In addition, the company has the goal of not exceeding a value of 1.0 for the ratio between net financial debts and earnings before interest, taxes, depreciation and amortization (EBITDA).

The finances of the HELLA Group are managed 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 the liquidity

## HELLA GmbH & Co. KGaA

Corporate structure	The Management Board of HELLA GmbH & Co. KGaA		
	Business Segment Automotive	Business Segment Aftermarket	Business Segment Special Applications
<b>Finance, Controlling and Information Technology</b> Bernard Schäferbarthold	<b>Business Division Lighting</b> Dr. Rolf Breidenbach Dr. Frank Huber (Deputy)	<b>Business Division Electronics</b> Dr. Rolf Breidenbach	<b>Business Division Aftermarket and Special Applications</b> Dr. Werner Benade
<b>Human Resources, Logistics and Process Management</b> Stefan Osterhage	<b>Executive Board:</b> Marcel Bartling, Dr. Christof Hartmann, Sascha Heißenbüttel, John Kuijpers, Dr. Ulf Merschmann, Andreas Rummert, Michael Sohn	<b>Executive Board:</b> Heiko Berk, Dr. Naveen Gautam, Jens Grösch, Michael Jaeger, Ralf Kuhl, Gerold Lucas, Andreas Lütkes, Bernd Münsterweg, Frank Petznick, Björn Twiehaus, Jörg Weisgerber, Joachim Ziethen	<b>Executive Board:</b> Dr. Andreas Brinkhoff, Stefan van Dalen, Dominik Görts, Dr. Andreas Habeck, Dr. Nicolas Wiedmann
<b>Purchasing, Quality, Legal and Compliance</b> Dr. Rolf Breidenbach			



### International HELLA companies

#### General partner

Hella Geschäftsführungsgesellschaft mbH

#### Managing Directors of Hella Geschäftsführungsgesellschaft mbH

Dr. Rolf Breidenbach (Chair), Dr. Werner Benade, Dr. Frank Huber, Stefan Osterhage, Bernard Schäferbarthold

#### Chairman of the Supervisory Board

Prof. Dr. Michael Hoffmann-Becking

#### Shareholder Committee

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

As at: July 23, 2018

and creditworthiness of the company as well as access to the capital market at all times even in the event of cyclical fluctuations. In order to achieve these goals in financial strategy, HELLA maintains a high level of diversification in terms of the financing instruments it uses. Thus the company currently utilizes first and foremost capital market bonds, private placements and a syndicated credit facility.

## Management systems

### MANAGEMENT OF THE HELLA GROUP

The HELLA Group's organization is managed via a multidimensional matrix. It includes the three segments of Automotive, Aftermarket and Special Applications with the business divisions and strategic business fields, the regions of North, Central and South America, Asia/Pacific/Rest of World and Europe as well as the central functions. While the segments and regions are organized as profit centers, the central functions are managed as cost centers, including in a shared service center (HELLA Corporate Center). The segments have chief responsibility for strategic and operational business development. The central functions fulfill 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 industrialization of the international locations.

The Group management currently consists of the managing directors of Hella Geschäftsführungsgesellschaft mbH. Since the resignation of Dr. Jürgen Behrend as Managing General Partner effective end of day on September 30, 2017, group management is being carried out solely by the Managing Directors of Hella Geschäftsführungsgesellschaft mbH.

In fiscal year 2017/2018, the Shareholder Committee of HELLA GmbH & Co. KGaA resolved to continue working with Dr. Rolf Breidenbach as President and CEO for another five years and to extend his employment contract as CEO until January 31, 2024. In addition to his previous functions, Dr. Breidenbach has also assumed leadership of the business division Lighting and leads the entire Automotive segment as a result. In this function, he is succeeding Markus Bannert, who left the company at his own request. At the same time, Dr. Frank Huber assumed the role of Deputy Managing Director for the Lighting division and, in this function, became a member of the HELLA Management Board on April 1, 2018. The previous Managing Director for Automotive Sales, Dr. Matthias Schöllmann, left the company upon personal request with the expiration of his contract at the end of

March 2018. In addition to these personnel decisions, the task assignment of the management department has been reorganized. Thus, the Automotive Sales corporate function has been integrated into the business divisions Lighting and Electronics. This approach is intended to facilitate a closer union between sales and the product divisions.

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 key business transactions, the Group Management Board requires the approval of the HELLA GmbH & Co. KGaA Shareholder Committee, which codetermines the significant guidelines for business by means of this process. 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 review 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 as well as the Supervisory Board are informed about this. Furthermore, the half-year financial reports and quarterly statements are created.

### PERFORMANCE INDICATORS

The Management Board references financial and non-financial performance indicators in its management of the company. Their target values are based on multiple comparative values, for example, market conditions and competition, internal performance standards and allocation of resources. The four main key financial performance indicators are the currency and portfolio-adjusted sales growth, the adjusted EBIT margin, return on invested capital (ROIC) and adjusted free cash flow from operating activities (adjusted OFCF). The key performance indicators of currency and portfolio-adjust-

ed sales growth and the adjusted EBIT margin take on great importance compared to the other key financial indicators in the management of the Company. Accordingly, they are the Group's most important key performance indicators. In the current fiscal year 2018/2019, the earnings are adjusted by the restructuring measures and portfolio effects. No portfolio effects to be adjusted accrued in the prior fiscal year 2017/2018.

The currency and portfolio-adjusted sales growth, if specifically applicable, the adjusted EBIT margin and the adjusted free cash flow from operating activities are key performance indicators that are not defined in the International Financial Reporting Standards. HELLA discloses them as additional information however. They are used because they serve as the company's essential guideline in terms of performance indicators. Therefore, the key performance indicators in use are intended to provide a transparent picture of the company's operational performance. Since extraordinary effects can negatively affect the assessment of the company's performance, however, HELLA relies on adjusted instead of reported key performance indicators in relation to the two most important financial performance indicators. In this way, the company's economic position and results of operations can be presented with greater precision and the ability to compare values over time is improved.

In addition to financial key performance indicators, HELLA utilizes non-financial performance indicators, primarily in the area of quality. One indicator of quality and customer satisfaction is the customer line return, 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

In fiscal year 2017/2018, HELLA invested a total of € 692 million in research and development (prior year: € 636 million). This put the expenses for research and development relative to the consolidated sales at 9.8% (prior year: 9.7%). More than 90% of research and development expenses are accounted for by the Automotive business segment. The ratio of capitalized development costs to development expenses in accordance with the consolidated income statement came to 13.4%, after 8.9% in the prior fiscal year.

Along with operational performance, HELLA's exceptional research and development culture provides the foundation for competitive ability and the leading market position in many product divisions. First, expenses in future technologies aiding the central automotive market trends such as autonomous driving, efficiency and electrification, connectivity and digitalization as well as individualization are a key part of the corporate strategy and make a critical contribution to expanding and strengthening HELLA's technological leadership. Second, investments in research and development result from the preparation and implementation of several complex production ramp-ups in the Automotive segment during the past fiscal year. Third, HELLA has strengthened and further expanded global research and development capacity. Thus, the number of employees active in research and development compared to the reporting date of the previous fiscal year increased by 9.8% to 7,425 employees. This means more than 18% of all employees throughout the Group 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.

### Research and development

	2017/2018	2016/2017	+/-
R&D employees (May 31 of each year)	7,425	6,764	+9.8%
<b>R&amp;D expenses in € million</b>			
Automotive	658	605	+8.8%
Aftermarket and Special Applications	35	32	+9.2%
<b>Total</b>	<b>692</b>	<b>636</b>	<b>+8.8%</b>
in relation to sales	9.8%	9.7%	

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

## AUTOMOTIVE

Particularly in the Automotive segment, the research and development activities throughout the entire group help to strategically and clearly align the HELLA business portfolio along the central automotive market trends and to implement opportunities for further profitable growth. Firstly, HELLA has powerful research and development departments that maintain the innovative power in the Automotive segment over the long term. Secondly, HELLA has further expanded activities in the global start-up environment through approaches such as using incubators and participating in international innovation networks.

The worldwide development is coordinated principally from Germany. In addition, local development centers in central growth markets are responsible for adapting development activities to the respective region. They also drive independent developments for the respective markets. In this way, HELLA achieves market-driven customization of technologies and product designs to meet customer needs. In certain product divisions, development also occurs through strategic partnerships.

## BUSINESS DIVISION LIGHTING

In the business division Lighting the digitalization of automotive lighting technology is an overarching trending topic that is steadily gaining in importance. In this connection HELLA pursues a double-pillar strategy: first, innovative lighting technologies are increasingly being rolled out in the volume segment by means of modularization concepts. This applies in particular to the development of complex Matrix LED headlamp systems that are increasingly controlled by software to ensure that new safety-related and comfort and convenience-related functions such as an adaptive, glare-free high beam can be implemented using individually controllable lighting elements. Thanks to their modular design as single-, double- or triple-row systems, Matrix LED headlamp systems can be efficiently offered to original equipment manufacturers in a scalable version based on customer requirements. In this context, HELLA integrated the HD84 headlamp module into additional vehicle series of the premium and volume segments in the previous fiscal year. This module was first developed in 2016 as a collaborative project with Daimler AG. HELLA is also working on modularization and standardization concepts in a number of research projects.

In the area of headlamp technologies, HELLA has continued to develop high-resolution headlamp systems and to work on digital, software-controlled lighting systems with high-definition headlamps that can enable a wide variety of new functions in the future through a significantly higher resolution. In

this context, the research and development strategy of HELLA clearly aligns itself with customer benefits. The technological applications that can be used to implement high-resolution headlamp systems depend largely on which lighting functions original equipment manufacturers want to offer end consumers. Therefore, HELLA follows a broad-based research and development approach so that it can meet the various market requirements and needs. In addition to continued development of high-resolution Matrix LED headlamp systems, the company is also working on further highly innovative headlamp technologies. In the past fiscal year, HELLA also worked with a premium original equipment manufacturer based in Germany to implement series production of a dynamic laser high beam for the first time.

In the past fiscal year, HELLA has further reinforced the system expertise required here, obtained by integrating the light module, control unit and data processing software that returns the object data for the light control unit. As such, software expertise across the entire HELLA Group has been further improved. HELLA is also working on new methods for real-time capable calculation of light distribution, which is critical for high-resolution headlamp systems. In addition, this is resulting in an innovative development environment for defining target light distribution.

Due to new automotive lighting technology requirements in automated driving scenarios, in the past fiscal year, HELLA has accelerated development activities in the area of body and vehicle interior lighting that, in conjunction with autonomous driving, is continuously increasing in importance as a communication instrument. As a result, various driving modes can be indicated or safety and protection zones in the immediate vicinity of the vehicle projected using the car body lighting. As part of the international research project interACT, which is promoted by the EU, HELLA is working together with other project partners on communication concepts between automated vehicles and non-automated road users such as pedestrians, cyclists and other motorists. A key area of focus here is passenger vehicles in urban areas.

In addition, HELLA is working intently on developing new vehicle interior lighting concepts, which enable a wide variety of new functions and can be adapted to the various needs of drivers and driving situations. Furthermore, the trend towards individualization and uniqueness is creating new interior lighting requirements. With that said, HELLA has continued to develop customizable interior lighting concepts in fiscal year 2017/2018; the thematic focus included the development of 2nd generation RGB LED modules that the driver can use to design the interior color scheme ac-

ording to their individual preferences. HELLA began series production of the 2nd generation RGB LED modules in early 2018. Compared to the 1st generation, the 2nd generation has a more powerful chip and a more compact design.

Other activities that HELLA is implementing to align the lighting portfolio along the individualization trend are focused on developing customizable radomes, lighting elements for the radiator grille and innovative “coming home” and “leaving home” light animations for front and rear lighting. In this context, HELLA worked together with a premium original equipment manufacturer based in Germany to begin large-scale series production of a rear lamp with OLED technology for the first time in fiscal year 2017/2018.

In addition to its own research and development department, 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 examining current issues relating to vehicle lighting. Some of the topics of focus in the past fiscal year include the use of remote laser light sources with a digital mirror device chip, which enable a wide variety of new functions and the use of holography in vehicle headlamps in the high-resolution headlamp area.

In addition, HELLA expanded its global development capacities. In this regard, HELLA for example has opened a new development center for automotive lighting technology in India at the beginning of fiscal year 2017/2018.

### **BUSINESS DIVISION ELECTRONICS**

As part of the research and 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, efficiency and electrification, connectivity and digitalization and individualization. In this context, HELLA is pursuing the strategic goal of developing new product solutions and bringing them to market maturity, as well as developing its own system understanding further. In certain product divisions, this also occurs through strategic partnerships (e.g. in the area of autonomous driving or developing cloud-based product solutions).

With regard to the market trend of autonomous driving, HELLA further intensified the research and development activities in radar technology during the past fiscal year. For example, HELLA has driven development of 77 GHz radar

technology and won an initial order for a premium original equipment manufacturer. The 77 GHz radar technology is required for NCAP requirements and autonomous driving functions. It enables fundamental safety and assistance functions in the rear and front areas (advanced blind spot monitoring, detection of cross traffic ahead) and 360 degree monitoring of the area around the vehicle. This is required in scenarios such as assisted and automated parking. In addition, HELLA has continued to develop established 24 GHz radar narrow-band technology that is primarily used in the rear area of vehicles, which in turn strengthens its long-standing position as a market leader in this area.

By means of its subsidiary HELLA Aglaia, HELLA is furthermore undertaking in-depth development work in camera-based driver assistance systems. In this context, HELLA has already put a new business model on the market and developed an open software platform in the past fiscal year. This enables customers to assemble hardware components and software functions for series production, such as traffic sign or pedestrian recognition, individually based on requirements. The expected launch for the software system is 2019. Furthermore, HELLA Aglaia is also concerned with new technologies, e.g. artificial intelligence, required to implement autonomous driving functions, and with developing specific functions for autonomous driving subsystems, such as automated parking.

HELLA has continued to expand the research and development network in the area of autonomous driving. For example, HELLA concluded a strategic partnership with ZF Friedrichshafen AG at the beginning of fiscal year 2017/2018. The purpose of this collaboration is to develop and market state-of-the-art driver assistance systems and autonomous driving functions for vehicles, commercial vehicles and off-highway applications and to focus on the technology fields of radar sensors, camera systems and image recognition. In addition, HELLA Aglaia is collaborating with other industrial companies in the area of camera-based driver assistance systems, including Renesas Electronics, Nvidia, NXP Semiconductors, Texas Instruments, LG Electronics and Samsung Electronics.

Moreover, HELLA is researching and developing innovative new sensor solutions such as SHAKE (short for structural health and knock emission), a structure-borne sound sensor, which uses piezoelectric sensors in order to, for example, detect even the tiniest amount of contact (gravel throw, scratches, water drops) and thus enables a body control unit to initiate customer-specific functions. This area is not covered by previous proximity detection solutions. In an initial use case, the sensor can detect moisture on the road sur-

face. The information on the condition of the road is forwarded to the driver or to other vehicles via cloud-to-vehicle or vehicle-to-vehicle communication and used as an important input variable for automated driving scenarios. The modularity of the sensor moreover opens up further application options, which can be implemented specifically depending on the original equipment manufacturer's requirements. The pending start of series production is currently in the preparation phase, and is planned for late 2018.

Another environment detection technology that supports autonomous driving is Lidar (light detection and ranging). HELLA is analyzing and testing technologically innovative approaches, including intelligent algorithms developed by US-based start-up AEye. In this context, HELLA began strategic collaboration with AEye in the past fiscal year.

With regard to the market trends of efficiency and electrification, HELLA's focus is, among other things, on the electronics of battery management systems for lithium-ion batteries that were developed specifically for full hybrids and electric vehicles and launched for the first time in the past fiscal year. In fiscal year 2017/2018, HELLA started developing the second generation of battery management systems with higher performance. HELLA's other activities are geared towards the development of the second generation of high-performance DC/DC voltage transformers. These offer the option of using recovered energy stored in the 48-volt vehicle electrical system to supply 12-volt loads. Building on this, the 48-volt hybridization outlines a cost-effective solution for significantly reducing CO<sub>2</sub> emissions. In driving scenarios where the internal combustion engine is switched off (e.g. during active and passive coasting), it ensures a reliable supply to the vehicle electrical system over two voltage networks. HELLA launched its first generation of high-performance DC/DC voltage transformers on the market at the beginning of fiscal year 2017/2018.

In addition, the research and development activities of HELLA also continue to aid in optimizing vehicles regardless of drive train, such as conventional internal combustion engines with the goal of achieving a higher level of efficiency. This includes projects such as developing an electric coolant pump. Based on a corresponding initial order at first, they have been specifically developed for hybrid and electric vehicles and assist them through efficient cooling of components including the battery, power electronics and electric motor. In addition, they can also be integrated into vehicles with internal combustion engines and optimize aspects such as cooling for the turbocharger and exhaust gas recirculation.

To strengthen the digitalization and connectivity trend, HELLA expanded its activities in the air quality management area in the past fiscal year. Thus, series production of a sensor developed by HELLA for measuring the fine particulate matter content both inside and outside the vehicle is planned to begin in 2020 for a German premium original equipment manufacturer. In addition, HELLA has reached an agreement in this context for strategic cooperation with the Israeli provider of cloud-based air quality analyses, BreezoMeter. As part of this collaboration, HELLA is contributing the sensor systems for measuring the fine particulate matter content; BreezoMeter supplements this data with additional cloud-based air quality data. The goal of the collaboration is the reliable generation and provision of real-time data on air quality inside and outside the vehicle. Based on this technology, various scalable function packages can be provided to protect passengers. This includes improved route planning with consideration for air quality as well as active health management in the vehicle cabin which is controlled by smart devices.

HELLA has also been developing domain computers. These are an essential feature of new, service-oriented vehicle electric system architectures where the software functions are concentrated in a few control units that have very high performance. By using them, original equipment manufacturers and end consumers are able to map complex functions extending between control units and to update them throughout the vehicle's entire service life. This can even include subsequent over-the-air updates and upgrades with new functions.

In the area of individualization HELLA is among other things developing and producing new technologies for key fobs. For example, thanks to their high-end appearance, tailored to match the vehicle interior, new surface technologies meet the rising demands of end-customers with regard to quality and individuality. In fiscal year 2017/2018, HELLA has also stepped up development of new, safety-related technologies in the area of key fobs. The first products with these technologies are set to go into production in Summer 2019.

In the business division Electronics HELLA has further expanded the capacity of the international research and development organization. For example, the official founding of the Forschungsinstitut für Kraftfahrzeug-Elektronik (E-LAB) (research institute for vehicle electronics) was prepared with TU Dortmund University and Hamm-Lippstadt University of Applied Sciences in the previous fiscal year. Professors from other universities, such as RWTH Aachen University and Ruhr University Bochum, also contributed to this collaboration in certain research

areas. The E-LAB works together with these universities to develop solutions to long-term trends in vehicle electronics, in areas such as micro-gesture control in vehicle interiors, the use of LED light sources for communication between vehicles or in the area of battery management.

Moreover, HELLA maintains various research cooperations in collaboration with other partners. In the area of autonomous driving, redundant monitoring of safety-relevant driving functions is optimized in the "AutoKonf" project. In addition, HELLA is working together with additional collaborative partners from the science and economic sectors to develop a close-to-production fusion platform with open interfaces, which enables affordable implementation of highly and fully automated functions as part of the research project "Open Fusion Platform", which is funded by the Federal Ministry of Education and Research in Germany. 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. There is also competition related to innovation, which will strengthen collaboration between the preliminary electronics development team, sales team and innovative suppliers at HELLA.

In addition, HELLA is increasingly relying on creating spin-off start-up companies, whose basic technologies have been developed at HELLA's incubator. In the past fiscal year 2017/2018, HELLA created the spin-off start-ups Brighter AI and YPTOKEY. Brighter AI uses deep learning applications to create life-like daylight variants of night images. YPTOKEY has put a software solution for digital key and access authorization systems on the market.

### AFTERMARKET

Research and development expenses are being incurred in the Aftermarket segment, particularly in the area of complex workshop equipment. HELLA is mapping the entire innovation, development and production process through the subsidiary Hella Gutmann Solutions. In the past fiscal year, the research and development activities included development of powerful diagnostic units. A main area of focus was further expansion of software expertise related to the diagnostic and workshop equipment business. In this context, Hella Gutmann Solutions put the new mega macs 77 diagnostic unit on the market for the first time in fiscal year 2017/2018. This unit is an expansion of the established mega macs diagnostic systems and enables functions such as faster scanning and interpretation of error codes. In addition, other areas of focus related to expansion of diagnostic expertise in the area of sensor technologies and calibration methods. In the past fiscal year, HELLA has advanced business activities in the area of cloud-based diagnostic

services by investing in the start-up company CarForce. The strategic objective is to develop new digital business models. Other development activities focused on further expanding the maintenance, repair and diagnostic portfolio by adding electric vehicles and through further development of existing expertise in the area of emissions testing.

### SPECIAL APPLICATIONS

The strategic pillar of the Special Applications business segment is applying core expertise related to light technology and electronics from the Automotive segment to special vehicle applications. One key theme of the research and development activities of the segment is therefore the accelerated introduction of LED technology in special original equipment and retrofitting special vehicles. This includes subsequent steps for rolling out the modular series Shape-line and intensive development of modularization concepts in the area of LED-based work lights. In addition, HELLA is accelerating the development of intelligent lighting systems in the Special Applications segment, in areas such as Matrix LED work lights, which can be used to implement new safety functions (such as anti-glare protection in work use) through a more accurate and customized activation of the light source. In addition, the new projection module VISIO-TECH is being presented for the first time in fiscal year 2017/2018. This module can be used to project warnings or customer-specific logos onto the ground in order to visually warn vehicles and passengers or to define specific work areas. In addition, the development, marketing and sales activities of the segment are being focused to extend the electrical system/electronics business. The in-house development expertise is also further expanded in this area. The product focus area here is on the actuator, sensor and energy management product divisions. Electronics products are adapted to the special customer requirements.

In fiscal year 2017/2018, HELLA has further expanded development capacities in the segment due to high growth potential in the Special Application segment resulting from the knowledge and technology transfer for lighting technology and electronics applications. HELLA also cooperates with a network of other OEM suppliers and academic partners in developing and equipping a future-oriented concept cabin for agricultural and construction vehicles. In fiscal year 2017/2018, tasks in this research cluster were resumed.

### Human Resources

HELLA had 40,263 permanent employees worldwide as at the balance sheet date of May 31, 2018. This equates to an increase of 6.8% compared to the prior year. HELLA em-

employs temporary staff supplied by personnel services companies in addition to its own permanent workforce, due to fluctuating order and production volumes. To avoid skewing HR management indicators, staff indicators for the personnel services companies are not included in the aforementioned management indicators of the company and those listed below.

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

2016	33,689 (+5.7%)
2017	37,716 (+12.0%)
<b>2018</b>	<b>40,263 (+6.8%)</b>

For more information on Human Resources, please refer to the description in the consolidated notes from PAGE 132.

The strongest growth in fiscal year 2017/2018 (June 1, 2017 to May 31, 2018) was reported by the regions of North, Central and South America and Europe not including Germany. Compared to the prior year, the number of permanent employees increased by 19.1% to 7,175 employees (prior year: 6,027 employees) in North, Central and South America. This increase is largely linked with comprehensive capacity expansions and new production launches, primarily in a Mexican lighting plant and construction of a new electronics plant, which is also in Mexico.

#### Permanent employees in the HELLA Group by region

	May 31, 2018	+/-	Share
Germany	9,831	+1.3%	24%
Europe not including Germany	16,880	+8.4%	42%
North, Central and South America	7,175	+19.1%	18%
Asia / Pacific / RoW	6,377	-0.6%	16%
<b>Permanent employees worldwide</b>	<b>40,263</b>	<b>+6.8%</b>	<b>100%</b>

In the Europe not including Germany region, the number of permanent employees increased by 8.4% to 16,880 employees compared to the prior year (prior year: 15,568 employees). Due to higher production volumes and the preparation of production launches during this current fiscal year, there has been an increase in employees in this region, particularly production employees. In addition, production employees from a temporary worker pool were made permanent employees in fiscal year 2017/2018. In addition, HR capacities have been expanded in the Europe not including Germany region in management roles and in the area of research and development.

Compared to the prior year, the number of employees in Germany grew by 1.3% to 9,831 employees (prior year: 9,707 employees). This increase was the result of a strengthening of central administrative functions and the research and development departments.

In the Asia/Pacific/Rest of World region, the number of employees (6,377 employees) remained almost constant compared to the prior year (prior year: 6,414 employees). The number of employees grew particularly in the area of research and development.

Further information related to qualification, promotion and further training of employees can be found in the Non-financial report from PAGE 95.

# Economic report

## General economic conditions

- **Global gross domestic product (GDP) grows by 3.7% in calendar year 2017**
- **Economic strength increases by 2.5% in the European Union, by 6.9% in China and 2.3% in the United States**
- **Economy maintains positive trend in first quarter of 2018: Increase of 2.4% in the European Union, 6.8% in China and 2.0% in the United States**

The global economy experienced positive growth in calendar year 2017. As a result, the global gross domestic product (GDP) increased by 3.7% in this period according to International Monetary Fund (IMF) estimates updated in July 2018. The growth was stronger than it has been since 2011. Of particular note, IMF data shows strong growth above 4% in the second half of the year. Several factors contributed to this upswing, including an increase in investment activity in industrialized countries, additional economic growth in developing countries in Asia and favorable financing conditions. Good performance in many regions of the world, including in the core countries relevant to HELLA, drove this growth.

According to Eurostat, the European agency for statistical information, the GDP of the European Union grew by 2.5% in calendar year 2017. This is the highest growth rate in ten years. The major factors contributing to this were increased domestic demands, e.g. as a result of increasing capital expenditure, and additional growth drivers due to the monetary policy from the European Central Bank. In the third quarter of calendar year 2017, the growth was 2.8% compared to the previous year and 2.7% in the fourth quarter. In the first quarter of the new calendar year, the gross domes-

tic product increased by 2.4% compared to the previous year. Particularly in Great Britain, however, uncertainties due to the initiated exit from the European Union have had a noticeable impact. As a result, Great Britain's economy saw its weakest growth since 2012.

In Germany, the GDP experienced a price-adjusted and calendar-adjusted increase of 2.5% in 2017 according to estimates from Destatis, the German Federal Statistical Office. The German economy saw solid growth in the second half of the year in particular, with growth of 2.7% in the third quarter and 2.9% in the fourth quarter. In the first quarter of 2018, economic growth in Germany was 2.3%.

The GDP in China grew 6.9% in calendar year 2017 according to data from the IMF and the Chinese Bureau of Statistics. The primary reasons for this include stronger foreign trade and the growing construction sector. Economic growth in both the second half of 2017 and the first quarter of 2018 was 6.8% compared to the respective periods in the previous year.

In the United States, GDP growth was 2.3% in calendar year 2017 according to estimates from the Bureau of Economic Analysis. This growth was facilitated primarily by a positive trend in domestic demand as well as good job market performance in calendar year 2017. In the United States, economic potential saw dynamic development in the second half of the year and increased by 3.2% in the third quarter and 2.9% in the fourth quarter. At the beginning of calendar year 2018, GDP in the United States experienced 2.0% growth in the first quarter according to the estimates updated in May 2018. The tax reform that took effect at the start of calendar year 2018 led to positive effects. In contrast, the intention announced by the US administration to renegotiate the free trade agreement NAFTA led to economic uncertainties shortly before the start of fiscal year 2017/2018.

## Industry development

- **Global light vehicle production increases by 1.5% in fiscal year 2017/2018**
- **Primary growth drivers are Europe not including Germany (+4.9%) and Asia/Pacific/Rest of World (+1.9%)**
- **Decrease in light vehicle production in Germany (-3.3%) and North, Central and South America (-2.3%)**
- **Growth in light vehicle production at 1.6% in the first half of the year and 1.4% in the second half of the year**

In the past fiscal year 2017/2018 (June 1, 2017 to May 31, 2018), the international automotive sector improved overall. According to the IHS market research institute data updated in July 2018, the production of passenger cars and light commercial vehicles increased by 1.5% to 96.0 million units (prior year: 94.6 million units). The first half of the fiscal year saw 1.6% growth, with 1.4% in the second half of the reporting period. The regions of Europe not including Germany and Asia/Pacific/Rest of World were the main growth drivers in the past fiscal year. In contrast, the number of new vehicles produced has decreased in Germany and in the region of North, Central and South America in comparison to the previous year. As a whole, the automobile industry experienced significantly weaker growth than in the same period in the previous fiscal year 2016/2017 (+5.7%).

In the region of Europe not including Germany, the number of new vehicles produced increased by 4.9% compared to the previous fiscal year to 16.7 million units (prior year: 15.9 million units). In contrast, the selective German automotive market saw a 3.3% decrease in new production down to 5.7 million units (prior year: 5.9 million units) during the reporting period.

In the region of Asia/Pacific/Rest of World, the number of new units produced compared to the previous year increased by 1.9% to 51.2 million units (prior year: 50.3 million units) in fiscal year 2017/2018. In this region, the Chinese market was a major growth driver. Thus the number of new vehicles produced in China compared to the previous year increased by 2.2% to 28.0 million units (prior year: 27.4 million units).

In contrast, the region of North, Central and South America experienced a downward trend in the past fiscal year. The number of new vehicles produced decreased by 2.3% to 20.3 million units (prior year: 20.8 million units). The critical factor behind this was the market in the United States, which experienced a significant decrease of 7.8% to 10.9 million vehicles (prior year: 11.8 million units).

## Business development of the HELLA Group

- **Currency-adjusted sales increase by 9.3% in fiscal year 2017/2018**
- **Reported consolidated sales rise by 7.2% to € 7,060 million**
- **Reported sales increase by 8.0% in the first half of the fiscal year and 6.5% in the second half**
- **Adjusted earnings before interest and taxes grow by 8.8% to € 581 million**
- **Adjusted EBIT margin improves by 0.1 percentage points to 8.2%**
- **Adjusted free cash flow from operating activities rises by 62% to € 241 million**

### RESULTS OF OPERATIONS

In fiscal year 2017/2018 (June 1, 2017 to May 31, 2018), the currency-adjusted sales of the HELLA Group increased by 9.3% and improved by 7.2% to € 7,060 million (prior year: € 6,585 million) taking into account the effects of negative exchange rates. This entailed reported sales growth of 8.0% in the first half of the fiscal year (prior year: 1.2%) and 6.5% in the second half (prior year: 6.1%). The Automotive and Special Applications segments in particular supported the company's renewed growth in sales. The Aftermarket segment also saw growth in sales in terms of business with external customers.

With regard to sales by region, the reported sales in Europe not including Germany increased by 12.6% to € 2,497 million (prior year: € 2,218 million), while sales in the German market decreased by 4.9% to € 2,134 million (prior year: € 2,243 million). Reported sales in the region Asia/Pacific/Rest of World increased by 13.6% to € 1,208 million (prior year: € 1,063 million) and in the region North, Central and South America by 15.1% to € 1,221 million (prior year: € 1,061 million).

In addition, HELLA's profitability also improved in the reporting period. As a result, adjusted earnings before interest and taxes (adjusted EBIT) of the HELLA Group increased by 8.8% year-over-year to € 581 million (prior year: € 534 million). This additional improvement is due to higher sales growth and an increased gross profit margin throughout the Group in particular. Thus, the adjusted EBIT margin in relation to the reported consolidated sales increases to 8.2% (prior year: 8.1%).

Taking special effects into account, the reported earnings before interest and taxes (EBIT) in fiscal year 2017/2018 increased by 13.2% to € 574 million (prior year: € 507 million), with the reported EBIT margin increasing to 8.1% (prior year: 7.7%). The earnings before interest and taxes were

**HELLA Group sales****(in € million, reported growth and currency and portfolio-adjusted growth year-over-year in %)**

2015/2016	6,352 (8.9%; 7.5%)
2016/2017	6,585 (3.7%; 4.3%)
<b>2017/2018</b>	<b>7,060 (7.2%; 9.3%)</b>

adjusted for restructuring measures in Germany (€ 7 million) in the past fiscal year. In the first half of the previous fiscal year 2016/2017, adjustments were necessary in conjunction with the uncontested ruling of the proceedings of the European Commission at the start of the completed fiscal year (€ 16 million). In addition, adjustments for restructuring measures in Germany (€ 10 million) took place in the previous year.

The reported gross profit increased in fiscal year 2017/2018 by 8.5% to € 1,966 million (prior year: € 1,812 million), the reported gross profit margin is consequently at 27.8% (prior year: 27.5%). All of the segments of the HELLA Group contributed to this improvement in the margin which is the result of several factors, including higher production volume.

The adjusted earnings before interest, taxes, depreciation and amortization (adjusted EBITDA) increased by 8.3% year-over-year to € 1,024 million (prior year: € 946 million). The adjusted EBITDA margin increases to 14.5% (prior year: 14.4%) as a result. The reported earnings before interest, taxes, depreciation and amortization (EBITDA) improved during this period by 10.7% to € 1,018 million (prior year: € 919 million). This corresponds to a reported EBITDA margin of 14.4% (prior year: 14.0%).

Research and Development (R&D) expenses increased to € 692 million in the reporting period (prior year: € 636 million). In relation to sales, this corresponds to an R&D ratio of 9.8% (prior year: 9.7%). As part of the company's strategic alignment, expenses were incurred in particular from the expansion and the drive to bolster HELLA's leading technological position along automotive market trends. Trends particularly relevant to HELLA here are autonomous driving, efficiency and electrification, connectivity and digitalization, as well as individualization. Further capital expenditures were incurred in relation to the preparation and implementation of numerous production rollouts, and in further expanding international development capacities.

The distribution expenses increased to € 523 million (prior year: € 506 million) in fiscal year 2017/2018 as a result of higher sales growth. Due to lowered costs, the distribution expenses in relation to the consolidated sales have not increased proportionately, leading the distribution expense ratio to drop to 7.4% during the reporting period (prior year: 7.7%).

In fiscal year 2017/2018, the administrative costs increased to € 242 million (prior year: € 230 million). Further strengthening of central administrative functions and global administrative capacities led to this increase. In relation to consolidated sales, the administrative cost ratio is 3.4%, slightly below the level from the previous year (prior year: 3.5%).

The balance of other income and expenses in the past year was at € 21 million, above the level from the previous year (prior year: € 15 million). In the reporting period of the prior year, this was strained especially due to expenses resulting from the uncontested rulings of proceedings of the European Commission. In relation to sales, the balance of other income and expenses corresponds to a ratio of 0.3% (prior year: 0.2%).

The contribution to earnings made by joint ventures and other associates decreased to € 44 million (prior year: € 52 million) in fiscal year 2017/2018. In relation to the Group-wide reported EBIT, this corresponds to a contribution to earnings of 7.6% (prior year: 10.2%). This development can be attributed to the lower earnings of South Korean and Chinese joint ventures as a result of lower sales by South Korean original equipment manufacturers in China.

The net financial result during the fiscal year 2017/2018 period is € -44 million (prior year: € -44 million). Expenses relating to income taxes amount to € 140 million in the reporting period (prior year: € 120 million).

This represents an increase in earnings for the period in fiscal year 2017/2018 to € 390 million (prior year: € 343 million). In

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

2015/2016	476 (7.5%)
2016/2017	534 (8.1%)
<b>2017/2018</b>	<b>581 (8.2%)</b>

relation to the reported consolidated sales, this corresponds to a ratio of 5.5% (prior year: 5.2%). Earnings per share thus rise to € 3.50 in the reporting period (prior year: € 3.08).

**FINANCIAL STATUS**

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.

**For more information relating to HELLA's financial strategy, please refer to the "General information on the HELLA Group" chapter in the group management report.**

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

➤ **CAPITAL MARKET BONDS**

At the balance sheet date, HELLA had two outstanding capital market bonds of seven years each. These comprise 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 value of the liability on May 31, 2018 was € 177 million.

➤ **SYNDICATED CREDIT FACILITY**

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

The net cash generated from operating activities improved by € 113 million year-over-year to € 826 million (prior year: € 713 million). This development was financed by significantly higher earnings. Thus, cash generated from reported earnings before non-cash depreciation and amortization (EBITDA) increased significantly year-over-year and increased by 10.7% year-over-year to € 1,018 million (prior year: € 919 million).

This sales growth was accompanied simultaneously by an accumulation of working capital. In the higher working capital area, increased liabilities had a positive effect. These liabilities were offset by higher receivables and inventories due to stronger growth in conjunction with production roll-outs. The working capital arising from the increase in receivables and other assets amounted to € 85 million,

The inventories were € 123 million. Trade liabilities and other liabilities increased by € 73 million.

Gross capital expenditure excluding payments for the acquisition of company shares or the increase or repayment of capital dropped by € 41 million to € 608 million (prior year: € 649 million). They included, first, capital expenditures in long-term expansion of the worldwide development, administrative and production network pursued further by HELLA in the past fiscal year. Second, these capital expenditures predominantly included maintenance capital expenditures for buildings, machinery, systems and other equipment. Third, HELLA made significant investments in customer-specific operating equipment, which is recognized 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—sometimes as an advance on the delivery of parts. These payments are reported as pre-payments within deferred income. These customer payments came to € 176 million in the past fiscal year (prior year: € 132 million).

**Regional market coverage by customer—HELLA Group**

	2017/2018		2016/2017	
	Absolute (in € million)	Relative	Absolute (in € million)	Relative
Germany	2,134	30%	2,243	34%
Europe not including Germany	2,497	35%	2,218	34%
North, Central and South America	1,221	17%	1,061	16%
Asia / Pacific / RoW	1,208	17%	1,063	16%
<b>Consolidated sales</b>	<b>7,060</b>	<b>100%</b>	<b>6,585</b>	<b>100%</b>

Reported free cash flow from operating activities accordingly amounted to € 218 million (prior year: € 69 million) in fiscal year 2017/2018. When adjusted for payments for restructuring measures in Germany (€ 13 million) and payments related to the uncontested ruling of the proceedings of the European Commission (€ 10 million), the adjusted free cash flow from operating activities improved to € 241 million (prior year: € 149 million). In the previous year, the free cash flow from operating activities was adjusted for payments for restructuring measures in Germany (€ 10 million) and suspension of the factoring program (€ 70 million).

Total outflows from financing activities came to € 305 million (prior year: € 135 million). Net new borrowing stood at € 155 million (prior year: € 68 million net drawn credit). In the second half of fiscal year 2017/2018, HELLA also took out a USD \$200 million loan in Mexico. The loan consists of one three-year portion and one five-year portion. The € 300 million bond issued in 2014 was repaid in September 2017. In May 2017, HELLA issued a new corporate bond on the capital market valued at € 300 million for its refinancing.

As part of active management of the liquidity available to the Group, € 21 million was expended from securities during the reporting year (prior year: € 12 million received). 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 on short notice.

The dividends of € 0.92 per share enacted at the annual general meeting on September 28, 2017 amounted to a total of € 102 million. In addition, approximately € 1 million was paid as dividends to shareholders who hold non-controlling shares.

Liquidity from cash and cash equivalents decreased by € 96 million year-over-year to € 688 million (prior year: € 784 million). Including current financial assets, which essentially comprise securities of € 333 million (prior year: € 314 million), available funds decreased to € 1,021 million (prior year: € 1,098 million). On this basis, HELLA is able to satisfy its payment obligations.

**FINANCIAL POSITION**

Total assets increased by € 283 million to € 5,921 million in the past fiscal year (prior year: € 5,638 million). The equity ratio stood at 42% at the end of fiscal year 2017/2018 and was thus above the level from the previous year (prior year: 39%). The equity ratio in relation to total assets adjusted for liquidity comes to 51%.

Current and non-current financial liabilities decreased by € 169 million to € 1,208 million (prior year: € 1,377 million).

Net financial debt as the balance of cash and cash equivalents and current financial assets less current and non-current financial liabilities decreased by € 92 million to € 187 million (prior year: € 278 million). At the reporting date, the ratio of net financial debt to EBITDA stood at 0.2 (prior year: 0.3).

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 € 110 million at the balance sheet date (prior year: € 63 million).

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

**Regional market coverage by customer—Automotive**

	2017/2018	2016/2017
Germany	34%	38%
Europe not including Germany	27%	25%
North, Central and South America	21%	19%
Asia / Pacific / RoW	18%	17%

**FURTHER EVENTS IN  
FISCAL YEAR 2017/2018****▶ Collaboration between ZF and HELLA**

In fiscal year 2017/2018, the two automotive suppliers ZF and HELLA entered into a strategic partnership. Both partners will benefit from this cooperation on sensor technology, particularly for front camera systems, image recognition and radar systems; ZF will further strengthen its portfolio as a systems supplier of both modern assistance systems and autonomous driving functions. HELLA on the other hand will drive the development of its key technologies, which will provide the company with broader market access within the scope of the cooperation. An initial joint development project in camera technology starts immediately and is aiming for a market launch in 2020. Furthermore, the cooperation partners will also identify opportunities to collaborate on radar systems to offer attractive series solutions by jointly aligning their product portfolios in the short to medium term.

**▶ HELLA expands its international presence over the long term**

In October 2017, the joint venture Beijing HELLA BHAP Automotive Lighting opened a new lighting plant near the Chinese metropolis of Tianjin. In addition, HELLA began series production at a newly built electronics plant in Mexico at the beginning of the current fiscal year; moreover, additional series production has started in two existing Mexican lighting plants that had their capacity expanded in late 2017. HELLA is also currently expanding electronics production in Shanghai and is building further electronics plants in India and Lithuania. At the company headquarters in Lippstadt, HELLA announced construction of a new administration, visitor and exhibition center and, together with other partners, the opening of an innovation quarter. In Northville, Michigan (USA) HELLA is opening a new regional administration and technology center.

**▶ Cooperation with BreezoMeter by agreement**

HELLA and the Israeli start-up BreezoMeter are working together. The objective of the cooperative effort with BreezoMeter, a provider of cloud-based air-quality analyses, is reliable generation and provision of real-time data on the air quality inside and outside the vehicle. Personalized offers for active health management are issued based on this cloud-based technology.

**▶ OLED technology for automotive applications**

In collaboration with a premium original equipment manufacturer, HELLA has produced a rear combination lamp with OLED technology in large-scale series production for the first time. HELLA is driving the possibilities for personalized rear combination lamp design forward with this technology. For example, these lamps allow the implementation of various coming home and leaving home scenarios and much more.

**▶ Digitalization of workshop business**

HELLA is developing new business models in the area of digital diagnostic services and, as part of these efforts, has invested in the start-up CarForce. This company launched a cloud-based software solution for transferring vehicle data to workshops. Via the cloud, data on the condition of the vehicle, such as tire pressure or battery condition data, can be passed to independent workshops. This gives them the option of creating customized maintenance and repair offers for customers on short notice, the moment the transmitted condition data indicates a potentially critical area. For end-consumers, this can reduce wait time and downtime during the repair process. In terms of prospects, collaboration with CarForce is primarily intended to further promote the Hella Gutmann Solutions subsidiary.

**Regional market coverage by customer—Aftermarket and Special Applications**

	2017/2018	2016/2017
Germany	17%	19%
Europe not including Germany	63%	61%
North, Central and South America	7%	7%
Asia / Pacific / RoW	13%	13%

**➤ New electronics joint venture in China**

HELLA founds a new joint venture for electronics components together with BHAP, a member of the BAIC automotive group. HELLA is expanding its presence in the Chinese market further with this joint venture. HELLA BHAP Electronics is the second joint venture that HELLA has entered into with BHAP and HELLA's first for electronic components in China. Both partners have equal shares in the joint venture. The joint venture's production facility is in Zhenjiang. A new electronics plant is currently being built at the location. The start of series production is planned for early 2020; at first, the initial product groups will be a variety of electronic control units for customers of the BAIC Group.

**Business development of the segments****AUTOMOTIVE**

- **Reported sales in the Automotive segment increase by 8.0% to € 5,433 million**
- **Adjusted earnings before interest and taxes increase by 3.3% to € 459 million; adjusted EBIT margin at 8.5%**
- **Ongoing capacity expansions and R&D expenses for expanding technological leadership reduce segment earnings during the reporting period**

In fiscal year 2017/2018, the Automotive segment maintained the growth dynamics established in the prior year and the reported segment sales increased by 8.0% to € 5,433 million (prior year: € 5,029 million). Growth of reported sales was 9.1% in the first half of fiscal year 2017/2018 (prior year: 0.7%) and 7.0% in the second half (prior year: 7.0%). The increased sales are the result of new production rollouts and higher production volumes. These

are the result of increased demand for innovative lighting systems and electronics solutions, especially in the areas of driver assistance systems and energy management.

In addition, sales growth in the Automotive segment was driven by positive business development in central core markets of the automotive industry. Thus, Automotive sales increased by 14.9% to €1,457 million in the region of Europe not including Germany (prior year: € 1,268 million). In contrast, sales in the selective German market decreased by 4.1% to € 1,827 million (prior year: € 1,906 million). Sales in the Automotive segment increased by 14.9% to € 987 million in the region Asia/Pacific/Rest of World (prior year: € 858 million) and by 17.3% to € 1,112 million in the North, Central and South America region (prior year: € 948 million).

In the reporting period, the adjusted EBIT of the segment increased by 3.3% to € 459 million (prior year: € 444 million). As a result, the adjusted EBIT margin is 8.5% (prior year: 8.8%). The segment earnings were adjusted by € 3 million during the reporting period for restructuring measures in Germany; no adjustments were made in the Automotive segment in the same period from the prior year. Therefore,

at € 457 million, the reported EBIT in fiscal year 2017/2018 is approximately 2.8% above the level from the previous year (prior year: € 444 million), corresponding to a reported operating result margin of 8.4% (prior year: 8.8%).

In fiscal year 2017/2018, the Automotive segment earnings were reduced due to the capacity expansion and construction of new plants at an initially low capacity utilization. In addition, the contribution of joint ventures and other associates to segment earnings was reduced as a result of

lower earnings of Chinese and South Korean joint ventures in the reporting period, especially in the first half of the fiscal year. Furthermore, negative exchange rates and higher expenses for research and development to prepare and execute production rollouts as well as to expand technological leadership and also higher costs for sales and administration had a minimizing effect on the segment earnings. Moreover, the gross profit margin of the segment was strained by several factors, including rising raw material costs, in the second half of fiscal year 2017/2018.

In € million	2017/2018	+/-	2016/2017
Sales with external customers	5,383	+8.1%	4,980
Intersegment sales	50		49
<b>Segment sales</b>	<b>5,433</b>	<b>+8.0%</b>	<b>5,029</b>
Cost of sales	-4,048		-3,751
<b>Gross profit</b>	<b>1,385</b>	<b>+8.4%</b>	<b>1,278</b>
Gross profit in relation to sales	25.5%		25.4%
Research and development expenses	-658		-605
Distribution expenses	-138		-120
Administrative expenses	-193		-178
Other income and expenses	18		24
Earnings from investments accounted for using the equity method	43		46
<b>Earnings before interest and taxes (EBIT)</b>	<b>457</b>	<b>+2.8%</b>	<b>444</b>
Earnings before interest and taxes (EBIT) in relation to sales	8.4%		8.8%
<b>Earnings before interest and taxes after adjustments in the segment result (adjusted EBIT)</b>	<b>459</b>	<b>+3.3%</b>	<b>444</b>
Adjusted earnings before interest and taxes (adjusted EBIT) in relation to sales	8.5%		8.8%

## AFTERMARKET

- **Aftermarket increases reported sales with external customers by 3.4%**
- **Positive business development in wholesale distribution and the independent aftermarket as well as workshop equipment in the second half of the year**
- **Significant improvement in profitability in the Aftermarket: EBIT increases by 19.3%, EBIT margin increases to 7.1%**

Reported sales with external customers in the Aftermarket segment rose by 3.4% in the past fiscal year to € 1,225 million (prior year: € 1,185 million). In relation to overall sales, the reported segment sales of € 1,228 million in the reporting period is slightly more than the prior year's level (prior year: € 1,222 million). The activities in the independent aftermarket business and wholesale trade experienced good performance. In the second half of the fiscal year, business

with workshop equipment and diagnostic devices increased due to several factors, including higher demand for diagnostic and workshop products as well as the sale of software updates and licenses. The sales contribution of the FTZ and Inter-Team wholesale distribution companies that are currently being sold was approximately € 500 million during the reporting period.

In addition, the reported earnings before interest and taxes (EBIT) in the Aftermarket segment increased significantly during the reporting period. Thus, the EBIT increased by 19.3% to € 87 million year-over-year (prior year: € 73 million), resulting in an increase in the reported EBIT margin to 7.1% (prior year: 6.0%). The second half of the fiscal year in particular contributed to the higher profitability of the segment due to an improved gross profit margin and due to significantly lower sales and administrative cost ratios. FTZ and Inter-Team achieved an EBIT of approximately € 35 million in fiscal year 2017/2018.

In € million	2017/2018	+/-	2016/2017*
Sales with external customers	1,225	+3.4%	1,185
Intersegment sales	3		38
<b>Segment sales</b>	<b>1,228</b>	<b>+0.4%</b>	<b>1,222</b>
Cost of sales	-799		-805
<b>Gross profit</b>	<b>429</b>	<b>+2.7%</b>	<b>417</b>
Gross profit in relation to sales	34.9%		34.1%
Research and development expenses	-13		-13
Distribution expenses	-326		-323
Administrative expenses	-19		-29
Other income and expenses	11		14
Earnings from investments accounted for using the equity method	6		6
<b>Earnings before interest and taxes (EBIT)</b>	<b>87</b>	<b>+19.3%</b>	<b>73</b>
Earnings before interest and taxes (EBIT) in relation to sales	7.1%		6.0%

\* Prior-year figures were adjusted. Please refer to the consolidated financial statements for fiscal year 2016/2017 for further information.

## SPECIAL APPLICATIONS

- **Reported segment sales increase by 11.6%:  
Positive development in business for  
agricultural and construction vehicles**
- **Special Applications with significant  
improvement in earnings: EBIT increases to  
€ 48 million, EBIT margin is 11.2%**

In the reporting period, the Special Applications segment saw positive development in business performance. Thus, the reported segment sales increased substantially by 11.6% to € 430 million in fiscal year 2017/2018 (prior year: € 385 million). A positive development, particularly for agricultural and construction vehicles as well as truck accessories, has supported the sales growth of the segment. In addition, the increased sales result from a disproportionate number of calls from customers in Australia. In light of the altered customer and demand structures, this location

is expected to undergo realignment in fiscal year 2018/2019, which is currently underway.

In addition, the profitability of the segment improved substantially in the reporting period. Thus, the segment's EBIT increased by € 28 million to € 48 million (prior year: € 20 million). Consequently, the segment's EBIT margin increases significantly to 11.2% (prior year: 5.1%), supported in particular by significantly improved profitability in the first half of the past fiscal year. In this context, the disproportionate number of calls at the Australian location in addition to sales had a positive impact on the segment's gross profit margin. In contrast, efforts towards realignment of the Australian location had the effect of reducing earnings during the reporting period, while lower administrative and distribution cost ratios contributed to increased profitability for the segment. In the prior year, the segment earnings were strained due to negative effects from the sale of the Industries and Airport Lighting business activities (prior year: € 9 million in the first half of the year and € 6 million in the second).

In € million	2017/2018	+/-	2016/2017*
Sales with external customers	418	+ 8.7%	384
Intersegment sales	12		1
<b>Segment sales</b>	<b>430</b>	<b>+11.6%</b>	<b>385</b>
Cost of sales	-276		-261
<b>Gross profit</b>	<b>153</b>	<b>+23.5%</b>	<b>124</b>
Gross profit in relation to sales	35.7%		32.2%
Research and development expenses	-21		-19
Distribution expenses	-59		-63
Administrative expenses	-29		-28
Other income and expenses	4		5
Earnings from investments accounted for using the equity method	0		0
<b>Earnings before interest and taxes (EBIT)</b>	<b>48</b>	<b>+143%</b>	<b>20</b>
Earnings before interest and taxes (EBIT) in relation to sales	11.2%		5.1%

\* Prior-year figures were adjusted. Please refer to the consolidated financial statements for fiscal year 2016/2017 for further information.

## Target achievement and overall statement

- **HELLA fulfilled the company outlook for the fiscal year 2017/2018 presented in June 2017**
- **Recommended dividend increases to € 1.05 per share; the total distribution amount is € 117 million**

Fiscal year 2017/2018 was very positive from the company management's perspective. HELLA has continued to pursue the profitable growth strategy in the past fiscal year and further increased sales as well as earnings. Thus, currency-adjusted consolidated sales increased by 9.3% and reported values increased by 7.2% to € 7,060 million. HELLA has also further increased profitability. Adjusted earnings before interest and taxes increased by 8.8% to € 581 million; accordingly, the adjusted EBIT margin at 8.2% is 0.1 percentage points above the level from the previous year. During the reporting period, all of the segments contributed to the positive business development and supported the boost in sales and earnings for the HELLA Group.

For fiscal year 2017/2018, HELLA had anticipated 5% to 10% growth for both currency-adjusted consolidated sales and adjusted EBIT as well as a target value of about 8% for the adjusted EBIT margin. HELLA presented this forecast at the occasion of the Capital Market Day in June 2017 and confirmed it in the annual report for 2016/2017 as well as in financial reporting during the year. Thus, the performance of currency-adjusted sales, adjusted EBIT and adjusted EBIT margin are within the scope of this forecast.

Therefore, the company management will recommend that the annual general meeting taking place on September 28, 2018 grant a dividend of € 1.05 per share (prior year: € 0.92). As there are 111,111,112 no-par value shares, this is equivalent to a distribution amount of € 117 million (prior year: € 102 million).

The HELLA Group's financial position and net assets remained solid in the past fiscal year. Adjusted for payments for restructuring measures in Germany, the adjusted free cash flow from operating activities increased to € 241 million (prior year: € 149 million). At the reporting date, the ratio of net financial debt to EBITDA stood at 0.2 (prior year: 0.3). As the good business development continued at the start of the new fiscal year 2018/2019, the company management 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 organization, 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 analyzed 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 Board and supervisory bodies are regularly informed of the results.



# Opportunity and risk report

As an international automotive supplier, HELLA is confronted with 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 and to identify risks early on and manage them responsibly.

## Opportunity management

HELLA takes a decentralized approach to opportunity management. Opportunity management is part of the strategy and controlling process which also makes use of external market analyses and forecasts. The strategic alignment of HELLA is subjected to a systematic review as part of a continuous process and is adjusted as needed. During these efforts, new opportunities are also identified and evaluated, and implemented if suitable. Opportunities arising from day-to-day business are identified and acted on by operational management.

Opportunities for HELLA can occur as a result of the market environment in particular. Thus the automotive industry is currently being shaped by the key market trends of autonomous driving, efficiency and electrification, connectivity and digitalization as well as individualization. HELLA has identified these market trends as an opportunity for further corporate activity and strategically positioned itself alongside these trends consistently.

For example, HELLA has positioned itself in the area of autonomous driving as a supplier of components and subsystems and as a development partner. In addition, HELLA develops innovative lighting solutions for automated driving situations, such as supporting communication between automated vehicles and other road users. HELLA is benefiting from the trend towards efficiency and electrification using specific electronic solutions developed both for electric and

full hybrid vehicles and for contributing to the vehicle's improved energy efficiency independently of the respective drive train. In the area of digitalization, HELLA is advancing the digitalization of automobile lighting technology with software-controlled matrix LED headlamp systems. Developing new digital business models, such as cloud-based software solutions, is another focus. HELLA has reached an agreement for strategic cooperation with the Israeli provider of cloud-based air quality analyses BreezoMeter and is strengthened its business activities in the area of digital diagnostic services through investment in the start-up company CarForce. HELLA is supporting the trend towards individualization in several ways, including through development of individualized interior and body lighting for vehicles.

There are also opportunities for additional business development for HELLA in relevant regional growth markets due to its global positioning. The markets of Europe, China and North America are of particular note for HELLA here. HELLA pursues a specific strategic path for these regions to meet the requirements of the respective sales markets. In this regard, HELLA has invested in the long-term expansion of the worldwide development and production network in fiscal year 2017/2018.

**For details about the corporate strategy and research and development activities, please refer to the General information on the HELLA Group from PAGE 42 of the Group management report.**

## Risk management

### ORGANIZATION OF RISK MANAGEMENT

Risk is understood as to be internal or external events that could jeopardize the achievement of strategic or operational

aims. The Group's risk management is therefore the entirety of all measures for a systematic handling of risks and a core component of corporate governance. In this context, HELLA applies a uniform methodology to implement an effective risk management process across the entire Group that identifies and analyzes risks at an early stage and derives measures to optimize the risk-to-opportunity ratio.

The Management Board of the HELLA Group bears the overall responsibility and oversight duty for Group-wide risk management. The Management Board mandates the implementation of risk management, which is carried out together with the Risk Management Board. The Risk Management Board reviews the risk management system at the Group level and defines the overall risk position of the company. In addition, clear responsibilities for risk management are defined at the management level of the Group. This includes the HELLA Group's Management Board as well as the business divisions and central functions of the company.

#### **RECORDING, EVALUATING AND REPORTING RISKS**

The process of risk management is coordinated and managed centrally by a risk management officer. The position functions as a bridge between responsible specialists in the operational units and the Management Board. Another task of the risk management officer is to develop and provide methods and tools for risk management, to monitor the risk portfolio, to ensure the plausibility of risk information, to consolidate risks and to report on them accordingly. The risk management officer reports to the head of risk management, who defines the essential guidelines for Group-wide risk management in coordination with the company's Management Board.

The primary responsibility for recording and managing risks along the value chain lies in the first instance with the specialist personnel in the operating units. They thereby take on the role of a risk leader. They have various tools for detecting and evaluating risks, such as regular risk management workshops. In the respective business divisions and central functions, additional higher level risk managers are designated who review the overall plausibility of the risks for each business division and central function. Together with the risk management officer, they support the individual risk leaders in identifying and evaluating the risks.

In order to identify new developments early on that may have a critical impact on the company, new substantial risks and changes that have occurred in previously reported risks are reported. They are then documented systematically and managed by the risk leaders.

On the basis of these regular reports and evaluations of risks, the risk management officer creates an overall company risk report every quarter. This report lists, rates and reports all substantial risks to the HELLA Management Board. In the event of any material changes arising in the risk position in the intervening period, the Management Board is also promptly notified. This ensures that the Management Board exercises its supervisory duties and is able to 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 Shareholder Committee and the Supervisory Board. The risk management system and the underlying methodology for identifying, evaluating, managing and reporting risks are also subjected to continuous development.

#### **METHODOLOGY OF THE RISK DOCUMENTATION**

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 performed at HELLA using a Monte Carlo simulation. Due to the multi-layered nature of the risk management system, the complexity of the data and the stringent requirements of data security, the risk documentation takes place in a risk management tool developed specifically for this purpose.

In order to be able to measure and manage identified risks effectively, HELLA quantifies them to the extent feasible according to the dimensions of probability of occurrence and economic impact in the event of occurrence. The company aggregates risks to the extent possible using statistical methods for risk factors.

For consolidation and clear representation of the risk position, all risks from the risk portfolio are classified into primary risk categories. These are based on the globally recognized framework concept from the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### **General situation for business risks**

The Group's risk profile did not change significantly in fiscal year 2017/2018. Compared to the period from the previous year, the risk scope has reduced in the areas of miscellaneous compliance risks and external risks, while it has increased in relation to quality risks in the previous year comparison. These changes can essentially be traced back to methodological adjustments in risk management that are intended to enable a more precise determination, recording and rating of

**Overview of potential effects of earnings (net consideration) from risk evaluation\***

Category	Scope of risk**
<b>Strategic risks</b>	■ ■ □ □
<b>Financial risks</b>	■ ■ □ □
<b>Compliance risks</b>	
Product safety	■ ■ □ □
Other	■ □ □ □
<b>Operational risks</b>	
Quality	■ ■ ■ □
Production process and procurement	■ □ □ □
Information management	■ □ □ □
Personnel, other operational risks	■ □ □ □
<b>External risks</b>	■ □ □ □

\* Not including opportunities

\*\* In relation to a 95% confidence level per category based on the risk inventory on the balance sheet date. Not suitable for addition.

< € 50 mill.	■ □ □ □
>= € 50 mill. < € 150 mill.	■ ■ □ □
>= € 150 mill. < € 300 mill.	■ ■ ■ □
>= € 300 mill.	■ ■ ■ ■

risks. As a whole, risk management has contributed to efficient management of overall risks in the Group. 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.

## Central risk fields of the HELLA Group

Based on the classifications of the COSO model, HELLA distinguishes between five main risk categories:

- Strategic risks
- Financial risks
- Compliance risks
- Operational risks
- External risks

The respective measures taken by the HELLA Group to restrict risks are included in the rating of individual risks (net review). Hitherto unknown risks can also have a negative impact on HELLA's economic or financial situation.

### STRATEGIC RISKS

Strategic risks at HELLA essentially arise from the business model, from the global positioning and from changes in the industry environment.

### Risks from the business model

As an automotive supplier, HELLA relies on a limited number of customers. This brings with it risks arising from potential worsening of the economic situation and performance of individual customers. They can result from aspects such as new regulatory requirements for original equipment manufacturers. HELLA follows a risk-reduced business model overall for this reason. For example, HELLA maintains long-term, trusting and cooperative customer relationships as well as a balanced, diversified customer portfolio in all relevant core markets of the automotive industry, which simultaneously minimizes the risks of a possible default by individual customers. Furthermore, the Aftermarket and Special Applications segments contribute to a balanced business portfolio.

### Risks arising from the company's global positioning

As an international automotive supplier HELLA is represented worldwide in all major core markets. Due to this global positioning, regional or macroeconomic market fluctuations, potential trade restrictions and negative currency effects can affect the company's sales and profit performance. In order to reduce the risks from the company's international positioning and to utilize opportunities for growth in the core markets of the automotive industry, HELLA pursues corporate strategies tailored to specific regions. In addition, the company's global presence overall contributes to a balanced and risk-reduced business strat-

egy, as individual local or regional volatilities that can result from economic, industry or customer factors can balance each other out.

### Risks arising from changes in the industry environment

The automobile industry is currently undergoing a profound change. This transformation process is essentially determined by four major trends: autonomous driving, efficiency and electrification, connectivity and digitalization as well as individualization. Risks can occur for HELLA as part of this industry change and the associated increasing innovation dynamics. Furthermore, risks result from the increasing complexity of strategy and management processes as well as the requirements of adapting the business model in conjunction with the changes in the industry environment. To reduce these risks, HELLA pursues a regular and systematic strategy process. The business model is consistently geared towards industry developments and market trends as a result of this process. In order to better anticipate industry and technology trends, HELLA has further intensified activities in the start-up environment in addition to the research and development departments. These activities include the use of incubators and commitments as part of international, cross-industry innovation platforms. Furthermore, HELLA maintains a venture capital arm in Silicon Valley and various cooperation programs with universities and other academic institutions, such as the Research Institute for Automotive Lighting Technology (L-LAB) and Automotive Electronics (E-LAB).

### FINANCIAL RISKS

The international focus and operations of the HELLA Group pose a series of financial risks particularly due to exchange rates, potential disruption to the liquidity situation and the increased requirements for accounting and transfer pricing strategy.

**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 168 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 minimizes these risks by sourcing materials locally within the respective currency and sales region. Currency risks are pooled, evaluated and coordinated centrally to additionally optimize risk management. HELLA's Foreign Currency

Guideline defines a clear strategy for addressing currency risks for each company in the Group. Risk is initially analyzed 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 arising from disruption to liquidity

HELLA pursues a strategy of solid financial policy. Despite this, risks can arise from a potential disruption to the company's liquidity position. Thus, this can be adversely affected over the long term by a customer default for instance. Furthermore, the company's trade credit receivables are also rising along with the growing complexity of the products and customer deliveries. These are continually monitored by specialist departments, so that potential deficiencies in customer deliveries are identified early on and HELLA's overall liquidity situation is permanently monitored. The Group's liquidity position is adequately secured by long-term loans, euro bonds and yen bonds. All commitments in the financing agreements which, if breached, could lead to extraordinary termination rights for the lender with potentially accelerated payment obligations, are monitored continuously. HELLA also took out a USD \$200 million loan in Mexico in the past fiscal year of 2017/2018. This loan consists of one three-year portion and one five-year portion. In May 2017, HELLA also successfully placed a corporate bond of over € 300 million maturing in 2024 on the capital market.

### Risks due to complexity in the transfer pricing strategy, Group accounting and tax conditions

European and international legislation is undergoing continuous evolution. As a result, transfer pricing strategy, inter-company transaction processing as well as accounting and tax requirements are becoming more and more complex. This can create new financial risks for HELLA that can arise from process inefficiencies, accounting errors or breaches of tax regulations. Regular and cross-departmental coordination processes take place to minimize the risks of deficiencies in the application of internal corporate regulations. In addition, HELLA has a comprehensive and transparent transfer pricing policy. This is kept up to date by the Transfer Pricing department. A global network of contacts has also been established to facilitate communication and collaboration within the Group and to avoid transfer pricing errors. Furthermore there are continuously evolving networks of internal experts for avoiding errors in accounting or violations of tax regulations in Taxes and Accounting.

## 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, risks caused by illegal conduct of individual employees can not be completely eliminated. At HELLA, compliance risks are divided into the subcategories of product safety and miscellaneous compliance risks. For HELLA, risks in terms of product safety refer to risks such as cyber crime and risks due to non-compliance with functional safety standards. In the area of miscellaneous compliance risks, the risks fall into the realm of non-compliance with antitrust law regulations and risks due to non-compliance with data privacy regulations, risks due to environmental protection and safety requirements and patent risks.

### Risks due to cyber crime

In the automotive industry, computer-assisted systems are being used to a great extent 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 operation of vehicles as well as in production, the risk of cyber crime is increasing. Increased use of software applications in automobiles enables the potential for an attack by hackers from careless use. HELLA strives to minimize this risk by participating in the international standardization process in the automotive industry and by developing and implementing secure software and hardware architecture. In light of this, HELLA has put in effort to strengthen cyber security throughout the organization.

### Risks from non-compliance with functional safety standards

Risks of potential non-compliance with functional safety standards arise in particular from the use of complex technologies. The scope of this risk depends on several factors, including the technological complexity and the integration of a component into the respective vehicle function. In this context, if the occurrence of a malfunction in a function classified as relevant to safety results in a vehicle accident, this can lead to financial risks, personal liability of the persons involved and a substantial negative effect on the company reputation in the event of serious injury or damages. Through established procedural validation, high standards in research and development, production and quality assurance as well as an established product safety committee, claims with verified non-compliance with the standards of functional safety have been avoided as of the balance sheet date.

### Risks due to non-compliance with antitrust law regulations

In exceptional cases, there is a risk of individual employees violating antitrust law regulation. This could entail investigations by antitrust authorities, result in fines and claims for compensation for damages by third parties with a direct impact on the company's results of operations and reduce the company's reputation. In order to reduce the risks resulting from non-compliance with antitrust law regulations and to raise awareness among employees at the company, HELLA supports several initiatives, including extensive preventative informational and training activities. These are managed centrally by the corporate compliance office. As shown in fiscal year 2016/2017 and during the fiscal year, the proceedings of the European Commission were conjointly ended at the beginning of fiscal year 2017/2018. HELLA has already stated that it will pay a fine of € 10.4 million related to these proceedings. The action initiated by the US International Trade Commission in 2012 has not been pursued any further by the applicable agencies and has exceeded its statute of limitations.

### Risks due to non-compliance with data protection requirements

Since HELLA holds personal data, it must adhere to the requirements of data protection legislation as a result. With regard to the EU Data Protection Regulation effective May 2018 in particular, HELLA's European subsidiaries face new requirements in the area of data protection. Failure to observe data protection rules may have legal ramifications and harm the company's reputation. In order to minimize risks resulting from failing to handle personal data as stipulated by law, HELLA has tasked a data privacy office with handling central governance for Group-wide data protection within the organization. This is the first point of contact for all questions related to data protection within the HELLA Group. It is tasked with establishing and developing the HELLA data protection system, developing suitable procedures for this task as well as preparing and coordinating additional suitable data protection measures.

### 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

#### 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 licenses 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.

#### OPERATIONAL RISKS

As products and their production processes are becoming increasingly complex and demanding, operational risks arise, for example, in the areas of logistics, procurement, production and employee qualifications. Operational risks at HELLA are divided into four subcategories: quality risks, production and procurement, information management and other operational risks. In production and procurement, risks arising from disruptions in the supply chain are relevant in particular. The area of information management is comprised of risks from non-compliance with safety standards in information management and risks from failures in information management. Risks from skilled worker shortages and from resource shortfalls fall into the subcategory of personnel and other operational risks.

#### Quality risks

Important characteristics of HELLA's quality management are ensuring compliance with market and client-driven standards, durability and reliability of the produced parts (ensuring fail-safe operation) with a high degree of user benefits. Increasing complexity and the rising demands placed on the product and production processes result in the risk of potential quality deficits, such as from a lack of product maturity, insufficient resources or personnel training. These quality deficits can result in additional costs with a direct impact on HELLA's results of operations and can have a lasting negative effect on the company's reputation. In order to reduce quality risks, HELLA strives for continuous improvement to product and process maturity and 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 labeling 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 from disruptions in the supply chain

As a Tier 1 automotive supplier, HELLA is also dependent on its own supplier base. Any disruption or insufficient quality level 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 or outages arise on the part of suppliers, this may lead to production and delivery shortfalls as well as higher prices, higher material costs and quality problems. Accordingly, HELLA seeks to diversify its supplier base whenever possible. HELLA's suppliers are also constantly monitored and audited by teams of experts to avoid any interruptions in the supply chain and to maintain a high quality level in the supply chain. Supply chain management operates uniformly across the entire company. By the same token, an effective supplier performance management program can help to identify and address supplier issues early on. Furthermore, HELLA strives for more in-depth collaboration with suppliers who distinguish themselves with high innovativeness, especially in the area of very complicated, complex future technology.

#### Risks from raw material prices

As an industrial company that processes materials, HELLA purchases a variety of raw materials through suppliers, especially in the Automotive segment. HELLA is exposed to a variety of risks in conjunction with procurement of raw materials as a result. For example, prices can increase due to current automobile industry trends from higher demand for certain key materials. As a result, these types of price fluctuations can have a direct impact on the company's results of operations. HELLA attempts to reduce this through predictive procurement management. This includes aspects such as detecting potential market trends early on, a multiple supplier strategy for certain components, a long-term forecasting system for optimizing requirements planning and the continuous development of potential alternative strategies to avoid supplier shortfalls and to reduce costs.

#### Risks from non-compliance with safety standards in information management

In the business and corporate functions of the HELLA Group, work occasionally involves confidential, customer-specific information. The significant increase in cyber crime in particular, such as from ransomware or potential improper handling of data, results in a risk that secret or confidential infor-

mation may come into the possession of unauthorized persons. As a result, this can lead to additional costs with a direct effect on the results of operations of HELLA and significantly greater complexity in the case of development activities. In addition, they can have a lasting negative effect on the company's reputation. In order to reduce the risks due to non-compliance with safety standards in information management, HELLA maintains a comprehensive cyber security program. This includes the organizational anchoring in the information security office, continuously training the company's employees to properly handle confidential data and the consistent expansion of corresponding security measures.

#### **Risks arising from failures in information management**

The HELLA Group uses a complex IT structure in all areas of the company. Since the applications in the areas of development and production as well as in sales and management are becoming ever more complex and increasingly large amounts of data have 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 minimize these risks associated with information management, all IT systems are centrally monitored and regularly updated. The company is also steadily investing in the IT infrastructure and special IT security programs are being implemented to cut the risk of failures and data loss.

#### **Risks from shortages of specialists**

To safeguard the 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 specialists, so that potential risks can arise from not adequately covering personnel requirements. A shortage of staff would make its effect felt on development activities in particular, such as in software development. HELLA is pursuing a global recruitment, staff retention and training model to reduce the probability and effects of shortages of specialists. This includes targeted entry-level and continuing education programs and a further increase in collaboration with research institutions and universities.

**For more information on acquiring, integrating and training employees, please also refer to the Non-financial report from PAGE 95 in the annual report.**

#### **Risks arising from resource shortages**

Within the development, production and sales chain, the risk of personnel, operational or organizational shortages may arise at individual locations. These can come from extending and starting complex production efforts, comprehensive

project and technology transfers or unpredictable order volatility. Furthermore, a lack of machine capacity, insufficient employee skills, a lack of supplier quality and procurement bottlenecks in relation to specific key suppliers or raw materials can pose operational risks for the company. These can have a significant impact on the business as they may lead to additional non-quality expenses, delays in delivery, contractual penalties, and increased costs to provide employees with the necessary training and qualifications. This is in addition to the potential of damaging the company's reputation. To avoid these shortages in resources, the HELLA Group strives to ensure a proper and predictive management of its production process and also promotes knowledge and technology transfer in the global network.

#### **EXTERNAL RISKS**

The external risks to which HELLA is exposed are among other things market risks, such as fluctuations in customer demand or slower global economic growth. For the HELLA Group, external risks in particular are normally difficult to predict or can hardly be influenced (or maybe even cannot be influenced at all).

#### **Risks arising from fluctuations in general economic conditions**

Around three quarters of sales can be attributed to the Automotive segment. Consequently, the company's economic situation is largely dependent on the performance of the automotive industry and general economic conditions. Uncertainties result in relation to the macroeconomic and industry-specific environment as a result, such as from new regulatory requirements for original equipment manufacturer, the potential introduction of trade restrictions or in conjunction with Great Britain's exit from the European Union, the effects of which remain unpredictable. HELLA counters risk from fluctuations typical of the sector or in macroeconomics that the company is exposed to due to its business model by using a risk-diversified business model where the Aftermarket and Special Applications segments provide balance in automotive business, using a predictive planning and management process and through international positioning.

#### **Risks arising from consolidation in the aftermarket**

Currently, increasing market consolidation is taking place in European wholesale distribution for automotive spare parts. This consolidation is expected to become more dynamic in the future. This results in risks for HELLA in relation to aftermarket business coming from changing market conditions. Therefore, HELLA consistently aligns aftermarket business based on external industry and technology trends as part of internal strategy planning in order to reduce negative effects of external risks to its own business development to a large

extent and to set the path for further profitable growth in aftermarket business. In this context, in July 2018, HELLA also announced the disposal of the wholesale activities of the Danish company FTZ and the Polish company Inter-Team to Swedish wholesaler Mekonomen (subject to approval from the responsible cartel authorities). In addition, the company also performs regular and systematic reviews of the strategic alignment of the existing Aftermarket network. Among other things, this applies to further alignment of the joint venture Behr Hella Service. In this context, Mahle and HELLA are conducting bilateral discussions on further collaboration, which HELLA expects will yield a result in the near future.

# Forecast report

## Overall economic outlook

For the 2018 and 2019 calendar years, the International Monetary Fund (IMF) predicts an improvement in macroeconomic conditions and a subsequent continuation of economic growth dynamics. At the same time, however, there are various economic and geopolitical risks capable of negatively impacting the global economic trend. In addition to a global high debt level in some cases, this notably includes negative implications resulting from potential trade restrictions. In addition, the consequences of Great Britain's initiated exit from the European Union and the outcome of current NAFTA free trade agreement negotiations still remain unpredictable. According to the IMF, other economic risks also stem from persistently slow productivity growth.

Overall, the IMF expects growth in global gross domestic product (GDP) of 3.9% in each case for 2018 and 2019 as per the outlook last updated in July 2018. In the case of the Eurozone, the IMF expects an increase in growth domestic product of 2.2% in 2018 and 1.9% in 2019. In Germany, estimates from the IMF project 2.2% growth of gross domestic product in 2018 and 2.1% in the subsequent calendar year. In the United States, the IMF expects a somewhat stronger upswing and anticipates 2.9% growth in 2018 and 2.7% in 2019. Estimates from the IMF continue to put the growth rates in China significantly above the global average. A GDP increase of 6.6% is anticipated for 2018 and 6.4% for 2019.

## Industry outlook

For fiscal year 2018/2019 (June 1, 2018 to May 31, 2019), the Light Vehicle Production Forecast last updated in early July 2018 from the IHS marketing research institute anticipates a global increase of 2.7% in passenger vehicle and commercial vehicle production figures to 98.6 million units (prior year: 96.0 million units). However, aspects such as new reg-

ulatory requirements and potential trade restrictions present uncertainties in relation to the industry outlook.

In the region of Europe not including Germany, the growth will continue at a somewhat lower level compared to previous years. Thus, an increase in production figures by 1.4% to 16.9 million units is expected for fiscal year 2018/2019 (prior year: 16.7 million units). The selective German market will continue to experience a downward trend in the current fiscal year according to IHS estimates, with a 0.4% drop in light vehicle production to 5.7 million new production units (prior year: 5.7 million units).

Looking at the region of North, Central and South America, the IHS market research institute anticipates a production increase of 4.8% to 21.3 million units (prior year: 20.3 million units) for fiscal year 2018/2019. The US market is also expected to show growth after a significant decline in the past fiscal year 2017/2018. According to the IHS Light Vehicle Production Forecast, an increase of 2.4% to 11.1 million produced vehicles is expected here (prior year: 10.9 million units).

Continued growth is also expected in fiscal year 2018/2019 for the Asia/Pacific/Rest of World region. The number of newly produced vehicles is expected to increase by 2.9% to 52.7 million units (prior year: 51.2 million units) here. This growth is supported in particular by a strong upward trend in the Chinese automotive market where an increase in new production units by 4.2% to 29.2 million units (prior year: 28.0 million units) is expected.

## Company outlook

In light of the projected general economic and industry-specific conditions and assuming there will not be any significantly different outcomes owing to political, economic or

social crises, HELLA is expecting a positive business development for the HELLA Group in fiscal year 2018/2019. This positive business outlook is supported by the fundamental strategic alignment of the company, which HELLA uses in its efforts to continue its profitable growth course.

Thus the company will first further secure and expand its position as a technology and innovation leader as well as consistently orienting its business activities to match central automotive industry trends. Second, HELLA's leading market position, particularly in the regions of Europe, Asia/Pacific and North America, presents enormous opportunities for growth. Third, this international position presents a wide, diversified customer base and, as a result, ensures a business model with fundamentally reduced risk. Furthermore, HELLA also strives to find growth opportunities in the Aftermarket and Special Applications segments. Fourth, HELLA is working on constant improvement in operational excellence.

On the other hand, there are uncertainties due to increasing wages, price increases for parts and components, unpredictability in terms of the macroeconomic situation, such as

potential trade restrictions, and various supplier-side risks, such as potential component shortfalls in particular.

For the current fiscal year 2018/2019 (June 1, 2018 to May 31, 2019), HELLA is therefore expecting currency and portfolio-adjusted sales growth and an increase in earnings before interest and taxes adjusted by restructuring measures and portfolio effects (adjusted EBIT) of 5% to 10% each compared to the past fiscal year. In terms of the EBIT margin adjusted by restructuring measures and portfolio effects (adjusted EBIT margin), a value approximately equivalent to the value of the prior year is expected.

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 materialize, 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 GmbH & Co. KGaA

The General Partner, the Supervisory Board and the Shareholder Committee of HELLA GmbH & Co. KGaA 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 Partner, 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 315d of the German Commercial Code (Handelsgesetzbuch—HGB). Furthermore, the report contains the information and explanations required under Section 315a and 315d HGB. An additional disclosure of such information and explanations in the notes is not necessary. In this respect, Section 317 (2) sentence 6 HGB stipulates that any audit of the disclosures pursuant to sections 289f (2) and 315d HGB is limited to the question as to whether any information has actually been disclosed.

## Report on Corporate Governance

### I. CORPORATE GOVERNANCE MODEL OF HELLA GMBH & CO. KGAA AND THE HELLA GROUP

HELLA GmbH & Co. KGaA is a German partnership limited by shares (Kommanditgesellschaft auf Aktien—KGaA). Its legal form is a hybrid 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 has a General Partner, Hella Geschäftsführungsgesellschaft mbH, which has its company head office in Lippstadt. Its shares are held by the Company. Further governing bodies of HELLA GmbH & Co. KGaA are

- 1 the Shareholder Committee established in accordance with the Articles of Association, which currently consists of seven shareholder representatives elected by the Annual General Meeting,
- 2 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
- 3 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 the organizational scope inherent in the legal form of the KGaA, HELLA emphasizes transparency and equal treatment of all shareholders. Resolutions of the Annual General Meeting, for example, are passed by a simple majority vote, unless mandatory legal regulations 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 GmbH & Co. KGaA 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 Partner, the Shareholder Committee and the Supervisory Board as of May 30, 2018, which has been made available at [WWW.HELLA.COM/DECLARATIONOFCONFORMITY](http://WWW.HELLA.COM/DECLARATIONOFCONFORMITY) and is shown below.

### 1. Group management by the General Partner

Group management consists of the Managing Directors of Hella Geschäftsführungsgesellschaft mbH with its CEO, Dr. Rolf Breidenbach. Since the resignation of Dr. Jürgen Behrend as Managing General Partner at the end of September 2017, group management is being carried out by the Managing Directors of Hella Geschäftsführungsgesellschaft mbH alone. 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 GmbH & Co. KGaA Shareholder Committee, which codetermines the significant guidelines for business by means of this process.

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 Partner's consent. 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.

### 2. Supervisory Board: competencies, functions and committees

The role of the Supervisory Board is to advise and supervise the General Partner in their conduct of the Company's business. In this respect, the competencies of the Supervisory Board of HELLA GmbH & Co. KGaA 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 and the audit of the non-financial group declaration (the CSR 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 of the company is to decide. The exercise of the authorizations granted to the General Partner to increase the nominal capital from authorized 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 man-

agement 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 client 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 authorization. The Audit Committee also prepares the Supervisory Board's decisions on the approval of the annual financial statements and consolidated financial statements and the audit of the CSR report. For this purpose, it is responsible for conducting an initial audit of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the proposal for the appropriation of distributable profit and the CSR report. 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 Partner in its conduct of the Company's business and can issue rules of procedure for it. In addition, it determines which of the General Partner's transactions require its prior consent. It has management powers and power of representation for the legal relationship between the Company and the General Partner, and it represents the Company in legal disputes with the General Partner.

The Shareholder Committee exercises all the 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 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 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 Partner, 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 Partner, and for important business transactions and measures which are defined by the Shareholder Committee in the rules of procedure for the General Partner, the consent of the Shareholder Committee must be obtained. The Supervisory Board is also responsible for supervising the management. For this purpose, the General Partner submits reports on a periodic basis and the Supervisory Board exercises information and inspection rights.

## 5. Competence profiles, objectives regarding the composition and diversity concepts of the Supervisory Board and the Shareholder Committee, and designation of the independent members

### A) Contents

Taking into account the specifics of the enterprise at HELLA, the Supervisory Board and the Shareholder Committee have specified competence profiles for both bodies and objectives regarding their future composition, which always includes a diversity concept. These specifications 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.

The competence profiles of the Supervisory Board and Shareholder Committee, which were defined in light of the tasks of the body and the related requirements for skills and knowledge of the body members, ensure that, for both bodies, 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.

In their respective composition, the Supervisory Board and the Shareholder Committee shall also 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 each 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 corpo-

rate bodies, a controlling shareholder or any of its affiliates, which could give rise to a material conflict of interest that is not merely temporary.

The Supervisory Board and the Shareholder Committee also take age into account when determining their respective composition. Members from a variety of age groups should be represented in both bodies. Both bodies 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, are not yet 75 years of age. Election as member of the Shareholder Committee shall be possible for the last time on the member's 70th birthday.

In their respective composition, all in all, the Supervisory Board and Shareholder Committee consider first and foremost the professional and personal qualification of future members. The applicable educational and professional requirements as well as the skills and knowledge of members of both bodies are described in further detail in the competence profile. Both bodies strive to ensure that the entire respective body includes individual members who have a balanced competence set to represent the widest possible spectrum of professional knowledge, skills and experience. In this context, both bodies also take into account additional diversity aspects related to subordinated selection criteria. There is a legal requirement stipulating that the Supervisory Board must consist of at least 30 percent women and 30 percent men.

### B) Status of implementation and attained results

In its current composition, the Shareholder Committee meets all of the aforesaid composition objectives—including the diversity objectives—and the competence profile. The current composition of the Supervisory Board, too, also meets all of the aforementioned composition and diversity 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. Jürgen Behrend, Dr. Gerd Kleinert, Klaus Kühn, Dr. Matthias Röpke and Konstantin Thomas) are independent as defined by the DCGK. This opinion is not inconsistent with the fact that Roland Hammerstein, Dr. Jürgen Behrend, Dr. Matthias Röpke and Konstantin Thomas are parties of the pool agreement of the family shareholders of HELLA GmbH & Co. KGaA, 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. Objectives for the composition / diversity concept for the Management Board of Hella Geschäftsführungsgesellschaft mbH

### A) Contents

Taking into account the specifics of the enterprise at HELLA, the Shareholder Committee has specified principles for the composition of the Management Board of Hella Geschäftsführungsgesellschaft mbH, which includes a diversity concept. The principles should be taken into account for future appointments to the Management Board.

The priority of these principles is professional and personal qualification, especially with respect to educational and professional background. The areas of focus in terms of competence of the individual managing directors should be included in a balanced way according to the respective regulation stipulating the allocation of duties and corporate governance regulations to represent the widest possible spectrum of professional knowledge, skills and experience. In its respective composition, the Shareholder Committee shall also take into account the international activities of HELLA. For this reason, several members of the Management Board should have relevant international experience, which means – for example – that they have worked abroad or have had significant interaction on an international level. In this context, the Shareholder Committee also takes into account additional diversity aspects such as the suitable participation of women and men related to subordinated selection criteria.

In the composition of the Management Board of Hella Geschäftsführungsgesellschaft mbH, the Shareholder Committee also takes into account the aspects of continuity and change and, therefore, strives to achieve a balanced age

structure in the Management Board. In addition, there is a legally binding age limit of 65 years. Upon turning 65 years old, as a rule, serving as a Managing Director at Hella Geschäftsführungsgesellschaft mbH shall no longer be possible and retirement is mandatory.

### B) Status of implementation and attained results

In its current composition, the Management Board of Hella Geschäftsführungsgesellschaft mbH meets all of the aforementioned composition and diversity objectives.

## 7. 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 to 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 GmbH & Co. KGaA 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 Partner. 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 pro rata nominal capital 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 voting 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 authorized to resolve amendments of these Articles of Association that only relate to the version.

### **8. Restrictions concerning the voting rights or the transfer of shares**

According to the notifications received by the Company, 60% of the votes of the Company (a total of 66,666,669 no-par shares) were covered by the pool agreement of the family shareholders of HELLA GmbH & Co. KGaA as of May 31, 2018. Currently, a total of 59 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 cannot be terminated ordinarily prior to May 31, 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.

### **9. 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 GmbH & Co. KGaA received 60.00% of the votes of the Company as a pooled share portfolio as of May 31, 2018. In addition, the members of the pool agreement also hold shares that do not form part of the pool. There is no direct shareholding in HELLA GmbH & Co. KGaA 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. There is no form of shareholding of employees in the Company's capital that would not enable the employees to directly exercise their shareholder rights.

### **10. Authorized capital/authorization to buy back shares**

In accordance with Article 5 (4) of the Articles of Association, the General Partner is authorized 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 October 9,

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 Partner is authorized to exclude, with the approval of the Supervisory Board and the Shareholder Committee, the shareholders' subscription rights as follows in four cases: firstly, in case of a capital increase against contributions in kind for the purpose of acquiring a business, parts of a business or participation 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 authorization becomes effective and at the time a resolution to exercise the authorization 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 authorization 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 Partner is also authorized, until October 30, 2019, to acquire treasury shares up to a total of 10% of the share capital or—if lower—of the nominal capital existing at the time the authorization is exercised. The acquisition is made at the discretion of the General Partner 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 Partner is authorized to use the treasury shares that have been acquired with the consent of the Shareholder Committee and the Supervisory Board for 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 GmbH & Co. KGaA resulting from convertible bonds or bonds with warrants or similar instruments, or offered or transferred 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 October 30, 2019 at the latest.

#### **11. Material agreements with change-of-control clauses/compensation agreements**

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

The Company has not entered into any compensation agreements with any members of the Management Board 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 GmbH & Co. KGaA 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 the 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 internalizes 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 organizational structures at HELLA are always aligned in such a way as to enable the entrepreneurial self-responsibility of its employees.

The core of the corporate culture consists of seven basic values of HELLA, 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 behavior by each and every individual.

These values give rise to basic rules of behavior 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 to the Company 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 HELLA, which is to meet the responsibility towards the company in relation to shareholders and society and to live up to the expectations of 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 antitrust law.

Compliance—legally compliant behavior 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 organization 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 organization, enhance the HELLA compliance system, and are responsible for the topics of antitrust law, corruption prevention and capital market law. They report quarterly to the Management Board, biannually to the Audit Committee of the Supervisory Board and as needed on an ad hoc basis. 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 export control/customs or working and product safety), 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 organization is supplemented by a central Compliance Board and the local compliance boards in China and Mexico as well as local compliance officers, who are responsible for compliance measures within the individual companies.

In addition to the basic elements of compliance organization, targets, culture and communications, the HELLA compliance system includes above all the pillars of the compliance program which must be developed (further) for the 15 current compliance issues: 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 program, quarterly meetings have been held since 2016 between the heads of the central technical compliance divisions, under the direction of the Compliance Office.

Through (i) worldwide in-class events, e-learning courses, other training formats, (ii) directives, process instructions and other documents, (iii) newsletters and other publications, together with (iv) advice in day-to-day operations, 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 continuous compliance management.

Alongside the establishment and expansion of the HELLA compliance system and the HELLA compliance organization, one focus of the Compliance Office in the past fiscal year was on the following activities:

- Group-wide implementation of informational events and training sessions on antitrust law for employees in Sales and Program Management in the Lighting and Electronics business divisions upon conclusion of the EU antitrust proceedings decided by the European Commission in June 2017;
- Direct compliance talks about the status and development of the compliance system and the conception of its compliance function as a management function between the Chief Compliance Officer and the Head of the Compliance Office and the members of the Management Board and the second management level of the company;
- Beginning of group-wide implementation of brief training courses on the Code of Conduct for production employees and other employees without a screen workstation—as an extension of the eLearning module “Code of Conduct and compliance fundamentals”—starting in China, Mexico and Germany;
- After completing group-wide introduction of the web-based whistleblower system “tellUS!” in the previous fiscal year, handling of the information received by this system in case of misconduct of HELLA employees as defined by the company directive and incident management process;

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](http://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 GmbH & Co. KGaA has determined a target level of 9.5% for female representation for the first management level below the Management Board. For the second management level below the Management Board, the target level was set at 6%. In May 2017, it was decided that both target levels were to be reached by June 30, 2022.

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 (DCGK)**

The General Partner as well as the Shareholder Committee and Supervisory Board of HELLA GmbH & Co. KGaA publishes 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 discloses any recommendations which are or have not been conformed to, stating the reasons for this. The General Partner as well as the Shareholder Committee and the Supervisory Board of HELLA GmbH & Co. KGaA published the declaration below in accordance with Section 161 AktG on May 30, 2018 on the Company’s website:

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

The General Partner as well as the Shareholder Committee and the Supervisory Board of HELLA GmbH & Co. KGaA (“Company”) declare, pursuant to Section 161 AktG that since the last time this declaration was made on May 31, 2017, 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 February 7, 2017, taking into account the special features of its legal form as set out below.

#### **1. SPECIAL FEATURES OF THE LEGAL FORM**

The German Corporate Governance Code has been developed with companies organized 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 GmbH & Co. KGaA 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 a General Partner, Hella Geschäftsführungsgesellschaft mbH, which has its registered office in Lippstadt, is represented by its Managing Directors Dr. Rolf Breidenbach (President and CEO), Dr. Werner Benade, Dr. Frank Huber, Stefan Osterhage and Ulric Bernard Schäferbarthold. In contrast to the management board of a stock corporation, the Managing Directors of Hella Geschäftsführungsgesellschaft mbH are appointed for an indefinite period of time. 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 Partner in its conduct of the Company’s busi-

ness and can issue rules of procedure for it. In addition, it determines which of the General Partner's transactions require its prior consent. It has management powers and power of representation for the legal relationship between the Company and the General Partner, and it represents the Company in legal disputes with the General Partner.

The Shareholder Committee exercises all the 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 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 GmbH & Co. KGaA 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 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.

### 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 shareholder representatives of the Supervisory Board and the members of the Shareholder Committee. To the extent permitted by law, resolutions of the Annual General Meeting of HELLA GmbH & Co. KGaA are adopted by a simple majority. In contrast to a stock corporation, the Annual General Meeting of HELLA GmbH & Co. KGaA 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 GmbH & Co. KGaA 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 Partner's consent. According to the Articles of Association, the General Partner declares 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 of conformity on May 31, 2017

In the period between the publication of the last declaration of conformity on May 31, 2017, the following recommendations of the German Corporate Governance Code in the versions applicable up until that day 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 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. For the Managing Directors of Hella Geschäftsführungsgesellschaft mbH, the Company employs an asset-linked pension plan (Kapitalkontenmodell), under which benefits depend crucially on factors such as the prevailing interest rate and the development of the value of the investment assets.
- c On October 31, 2014, the Annual General Meeting of the Company passed a resolution to dispense with the individualized disclosure of management compensation in accordance with Section 285 Number 9 Letter a) Sentences 5 to 8, 314 (1) Number 6 Letter a) 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 a 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. Forward-looking part**

The Managing General Partner as well as the Shareholder Committee and the Supervisory Board of HELLA GmbH & Co. KGaA intend to continue not applying the recommendations of the DCGK set forth under a) to d) in the future for the reasons outlined above.

## **III. FURTHER INFORMATION**

Section 4.2.3 para. 2, sentence 3 DCGK includes the recommendation for variable remuneration components determined by multi-year assessment, stipulating 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

existed 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 operating free cash flow (OFCF), and does not retroactively penalize deteriorations in this performance measure over a multi-year period, the Company's long-term incentive (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 (EBT). The Company considers this sufficient in the light of Section 4.2.3 para. 2, sentences 3, 4 and 7 DCGK.

## **V. PROPRIETARY TRANSACTIONS OF MANAGEMENT**

In accordance with Article 19 of the EU Market Abuse Regulation, persons who complete management tasks at HELLA GmbH & Co. KGaA or who have a close relationship to these persons must disclose reportable transactions with shares or debt instruments of HELLA GmbH & Co. KGaA or the associated derivatives or other financial instruments of this issuer after a total volume of € 5000 has been reached within a calendar year. 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](http://WWW.HELLA.COM/DIRECTORSDEALINGS).



# Remuneration report

The remuneration report provides information on the remuneration systems for Dr. Jürgen Behrend, the Managing General Partner who resigned with effect at the end of 30 September 2017, and for the Managing Directors of Hella Geschäftsführungsgesellschaft mbH and members of the Supervisory Board and Shareholder Committee of HELLA GmbH & Co. KGaA. The remuneration report 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 of the Company 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 from the Annual General Meeting remains in force.

## I. Remuneration of the Management Board

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 resignation of Dr. Behrend with effect at the end of 30 September 2017, fixed remuneration not related to performance in the form of an annual minimum bonus and STI in fiscal year 2017/2018 has been discontinued; in addition, a pro rata temporis LTI base amount has been allocated a final time for fiscal year 2017/2018. For new contracts and extensions of existing contracts that have been concluded with Managing Directors since fiscal year 2016/2017, the Shareholder Committee has further developed and modified the calculation of the remuneration components and various other contract terms. In future, the Company will base new appointments and contract extensions on the modified concept described separately below.

### 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.

The remuneration in kind and other ancillary benefits primarily consist of the private use of a company car. Furthermore, all the Managing Directors in their capacity as members of the Company's governing bodies are covered by the Group's D&O insurance. The same was true of Dr. Jürgen Behrend, the Managing General Partner who resigned in fiscal year 2017/2018. 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 slightly modified calculation concept to contracts and extensions of existing contracts concluded as of 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 operating free cash flow (OFCF). As evidenced in the cash flow statement of the legal consolidated annual closing, the operating free cash flow (OFCF) equates to the free cash flow from operating activities after investments and divestments (procurement and disposal of property, plant and equipment and intangible assets) and does not include company acquisitions. 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 pri-

marily 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 taxes and 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 financial assets less liabilities carried on the face of the balance sheet excluding current and non-current financial liabilities for the reporting period.

The LTI settlement amount 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 claim 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 settlement amount. In addition, it is not netted against a future positive LTI settlement amount.

The calculation concept for the LTI base amount was amended for contracts concluded after the fiscal year 2016/2017 or extended contracts. The Shareholder Committee specifies minimum, target and maximum values for the ROIC. The minimum value (currently an ROIC of 12%) defines the floor for calculating an LTI base amount. If the target value is reached (currently an 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 an 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 equaling six times the applicable annual fixed salary or, in Dr. Jürgen Behrend's case, six times the minimum bonus. The Shareholder Committee of HELLA GmbH & Co. KGaA 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 in this plan are the result of the resignation of Dr. Jürgen Behrend from his position as Managing General Partner.

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 as of 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 installments 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 installments 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 of the Managing Director 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, disability 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 a variable annual compensation less remuneration in kind and other ancillary benefits for the last full fiscal year prior to the termination of the appointment. In addition, a subsequent payment of apportioned LTI base amounts is made according to more detailed specifications of the LTI terms.

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 fiscal 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 regulations or particular compensation agreements with the Company in the event of a takeover bid.

## 3. TOTAL REMUNERATION FOR THE FISCAL YEAR 2017/2018

The total remuneration (excluding pension commitments and comparable long-term obligations) paid to the Managing General Partner Dr. Jürgen Behrend (until his resignation) and the Managing Directors of Hella Geschäftsführungsgesellschaft mbH came to € 15,446 thousand in the fiscal year 2017/2018 (prior year: € 17,881 thousand). Of this, fixed remuneration accounted for € 3,162 thousand (prior year: € 2,881 thousand) and variable remuneration for € 12,284 thousand (prior year: € 15,000 thousand).

Remuneration in kind and other ancillary benefits came to a total of € 172 thousand in the fiscal year 2017/2018 (prior year: € 328 thousand). Remuneration in kind was measured on the basis of actual cost. The ancillary benefits include expenses of € 19 thousand (prior year: € 7 thousand) for managing two households. The defined benefit obligation for liabilities from the defined contributions capital account system for the active Managing Directors was € 10,765 thousand (prior year: € 22,081 thousand) on 31 May 2018.<sup>1</sup> The financing contributions structured in the form of investment fund units and pledged to the active beneficiaries were valued at € 9,933 thousand as of the balance sheet date (prior year: € 12,072 thousand).

Pension liabilities towards former members of the Management Board and their surviving dependents came to € 13,906 thousand (prior year: € 9,165 thousand). In addition, there are liabilities that have been transferred to Allianz Pensionsfonds AG in the amount of € 3,675 thousand (prior year: € 3,890 thousand). The net obligation of the share transferred to Allianz Pensionsfonds AG comes to € 249 thousand (prior year: € 205 thousand). The defined benefit obligation for comparable, long-term obligations from the defined contributions capital account system towards earlier members of the Management Board and their surviving dependents is € 5,182 thousand (prior year: € 0 thousand). The financing contributions structured in the form of investment fund units and pledged to the beneficiaries in this group were valued at € 5,087 thousand as of the balance sheet date (prior year: € 0 thousand). Payments under pension liabilities towards former members of the Management Board and their surviving dependents came to € 279 thousand (prior year: € 278 thousand).

In addition, the Company paid settlement amounts of € 2,000 thousand in the fiscal year 2017/2018 (prior year: € 0).

Commitments of € 2,739 thousand (prior year: € 2,200 thousand) for amounts payable from the LTI program arising from the occurrence or suspension of conditions were made in the fiscal year 2017/2018.<sup>2</sup>

#### **4. LIABILITY REMUNERATION FOR HELLA GESCHÄFTSFÜHRUNGSGESELLSCHAFT MBH**

Under Article 8 of the Articles of Association, Hella Geschäftsführungsgesellschaft mbH as a General Partner of the Company receives liability remuneration of 5% of its paid-in share capital payable on the balance sheet 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 2017/2018 (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.

Until February 28, 2018, the Chairman of the Supervisory Board, Prof. Dr. Michael Hoffmann-Becking, was partner in a law firm, which provides legal advisory services to HELLA GmbH & Co. KGaA and the Group in several different fields of law, including company law, securities law, labour law and competition law. In the fiscal year 2017/2018, the Group was billed a total of € 286 thousand plus value added tax for these advisory services (prior year: € 297 thousand plus value added tax). Specifically, the advisory services provided during fiscal year 2017/2018 consisted largely of preparation and implementation of the ordinary Annual General Meeting of HELLA GmbH & Co. KGaA. No other payments or benefits were granted to members of the Supervisory Board for products and services, in particular for advisory and placement services.

<sup>1</sup> of which € 3,564 thousand (prior year € 7,958 thousand) is employee-financed.

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

The following table sets out the individual remuneration paid to the members of the Supervisory Board for the fiscal years 2017/2018 and 2016/2017:

in €	Fixed remuneration		Remuneration for committee work		Total remuneration	
	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017
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	0	6,630.14	0	0	0	6,630.14
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
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
Claudia Owen	20,000.00	13,424.66	0	0	20,000.00	13,424.66

### 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 November 19, 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 € 867 thousand plus value added tax in the fiscal year 2017/2018 (prior year: € 885 thousand plus value added tax). Of this, fixed remuneration accounted for € 867 thousand (prior year: € 885 thousand) and remuneration for committee work for € 0 thousand (prior year: € 0 thousand).

In addition to the described remuneration, 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 2017/2018.

**The following table sets out the individual remuneration paid to the members of the Shareholder Committee for the fiscal years 2017/2018 and 2016/2017:**

in €	Fixed remuneration		Remuneration for committee work		Total remuneration	
	2017/2018	2016/2017	2017/2018	2016/2017	2017/2018	2016/2017
Manfred Wennemer, Chairman	300,000.00	300,000.00	0	0	300,000.00	300,000.00
Moritz Friesenhausen	0	85,479.45	0	0	0	85,479.45
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
Dr. Jürgen Behrend, since October 1, 2017	66,575.34	0	0	0	66,575.34	0

# Non-financial report HELLA GmbH & Co. KGaA

HELLA is firmly convinced that corporate success is founded on a value-driven corporate culture and behaving responsibly with respect to employees, partners, society and the environment. HELLA is publishing this separate combined non-financial report (henceforth “non-financial report”) in compliance with Sections 315b and 289b ff. of the German Commercial Code (Handelsgesetzbuch - HGB) to provide greater transparency into non-financial aspects of the fiscal year 2017/2018 (reporting period: June 1, 2017 to May 31, 2018) that are material and necessary to understand HELLA GmbH & Co. KGaA’s development, performance and current position as well as the impacts of its operations. HELLA has elected not to apply a framework as defined in Section 289d HGB.

Under the CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz - CSR-RUG) on the disclosure of non-financial information, companies are required to report on key aspects as well as attendant risks. The HELLA risk management system clearly considers various financial and non-financial risks. However, they are not necessarily identical to the risks defined in the CSR-RUG or the key non-financial aspects detailed in the HGB. HELLA did not identify any material risks related to its operations, business relationships, products or services in the fiscal year that have had or will have very probable and serious negative effects on the six key issues identified in Section 289c (3) (3) and (4) HGB once appropriate risk mitigation measures have been taken.

More details on risks and opportunities are available in the group management report starting on p. 64. References to information provided outside the group management report or consolidated financial statements are considered to be supplementary details and not part of this non-financial report.

## Assignment of corporate specific issues to the aspects listed in the CSR Directive Implementation Act (CSR-RUG)

Aspects in accordance with CSR-RUG	Key issues
Environmental aspects	Sustainable product benefits
Employee matters	Occupational safety and health protection Terms of employment Training and professional development
Social matters	Product safety Compliance
Combating corruption	
Respect for human rights	Terms of employment

HELLA conducted a materiality analysis in 2018 to identify key aspects with the involvement of representatives of the specialist departments and management. The analysis considered potentially relevant issues along the company’s entire value chain. It identified the following six key issues: sustainable product benefits, product safety, occupational safety and health protection, terms of employment, training and professional development, and compliance.

HELLA procures a significant portion of its total purchasing volume from large suppliers in OECD countries that maintain comprehensive standards and processes in this area. The material analysis therefore found that issues relating to human rights in the HELLA supply chain were non-material in terms of their impacts and their importance for understanding the company’s development, performance and current position.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC) conducted a voluntary audit of the non-financial report in accordance with ISAE 3000 (Revised) for limited assurance purposes. The audit statement starts on p. 98.

## Reference framework

This report combines the group report of the HELLA Group ("HELLA") and the report of the parent company HELLA GmbH & Co. KGaA. It is issued as a separate report. Unless otherwise indicated, all disclosures apply to the entire Group within the financial reporting scope of consolidation as indicated in the annual report starting on p. 182. Material issues are coordinated locally at Docter Optics and its subsidiaries as well as joint ventures and are therefore excluded from the non-financial report.

## Business model

The company is one of the top 40 automotive suppliers in the world. Its business activities are divided into three segments: Automotive, Aftermarket and Special Applications. In the Automotive segment, HELLA develops, manufactures and sells various lighting solutions as well as innovative solutions in the areas of driver assistance, energy management, body electronics, sensors, actuators and electric power steering. In the Aftermarket segment, HELLA combines the automotive parts and accessories business as well as workshop equipment in the independent aftermarket. 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 and the marine sector.

More information on the business model is available in the group management report 2017/2018 starting on p. 42.

## Sustainable product benefits

Vehicle manufacturers and suppliers face ever-stricter regulatory requirements and rising societal expectations to conserve resources, avoid emissions and help improve road safety. To address the challenges and opportunities posed by these issues and to strengthen HELLA's technological leadership, the company employs around 18% of its workforce in research and development. Research and development expenses amounted to 9.8% of consolidated sales in the reporting year.

Sustainable product benefits are not managed by a central group unit but are overseen by the executive boards of the various business divisions, with support provided by Strategy as well as Research and Development. Product development and improvement - including the consideration of sustainability aspects - is guided by current trends, competitor analyses and recent studies. Worldwide development activities are co-

ordinated principally from Germany. Development centers in major growth regions provide an additional focus on local market requirements. HELLA's strategic planning process is organized around an annual cross-functional strategy check-up (SCU). The company's strategic alignment is systematically reviewed in order to take early, proactive action, if required. The SCU also allows for coordination with the product centers that respond to customer requirements, develop their own product fields and business cases and analyze the impacts of changes to products. The SCUs thus ensure the flow of information between individual units and along reporting channels. Product-level responsibilities vary depending on the scope and time horizon. While Research and Development is responsible for new and long-term products, product centers are in charge of short-term product improvements. Product center heads report to the respective business division managers.

HELLA supports vehicle manufacturers and other suppliers worldwide by continually optimizing existing products and developing new ones in order to reduce energy consumption and vehicle emissions. This includes transitioning conventional lighting products for passenger and commercial vehicles to LED solutions, for instance. The company also actively partners with numerous universities and research networks in order to develop more products with sustainable benefits. For example, HELLA is working on a high-voltage charging converter with high energy density in the HELENE energy management research product and prepared for the founding of the Forschungsinstitut für Kraftfahrzeug-Elektronik (E-LAB) (research institute for vehicle electronics) with TU Dortmund University and Hamm-Lippstadt University of Applied Sciences in the previous fiscal year. The E-LAB works together with these universities to develop solutions to long-term trends in vehicle electronics in areas such as battery management.

HELLA is also working to reduce the size and weight of individual products and improve vehicle efficiency. One key component is partial (hybrid vehicles) or complete (electric vehicles) drive train electrification. The company has developed a wide variety of innovative product solutions designed to improve energy efficiency. One such solution is the Module 60 LED headlamp, which has also been available in a LED version for motorcycles and agricultural machinery and construction vehicles since this fiscal year. It also introduced electrical coolant pumps and exhaust gas recirculation radiators that make engine cooling more eco-friendly.

## Product safety

Technological progress has greatly improved safety for all road users. To progress even further technically, HELLA is

collaborating with many universities, start-ups, industry associations, customers and suppliers. It employs its expertise to develop and market state-of-the-art driver assistance systems and autonomous driving functions, for example. It also works in open collaborations to bring technologies into serial production for all levels of autonomous driving. In the fiscal year under review, for example, HELLA presented state-of-the-art 77 GHz radar sensors at the IAA 2017. The company's Berlin Incubator launched its first spin-off as well. The start-up Brighter AI utilizes deep learning applications to recreate daylight images from night images taken by infrared cameras, thereby solving a basic problem of human sight: limited vision and delayed reactions in darkness or adverse weather conditions.

HELLA focuses on product compliance, functional safety and product safety, to drive technological progress further in a responsible manner. HELLA's overarching objective is to make safe, high-quality products.

The first step in achieving product safety is to ensure development compliance with all established processes with the quality organization assisting throughout all phases of product development. This includes defining and implementing safeguards based on relevant norms such as ISO 26262 depending on what the product does and how it is embedded in the complete system. These safeguards are designed for the vehicle as a complete system and for components which are delivered individually. HELLA has developed processes based on applicable norms to give Development and the dedicated safety organization clear guidelines. All projects are managed by safety experts who ensure state-of-the-art development pursuant to ISO 26262 and independently escalate issues to the product safety committee established by the Management Board, if needed. The committee decides what needs to be done and reports to the Management Board as necessary.

HELLA has instituted product lifecycle processes that apply to the entire Group to ensure consistently high quality. All these processes are based on the HELLA Total Quality Management System: Strategic Quality (SQ). It contains all the tools conforming to Six Sigma and complies with internal quality standards, ISO 9001:2015, IATF 16949:2016, applicable laws and customer requirements.

The matrix organization includes the central quality organization, regional and site managers and the quality managers at the business divisions. Quality targets are defined with the Management Board; progress reports are provided monthly. Manufactured products undergo regular checks described in the implemented quality system at all phases

of development and production. Complementary process checks are conducted to verify compliance with legal and customer requirements.

Rigorous quality management allows the company to avoid recall campaigns and improve reliability.

## Occupational safety and health protection

Employee health and safe workplaces are top priorities. The company understands that these issues are essential for success at work and in life. HELLA is convinced that preventive health and safety programs as well as focused health promotion initiatives improve employee motivation and contribute to a productive work environment.

Designing and encouraging safe, healthy workplaces and work processes requires a health and safety management system that draws on internationally recognized standards. The company is currently implementing OHSAS 18001 or comparable health and safety management systems at its production sites and is having them certified. Sixteen production sites have been certified thus far. Within the next few years, all 38 production sites are scheduled to undergo certification.

The company has formulated its health and safety principles and plans to publish its new health and safety policy in the fiscal year 2018/2019 as part of the HELLA Business Process Management (BPM) System.

There is a central Group-level central department that is responsible for health protection and occupational safety. There are also environment, health and safety (EHS) managers in the various regions and one or more local EHS coordinators at each site who report to the central department.

HELLA works tirelessly to reduce accidents by defining necessary safety requirements such as risk assessments, safety inspections and protective measures. Compliance with these requirements is verified by the local and regional EHS managers and EHS coordinators. Sites that already have an implemented health and safety management system undergo regular internal and external audits.

In the previous fiscal year, the company worked to develop and strengthen a worldwide EHS network. One of the network's primary functions is to promote the sharing of experiences and best practices. In addition, a mandatory e-learning course for office workers was instituted at corporate

headquarters in Lippstadt. The company plans to roll out the course worldwide in the future.

HELLA's accident rate indicates how many accidents occurred every 1 million work hours. It includes all the accidents that resulted in more than one lost day of work. In the reporting year, the accident rate for the entire company was 6.1.

## Terms of employment

Highly skilled and motivated employees are essential for productivity, innovation and customer satisfaction. That is why HELLA aims to be viewed as an attractive employer. It places great importance on paying fair wages, empowering employees to achieve a healthy work-life balance, encouraging worker participation and supporting their right to freedom of association. It is through avenues such as these that HELLA promotes and ensures respect for human rights within the company.

As a longstanding family-owned and family-operated company, HELLA believes strongly in combining performance-driven professionalism with a human approach. Its corporate culture consists of seven basic values: entrepreneurial spirit, cooperation, sustainability, performance orientation, innovation, integrity and exemplary behavior by each and every individual. In addition, its code of conduct includes respect for human rights, basic obligatory rules of conduct and principles such as obeying laws and regulations and formulations of regional standards with respect to work conditions and appropriate conduct toward the company or other employees. Responsibility for the code of conduct rests with the compliance officers for the individual countries and companies. They report to the Global HR Compliance Officer. The Global HR Compliance Officer has the authority to establish guidelines.

Certain issues relating to terms of employment are the responsibility of the human resources management teams for individual companies and countries. They report to the Executive Vice President HR at the Group level. New processes are first piloted in individual companies or countries and then rolled out to other companies or countries. Specific, individual issues are handled in existing committees in cooperation with the works council. Internal teams or external service providers conduct regular thematic audits to assure quality or verify compliance with the desired processes.

HELLA's overall objective is to be perceived as an attractive employer. To accomplish this, it provides fair wages, professional advancement opportunities and good vocational training and professional development programs as well as a

good work-life balance. In addition to the requirements set out in applicable laws and collective wage agreements, the company also offers financial aid for high school and college students from low-income families.

Employees can participate and voice their opinions in various committees or as part of regular town hall meetings, employee surveys, Christmas parties, lunches with management or "Meet the Board" events where employees can ask members of the Management Board questions.

A healthy work-life balance is of special concern to HELLA. It offers flexible work schedules and various mobile working opportunities depending on regional requirements. Mobile working was rolled out in Romania and Mexico in the reporting year. To make it easier for employees to work, the company provides its own daycare centers, family days and helps its staff find childcare or caregivers for family members. HELLA, working in cooperation with an outside partner, launched a family service that first advises families and then puts them in touch with caregivers this year.

## Training and professional development

As automation, digitalization and other megatrends transform the world of work in various ways, HELLA has responded with solid vocational training programs and systematic professional development. It aims to defend its current market position and drive further growth, particularly as it looks to key markets such as China and the global competition for skilled workers.

Overall responsibility for strategies and campaigns is vested in the global competence center, which reports directly to the Executive Vice President HR. Human resources management involves the use of various processes and tools (e.g. the cloud-based My Talent Compass platform, 360° feedback, learning or talent reviews) which in some cases are governed by Group works agreements. Individual topics are introduced and reinforced through special bodies, steering committees and the committee for professional development, which works in concert with the works council. HELLA uses internal and external audits to verify attainment of quality targets, program outcomes and compliance with laws and requirements. The audits are supplemented by reviews conducted by the Global HR Compliance Officer.

HELLA's overarching goal is to constantly develop the skills and knowledge of all its employees in order to meet the challenges of a complex, rapidly evolving automotive world. Employees and managers at the specialist departments

come to various agreements in order to ensure effective planning of training and development programs. A software-supported process environment has been rolled out for learning and talent; some sales companies have not been integrated yet but will follow in the future. Annual feedback provided during talent reviews shows employees their strengths and potential and develops their skill sets. Employees can book their own training courses in a software-based system. Subsequent tests help participants assess their progress. Every internal training course is also evaluated by participants in order to make adjustments as needed. Managers are specifically prepared for their responsibilities as well. For example, every manager receives leadership training at the Global Leadership Academy, which includes modules on labor law or internal human resources processes. A total of 848 people attended Global Leadership Academy courses in the reporting year.

## Compliance

Integrity and respect for the law are integral components of HELLA's corporate culture as well as the foundation of its operations and an essential prerequisite for long-term success. The objective of the HELLA compliance system is to effectively incorporate compliance into the company's business processes in order to systematically prevent misconduct and ensure that all employees adhere to all applicable rules and regulations.

Responsibility for compliance development rests with the Corporate Compliance Office who works closely with other compliance officers in the compliance organization and at the specialist units. The Head of the Corporate Compliance Office

reports to the Chief Compliance Officer who in turn reports to the President and CEO. The Corporate Compliance Office is supported by local compliance officers.

More details on the HELLA compliance organization are available in the group management report starting on p. 80.

The compliance guideline is the fundamental document that defines the HELLA compliance system, including its compliance organization and compliance units.

The HELLA code of conduct applies to all employees worldwide. It describes basic rules of conduct for dealing with other employees, business partners, government officials and other third parties in an ethical, legally compliant manner. The code also includes guidance on offering and giving economic benefits as part of a corruption prevention program.

Serious misconduct by employees can be reported anonymously through a web-based whistleblower system and will then be investigated by the Corporate Compliance Office in consultation with Corporate Audit, Corporate Security and other specialist departments as appropriate.

To ensure employees are adequately aware of what they need to do to comply with laws, regulations and company policies, the company provides training courses, written procedures, instructions and other internal communication tools worldwide. The "Code of Conduct and Compliance Fundamentals" e-learning module, which focuses on corruption prevention, is intended for all employees who work at a workstation with a monitor. Over 17,000 employees have completed the course since its inception, with over 3,400 taking it during the last fiscal year.



# Independent Practitioner's Report on a Limited Assurance Engagement on Non-financial Reporting<sup>1</sup>

To HELLA GmbH & Co. KGaA, Lippstadt,

We have performed a limited assurance engagement on the combined separate non-financial report pursuant to §§ (Articles) 289b Abs. (paragraph) 3 and 315b Abs. 3 HGB ("Handelsgesetzbuch": "German Commercial Code") of HELLA GmbH & Co. KGaA, Lippstadt, (hereinafter the "Company") for the period from June 1, 2017 to May 31, 2018 (hereinafter the "Non-financial Report").

## RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS

The executive directors of the Company are responsible for the preparation of the Non-financial Report in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

This responsibility of Company's executive directors includes the selection and application of appropriate methods of non-financial reporting as well as making assumptions and estimates related to individual non-financial disclosures which are reasonable in the circumstances. Furthermore, the executive directors are responsible for such internal control as they have considered necessary to enable the preparation of a Non-financial Report that is free from material misstatement whether due to fraud or error.

## INDEPENDENCE AND QUALITY CONTROL OF THE AUDIT FIRM

We have complied with the German professional provisions regarding independence as well as other ethical requirements.

Our audit firm applies the national legal requirements and professional standards—in particular the Professional Code for German Public Auditors and German Chartered Auditors ("Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer": "BS WP/vBP") as well as the Standard on Quality

Control 1 published by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany; IDW): Requirements to quality control for audit firms (IDW Qualitätssicherungsstandard 1: Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis - IDW QS 1)—and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a limited assurance conclusion on the Non-financial Report based on the assurance engagement we have performed.

Within the scope of our engagement we did not perform an audit on external sources of information or expert opinions, referred to in the Non-financial Report.

We conducted our assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the IAASB. This Standard requires that we plan and perform the assurance engagement to allow us to conclude with limited assurance that nothing has come to our attention that causes us to believe that the Company's Non-financial Report for the period from June 1, 2017 to May 31, 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

In a limited assurance engagement the assurance procedures are less in extent than for a reasonable assurance engagement, and therefore a substantially lower level of assurance is obtained. The assurance procedures selected depend on the practitioner's judgment.

<sup>1</sup> PricewaterhouseCoopers GmbH has performed a limited assurance engagement on the German version of the separate non-financial report and issued an independent assurance report in German language, which is authoritative. The following text is a translation of the independent assurance report.

Within the scope of our assurance engagement, we performed amongst others the following assurance procedures and further activities:

- Obtaining an understanding of the structure of the sustainability organization
- Inquiries of personnel involved in the preparation of the Non-financial Report regarding the preparation process, the internal control system relating to this process and selected disclosures in the Non-financial Report
- Identification of the likely risks of material misstatement of the Non-financial Report
- Analytical evaluation of selected disclosures in the Non-financial Report
- Comparison of selected disclosures with corresponding data in the consolidated financial statements and in the group management report
- Evaluation of the presentation of the non-financial information

#### **ASSURANCE CONCLUSION**

Based on the assurance procedures performed and assurance evidence obtained, nothing has come to our attention

that causes us to believe that the Company's Non-financial Report for the period from June 1, 2017 to May 31, 2018 has not been prepared, in all material aspects, in accordance with §§ 315b and 315c in conjunction with 289c to 289e HGB.

#### **INTENDED USE OF THE ASSURANCE REPORT**

We issue this report on the basis of the engagement agreed with the Company. The assurance engagement has been performed for purposes of the Company and the report is solely intended to inform the Company about the results of the limited assurance engagement. The report is not intended for any third parties to base any (financial) decision thereon. Our responsibility lies only with the Company. We do not assume any responsibility towards third parties.

Frankfurt, August 2, 2018

**PRICEWATERHOUSECOOPERS GMBH**  
**WIRTSCHAFTSPRÜFUNGSGESELLSCHAFT**

**Nicolette Behncke**  
Wirtschaftsprüfer  
German public auditor

**ppa. Axel Faupel**

# Report by the Supervisory Board

## Ladies and Gentlemen,

In fiscal year 2017/2018, the Supervisory Board closely followed the situation and development of HELLA GmbH & Co. KGaA. 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 GmbH & Co. KGaA. 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 monthly reporting, sales and earning performance figures were discussed 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 operational targets were discussed. The Management Board provided detailed remarks regarding any deviations in the course of business from the budgeted values.

### FOCUS OF DELIBERATIONS OF THE SUPERVISORY BOARD

In the fiscal year 2017/2018, the Supervisory Board held four ordinary meetings. These took place on August 9, 2017, November 21, 2017, January 31, 2018 and May 28, 2018.

At the meeting on August 9, 2017, the annual financial statements of HELLA GmbH & Co. KGaA and of the Group for the fiscal year 2016/2017 were presented and discussed in depth. Based on the initial review by the Audit Committee, the Supervisory Board approved both financial statements and endorsed the proposal of the general partners for the appropriation of distributable profits. The Supervi-

sory Board further addressed the proposed resolutions for the Annual General Meeting on September 28, 2017 and adopted them. In addition to the current company situation, the Management Board presented the current status and strategic outlook for the lighting business in China.

At the meeting on November 21, 2017, the Management Board started by explaining the current business development for the business segments and the Group. In addition, the Supervisory Board was notified of the activities and strategic alignment of the Group's Human Resources function. Before the meeting, the members of the Supervisory Board took part in a presentation on the latest lighting technologies at HELLA's light testing facility.

The main topic of the meeting on January 31, 2018 was the current financial situation of the company. The Management Board also presented the current status for the Independent Aftermarket division and perspectives on further developing the distribution network. In preparation for the publication of the first non-financial report (CSR report) of HELLA GmbH & Co. KGaA, the Supervisory Board tasked the Audit Committee with the corresponding initial review. In addition, the Supervisory Board discussed the developments in company law and the organizational principles of the HELLA Group.

In the meeting on May 28, 2018, the Supervisory Board debated the economic position of the Group and the outlook for fiscal year 2017/2018 based on a comprehensive report from the Management Board. In addition, the board concerned itself with business planning for the fiscal years from 2018/2019 to 2020/2021 as well as the current status and strategic outlook for electronics business in China. The current topics in corporate governance provided another area of focus. In particular, 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](http://WWW.HELLA.DE/ENTSPRECHENSERKLAERUNG). Furthermore, a declaration expanded by a diversity concept in accordance with § 289(2)(6) of the German Commercial Code (Handelsgesetzbuch, "HGB") was adopted regarding the goals for the composition of the Supervisory Board and the profile of expertise for the Supervisory Board.

#### WORK OF THE COMMITTEES

The Supervisory Board has established an **AUDIT COMMITTEE** that is responsible for the initial review of the annual financial statements, of the consolidated financial statements, of the management reports, of the proposal for the appropriation of profits and of the non-financial reporting. The Audit Committee decides on 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)(2) AktG. The members of the Audit Committee are Klaus Kühn (Chairman), Prof. Dr. Michael Hoffmann-Becking, Paul Berger and Manfred Menningen.

In fiscal year 2017/2018, the Audit Committee convened four times in which the representative of the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, took part.

At the meeting on August 2, 2017, the committee examined the initial review of the annual financial statements and of the consolidated financial statements as at May 31, 2017, as well as of the management reports and of the proposal for the appropriation of profits. Furthermore, the Audit Committee received an overview of the resolutions for the Annual General Meeting which were going to be determined during the Supervisory Board meeting on August 9, 2017.

In addition, a process for approving non-audit services from the auditor has been discussed by the Audit Committee as defined in EU Regulation 537/2014. A guideline has been adopted by the Audit Committee in this regard. Finally, the annual reports by Auditing, Risk Management and Compliance Management were presented and discussed by the representatives for the Group functions.

At the meeting on September 21, 2017, the Audit Committee examined the three-month financial disclosure for the fiscal year 2017/2018. In addition to new accounting specifications, other major topics included the results of the EMIR audit that took place and preparation for the first application of the new accounting standards, particularly IFRS 15. Furthermore, discussion also covered the process for the invitation to tender for the audit of the annual financial statements starting in fiscal year 2018/2019.

At the meeting on January 9, 2018, the Management Board presented the half-year financial report for the fiscal year 2017/2018. In talks with the auditor, the Audit Committee defined the auditing priorities for fiscal year 2017/2018. The Audit Committee received reports on the status and planned actions for the initial publication of a non-financial report (CSR report) and on the current approaches of the Group in currency management and discussed them. Other items in the meeting included the six-month reports from Auditing and Compliance Management and the state of the tender process for the audit of the annual financial statements starting in fiscal year 2018/2019.

The nine-month financial disclosure was discussed in the meeting on March 21, 2018. The Audit Committee also examined the agreement with the auditor for the review of the annual financial statements for the fiscal year 2017/2018 and decided to commission KPMG AG Wirtschaftsprüfungsgesellschaft accordingly. Additional

major topics included the state of the tendering processes for the audit of the annual financial statements starting in fiscal year 2018/2019 and the status of preparation for the first application of the new accounting standards, particularly IFRS 15. In addition, the Audit Committee granted the contract for auditing (limited assurance) the non-financial reports for fiscal year 2017/2018 to PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft based on an authorization from the full session.

The **NOMINATION COMMITTEE**, which is responsible for the proposals presented by the Supervisory Board to the Annual General Meeting for the election of Supervisory Board members, did not convene in fiscal year 2017/2018.

#### **AUDITING OF THE ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS AND THE SEPARATE NON-FINANCIAL REPORT OF THE COMPANY AND GROUP**

On September 28, 2017, the Annual General Meeting appointed KPMG AG Wirtschaftsprüfungsgesellschaft, as auditor both for the annual financial statements and for the consolidated financial statements for fiscal year 2017/2018. The annual financial statements and the management report of HELLA GmbH & Co. KGaA for fiscal year 2017/2018 were prepared by the General Partner 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. In addition,

for the first time a non-financial report (CSR Report) was created for HELLA GmbH & Co. KGaA for fiscal year 2017/2018 and reviewed by PwC on behalf of the Supervisory Board.

The Audit Committee of the Supervisory Board thoroughly reviewed the annual financial statements at its meeting on August 2, 2018. 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 organization and effectiveness of the internal control and risk management system. In addition, the Audit Committee discussed the initial review of the non-financial reporting. The audit report from PwC regarding non-financial reporting has been presented in this context and discussed in detail by the representatives of the auditor.

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 GmbH & Co. KGaA as well as the consolidated financial statements and the Group management report and separate non-financial reporting for fiscal year 2017/2018. Given the final result of the Supervisory Board's review, there are no objections to be raised against the annual financial statements, the consolidated financial statements or the non-financial reporting. At its meeting on August 9, 2018, the Supervisory Board approved the annual financial statements, the consolidated financial statements and the separate non-financial reporting, and endorsed the proposal of the general partner for the appropriation of distributable profits.

#### **MEMBERS OF THE SUPERVISORY BOARD**

No changes to the personnel composition of the Supervisory Board were made in fiscal year 2017/2018.

**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 2017/2018.

Lippstadt, August 9, 2018

**On behalf of the Supervisory Board**

  
**Prof. Dr. Michael Hoffmann-Berking**  
(Chairman)