ANNUAL REPORT 2018

Add value.
Inspire trust.

THE GROUP AT A GLANCE 2018

Key figures

≡ 01

IN € MILLION		2018	2017	2016	2015	2014
		IFRS	IFRS	IFRS	IFRS	IFRS
Business development						
Revenue		2,498.5	2,427.6	2,343.2	2,222.0	2,061.4
Personnel expenses		1,510.0	1,464.1	1,421.2	1,328.6	1,232.1
Cash flow from operating activities		208.3	258.3	241.5	221.2	202.3
Free cash flow [1]		105.2	169.2	164.1	140.8	134.3
Capital expenditures		100.6	87.1	86.6	80.4	68.0
EBIT [2]		210.5	201.3	198.8	162.4	172.3
Income before taxes		199.6	190.2	182.6	144.4	146.5
Consolidated net income		144.8	138.8	130.5	114.0	104.4
EVA (Economic Value Added)		85.2	80.7	80.9	61.0	66.6
EBIT margin	IN %	8.4	8.3	8.5	7.3	8.4
EBIT margin, adjusted	IN %	8.9	8.9	8.6	8.5	9.1
EBT margin	IN %	8.0	7.8	7.8	6.5	7.1
EBT margin, adjusted	IN %	8.5	8.5	7.9	7.7	8.0
Assets						
Non-current assets		1,209.0	1,193.7	1,222.4	1,147.5	1,111.7
Current assets [3]		868.3	846.9	791.4	722.3	718.6
Balance sheet total [3]		2,077.3	2,040.6	2,013.8	1,869.8	1,830.3
Equity ratio [3]	IN %	43.4	38.9	31.9	29.8	21.6
Employees (annual average)						
Full-time equivalents		22,424	22,117	21,738	20,228	19,735
Headcount						
As of December 31		24,530	24,231	23,997	22,363	22,003

1 _ Free cash flow: cash flow from operating activities less cash paid for investments in intangible assets, in property, plant and equipment and in investment property.
2 _ EBIT: Earnings before interest, before other financial result and before income tax, but after income from participations.
3 _ Due to first time application of IFRS 15 Revenue from Contracts with Customers the prior year figures are restated.

€ **2,498.5** MILLION

REVENUE

€ **100.6** MILLION

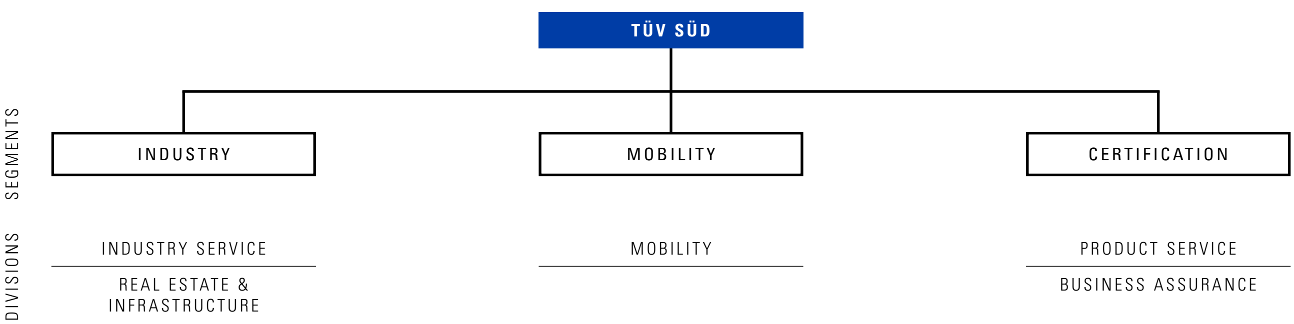
CAPITAL EXPENDITURES

€ **199.6** MILLION

INCOME BEFORE TAXES

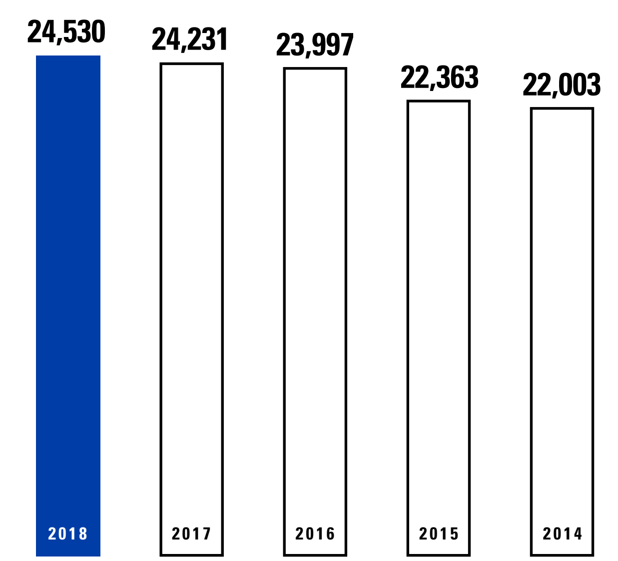
TÜV SÜD structure

01



Headcount

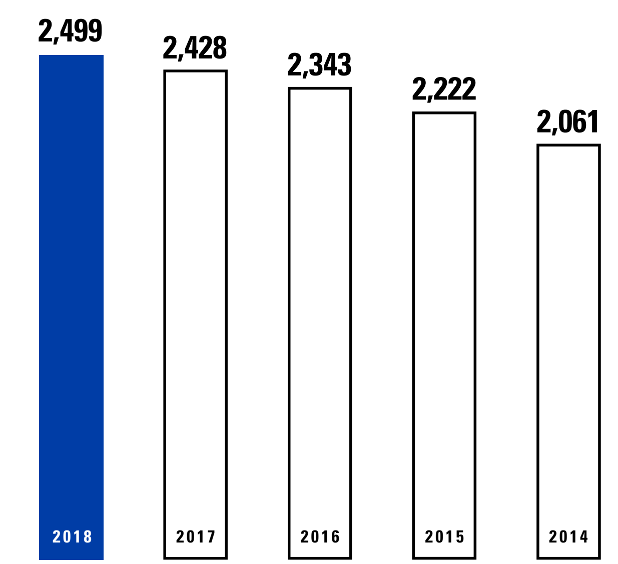
02



Revenue

IN € MILLION

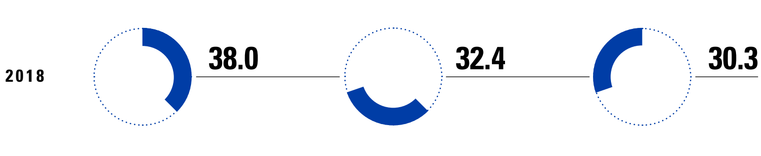
03



Revenue by segment[3]

IN %

04



3 _ Without OTHER and reconciliation.

TÜV SÜD creates
“More value. More trust.”

This is the aspiration of more than 24,000 people all over the world. Together they ensure a safe and sustainable future and use their solutions to create measurable added value for society and their customers – in existing fields of technology as well as for technological innovations and in the digital world.

In this way TÜV SÜD protects people, the environment and material goods against technical risks and enables progress.

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MANAGEMENT AND SUPERVISORY BOARDS

BOARD OF MANAGEMENT

left to right

ISHAN PALIT
MATTHIAS J. RAPP
AXEL STEPKEN

LADIES AND GENTLEMEN,

As is tradition, a review of the year typically begins with a few financial indicators which show that 2018 was a very successful year. Our sales increased to approximately 2.5 billion euros, resulting in an organic growth of 5.5 percent. Our EBIT amounted to 210.5 million euros – an increase of 4.6 percent. At the end of 2018, there were more than 24,500 employees in over 1,000 locations.

2018 was a very special year for TÜV SÜD because our new corporate strategy 2025 was finalized for Group-wide implementation in mid-2018, setting a decisive course for the future. Under the slogan “The Next Level. Together.”, we have engaged all employees, from top management to technical experts, in the strategy process. Our corporate strategy acts as a guiding principle for all of us at TÜV SÜD. Our goal is to make our company fit for the future and to bring it to “the next level” together. This annual report is titled “Together” to reflect this resolve.

For over 150 years, we have contributed to making the world a safer place. Our strategy 2025 will help TÜV SÜD to fulfill its mission of protecting people, the environment, and property from technology-related risks as the world transforms in the digital age.

Digitalization is transforming our world at an unprecedented pace. We will invest our resources into seven key trends and challenges as well as six critical technological areas. In 2018, we have already achieved significant headway: In the automotive field, artificial intelligence is being applied to automatically detect and evaluate damage to cars; in the arena of additive manufacturing, we built a team of experts to develop standards for 3D printing with one of the largest European infrastructure companies; and we are taking training and continuous education to a new level by introducing online training programs at our Digital Academy.

IT security is one of the most important topics for us. Over 80 cyber security experts located across Asia, Germany, and the United States test programs and systems for vulnerabilities to cyberattacks and examine their interoperability with other systems. By joining the “Charter of Trust,” an international alliance for cyber security founded in 2018, we are actively contributing to address this important societal issue.

“The Next Level. Together.” also signifies the evolution of existing services in line with current developments and requirements of society. In 2018, for example, we inaugurated a new “state-of-the-art” test center for electromagnetic compatibility in Minnesota, USA. The construction of two new battery test centers in China is progressing rapidly, as well as a new test and development center for subsea pipelines in Scotland. At the end of 2018, construction work began in our exhaust gas testing laboratory for motor vehicles in Heimsheim, Germany. With the expansion of our global network of testing facilities, our aim is to provide value to our customers globally.

In our pursuit of innovation, we have not lost sight of the guiding principles and values that shaped us over the last century and a half: Independence, neutrality, quality, and a high degree of expert knowledge. Our comprehensive "Code of Ethics", outlines the values of independence, integrity, and lawfulness. Our employees are regularly trained on this code and we continuously monitor our adherence to it. Ongoing training and further education of our employees in both quality and compliance is of utmost importance to us.

"Trust" is the foundation upon which TÜV SÜD has been built. For over 150 years, we inspired trust in technology by creating greater safety and security for our customers. Our new corporate claim "Add value. Inspire trust." emphasizes this, representing the high standard we have set for ourselves.

As "Trust" is so important to TÜV SÜD, a current event outside the reporting period deeply concerns us. It was the end of January 2019 when the dam of a retention reservoir in an iron ore mine collapsed in the Brazilian state of Minas Gerais. A subsidiary of TÜV SÜD in Brazil, Bureau de Projetos e Consultoria of São Paulo, acquired in 2013, previously inspected the dam on behalf of the operator. We are deeply saddened by this tragedy, and the victims and their families are in our thoughts. In immediate aftermath, TÜV SÜD's Board of Management initiated extensive measures to investigate the matter. Since then, we have been working relentlessly with the aid of several independent external experts and consultants, to assess and clarify the complex technical issues around the incident.

All of this resonates with the theme "Together" in which we firmly believe. Acting together not only means looking forward with courage and confidence to develop TÜV SÜD further, it is also about standing together and acting with transparency and openness in difficult times. We do this as a company with thousands of technical experts; in the service of society, and as a partner to our customers.

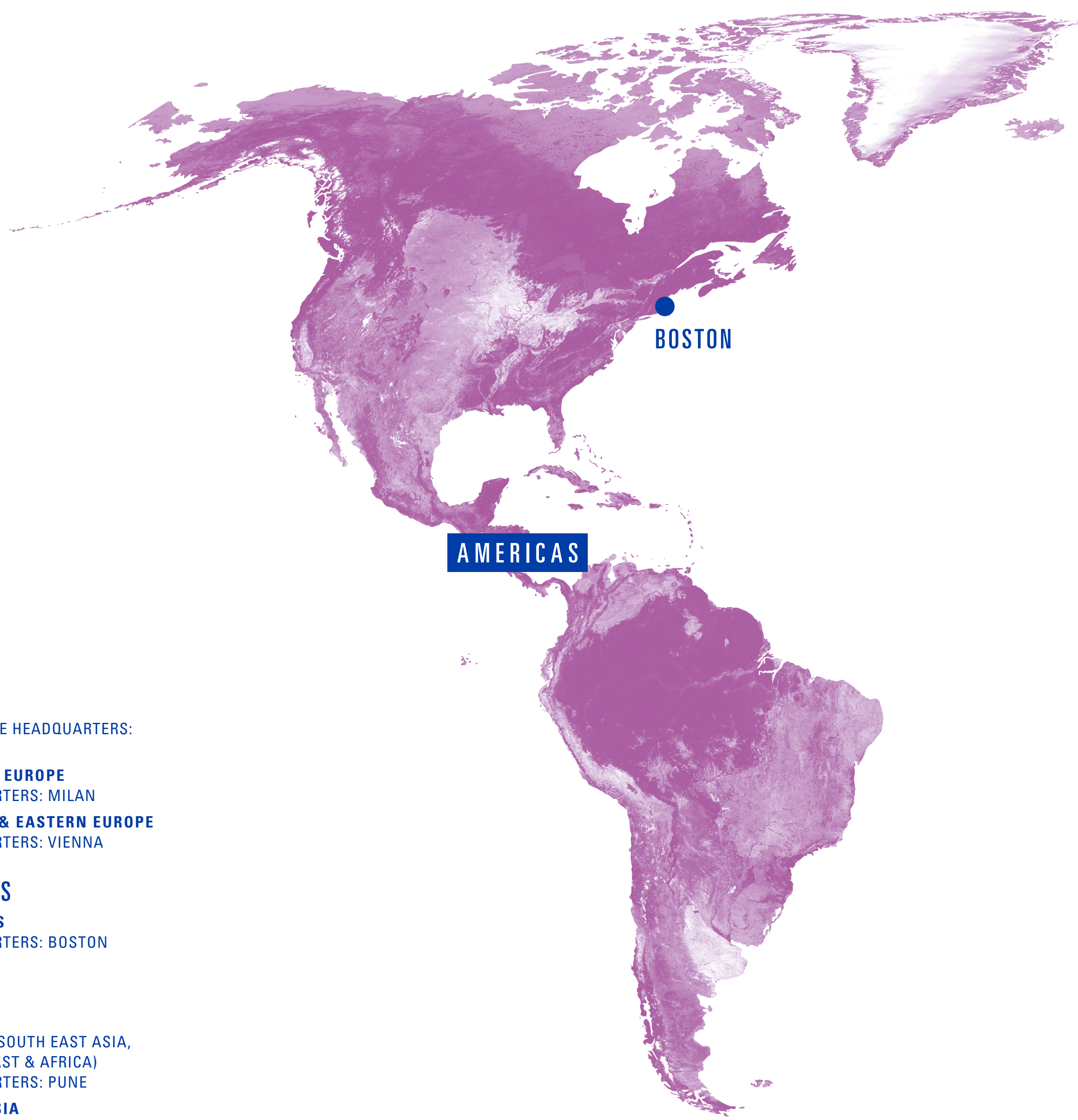
Munich, March 29, 2019
The Board of Management of TÜV SÜD AG

PROF. DR.-ING. AXEL STEPKEN
Chairman of the Board of Management

ISHAN PALIT
Member of the Board of Management

DR. MATTHIAS J. RAPP
Member of the Board of Management

ON SITE WORLDWIDE



EUROPE

→ **GERMANY**
CORPORATE HEADQUARTERS: MUNICH

→ **WESTERN EUROPE**
HEADQUARTERS: MILAN

→ **CENTRAL & EASTERN EUROPE**
HEADQUARTERS: VIENNA

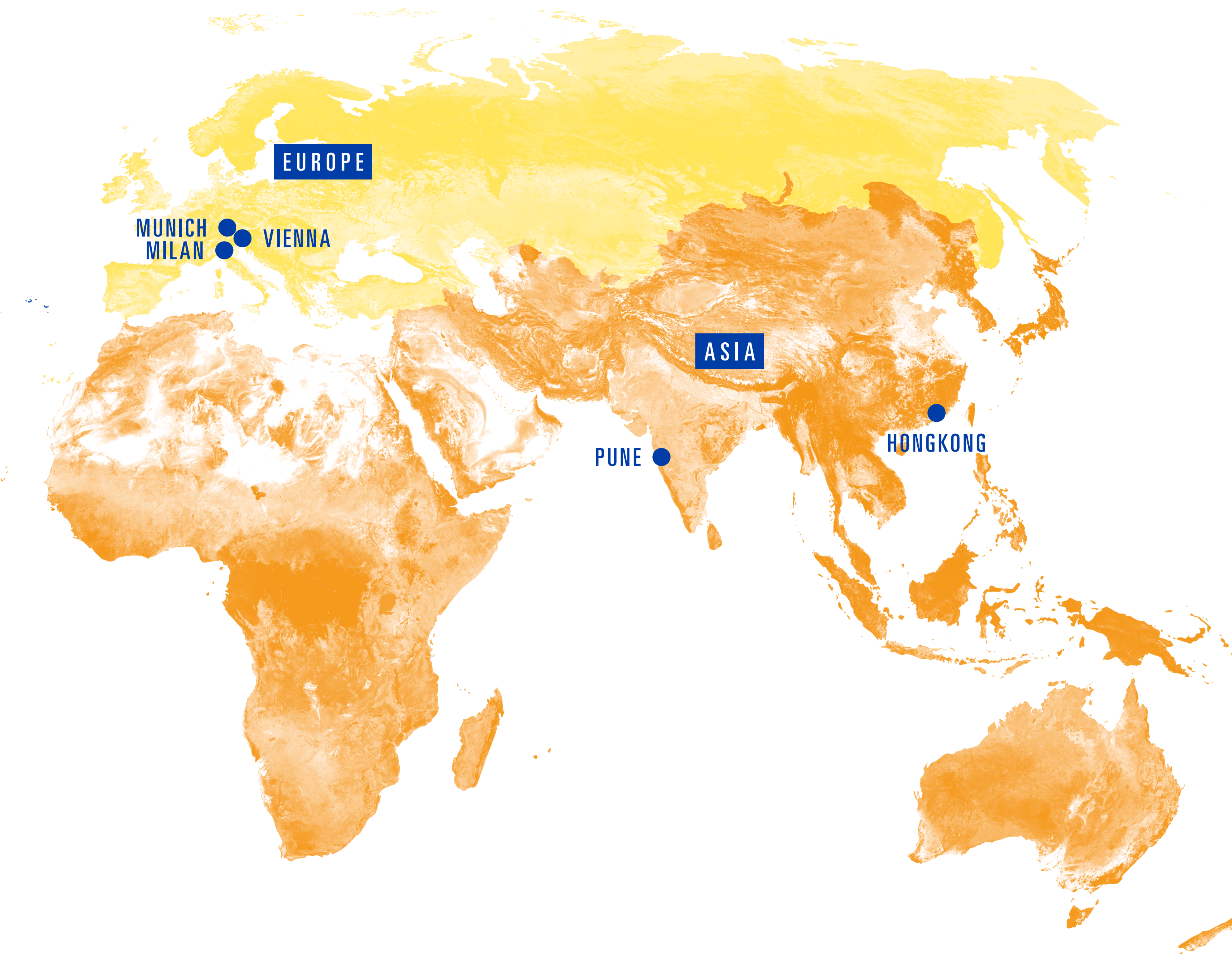
AMERICAS

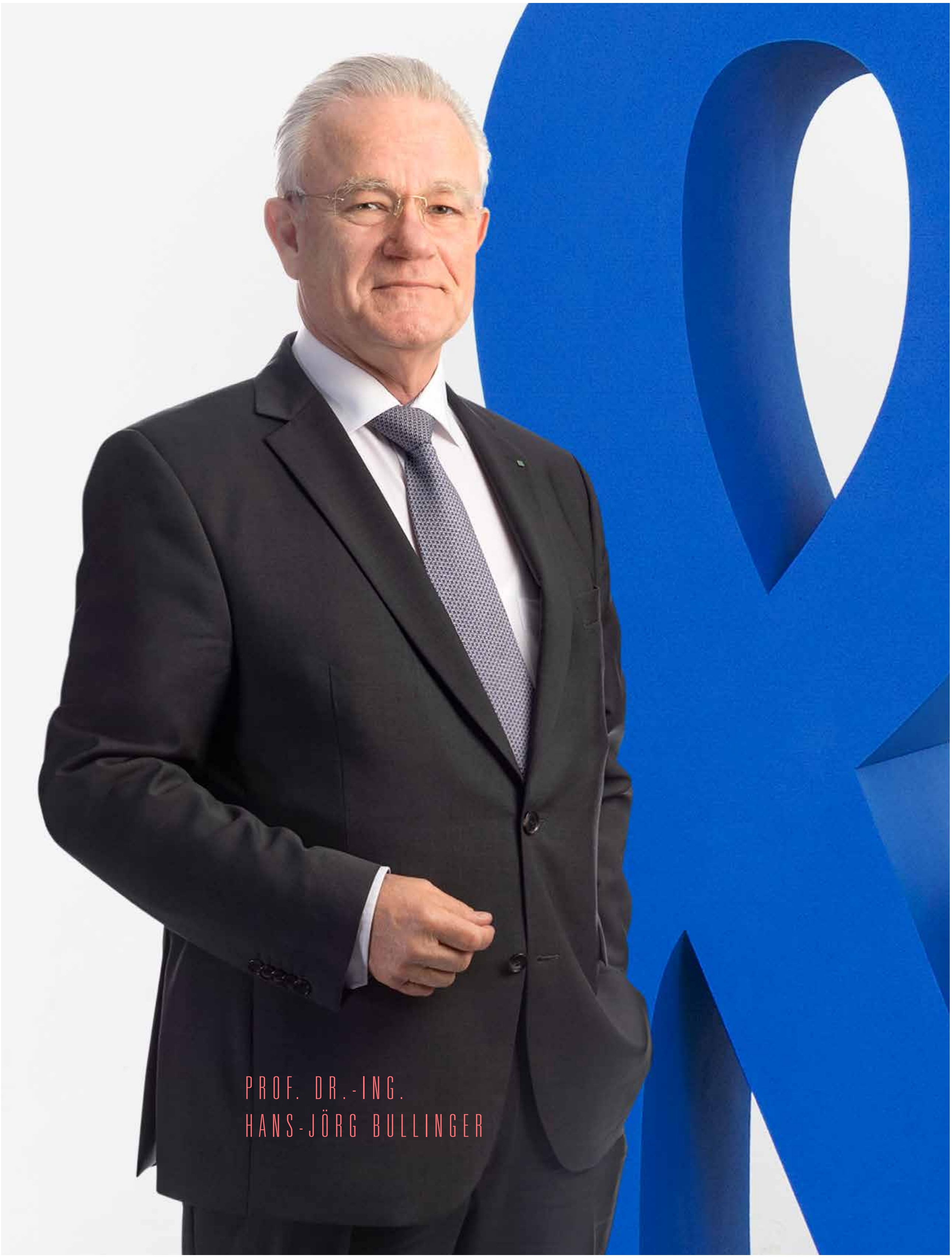
→ **AMERICAS**
HEADQUARTERS: BOSTON

ASIA

→ **ASMEA**
(SOUTH & SOUTH EAST ASIA, MIDDLE EAST & AFRICA)
HEADQUARTERS: PUNE

→ **NORTH ASIA**
HEADQUARTERS: HONGKONG


EUROPE
MUNICH
MILAN
VIENNA
ASIA
PUNE
HONGKONG


PROF. DR.-ING.
HANS-JÖRG BULLINGER

SUPERVISORY BOARD REPORT

Ladies and Gentlemen,

We can look back on a successful year for TÜV SÜD. The company built on the good business performance of the prior years and achieved the revenue and earnings targets defined in the planning.

With the "The Next Level. Together." strategy, which runs until 2025, we set the course for the future in order to reach the next level in the development of our company.

In the reporting year, the Supervisory Board performed the tasks required of it by law and the articles of incorporation and bylaws. We regularly monitored the Board of Management's stewardship of the company and offered advice on the strategic development of the TÜV SÜD Group as well as on significant current measures.

The Board of Management provided us regularly with comprehensive and timely written and oral reports on the general situation of the TÜV SÜD Group, current business development, business planning and strategic orientation. We were informed about the risk situation of TÜV SÜD. The flow of information was supplemented by a half-year report. Variances from planning were explained to us in detail.

At the four ordinary meetings held in 2018, we discussed topics including the 2017 separate and consolidated financial statements, the Group's strategy and planning for 2019. We addressed the rolling forward of the Group's strategy until 2025 in an extraordinary meeting. We also held a workshop to evaluate the efficiency of the Supervisory Board. On a trip to China, we deepened our awareness about developments in Asia and especially the opportunities China holds for the TÜV SÜD Group. In the quarterly reporting, the Supervisory Board was also informed about the development and financial situation of TÜV SÜD Pension Trust. Personal meetings were also held on a regular basis between the Chairman of the Supervisory Board and the Chairman of the Board of Management.

This ensured that the Supervisory Board was always kept informed in detail about the company's situation and plans.

In an ad hoc report at the end of January 2019, the Board of Management informed the Supervisory Board about the tragic dam collapse in Brazil, which had been inspected by a Brazilian subsidiary in summer 2018. The communication included the knowledge available and the measures taken so far. The Supervisory Board engaged a renowned law firm to coordinate the working groups set up to handle this issue.

Martha Straub left the Supervisory Board in May 2018. Her replacement on the Supervisory Board was Albert Hofmann, chairman of the works council for the greater Munich area of TÜV SÜD Industrie Service GmbH. Christine Siemssen left the Supervisory Board as of the end of the annual general meeting on July 13, 2018. Professor Dr. Rudolf Staudigl, Chairman of the Managing Board of Wacker Chemie AG, was newly appointed to the Supervisory Board.

Josef Bichler, who left the Supervisory Board as of August 31, 2018, was replaced by Kurt Seitz, Representative Executive Staff of TÜV SÜD Auto Service GmbH. The Supervisory Board would like to thank those leaving for all their hard work and wishes the newly appointed members of the Supervisory Board all the best with their tasks.

The audit committee met four times in 2018. The topics it addressed included the 2017 financial statements, the half-year report as at June 30, 2018, preparations for the audit, the audit focus areas, the independence of the auditor and TÜV SÜD's tax compliance management system as well as the requirements of the General Data Protection Regulation (GDPR) for the company.

In March 2019, it also handled the dam collapse in Brazil as well as the inherent risks from a pending legal dispute on pensions under the Versorgungsstatut 1953. Furthermore, it dealt with the internal audit findings for 2018, the effectiveness of the internal control system and further internal audit planning.

Other topics for the audit committee were the planned investments as well as TÜV SÜD Pension Trust's investment and hedging strategy. The separate financial statements of TÜV SÜD AG, the consolidated financial statements and the combined management report were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Munich, who issued an unqualified independent auditor's report. These documents and the audit reports prepared by the auditors were available to all members of the Supervisory Board. At its meeting on March 22, 2019, the audit committee initially discussed and reviewed these documents.

At the Supervisory Board's closing meeting on March 29, 2019, the chairman of the audit committee presented a report. There was also a comprehensive summary of the current status of investigations in Brazil and the effect of the measures taken. The auditor attended both meetings, reported on the key findings of the audit and answered questions posed by the audit committee and Supervisory Board members.

We conducted an extensive review of the financial statements of TÜV SÜD AG, the consolidated financial statements and the combined management report. The Supervisory Board agreed with the findings of the independent auditor and has no objections following the final result of the review. We approved the separate financial statements of TÜV SÜD AG which are herewith ratified. We approved the consolidated financial statements and the proposal of the Board of Management to the annual general meeting for the appropriation of retained earnings.

On behalf of the Supervisory Board, I would like to thank the members of the Board of Management, executives, employees and employee representatives for their successful work and exemplary commitment in the fiscal year 2018.

Munich, March 29, 2019

PROF. DR.-ING.
HANS-JÖRG BULLINGER
Chairman of the Supervisory Board of TÜV SÜD AG

CORPORATE BOARDS

Supervisory Board

Prof. Dr.-Ing. Hans-Jörg Bullinger
Chairman
Senator of Fraunhofer-Gesellschaft

Harald Gömpel [1]
Deputy Chairman
Chairman of the works council of TÜV Technische Überwachung Hessen GmbH

Josef Bichler [1]
Former Head of Corporate Controlling of TÜV SÜD AG
(until August 31, 2018)

Dr. Christine Bortenlänger
Member of the Executive Board of Deutsches Aktieninstitut e. V.

Wolfgang Dehen
Former Chairman of the Board of Management of OSRAM Licht AG

Dr.-Ing. Klaus Draeger
Former Member of the Board of Management of BMW Group

Thomas Eder [1]
First Deputy Chairman of the works council Bayern Südost of TÜV SÜD Auto Service GmbH

Jörg Frimberger [1]
Chairman of the works council Ansbach/Nürnberg of TÜV SÜD Auto Service GmbH

Dr. Jörg Matthias Großmann
Member of the Board/CFO of Freudenberg Chemical Specialities SE & Co. KG

Albert Hofmann [1]
Chairman of the works council Greater area Munich of TÜV SÜD Industrie Service GmbH
(since May 1, 2018)

Franz Holzhammer [1]
Union representative

Peter Kardel [1]
Chairman of the works council of TÜV SÜD Industrie Service GmbH

Wolfram Reiners [1]
Chairman of the central works council of TÜV SÜD Business Services GmbH

Angelique Renkhoff-Mücke
Member of the Executive Board/CEO of WAREMA Renkhoff SE

Kurt Seitz [1]
Representative Executive Staff TÜV SÜD Auto Service GmbH
(since September 1, 2018)

Christine Siemssen
General Manager of Milupa Nutricia GmbH
(until July 13, 2018)

Prof. Dr. Rudolf Staudigl
Chairman of the Board of Management of Wacker Chemie AG
(since July 13, 2018)

Martha Straub [1]
Chairperson of the works council of TÜV SÜD Akademie GmbH
(until April 30, 2018)

Dr. Eberhard Veit
Chief Executive Officer of 4.0-Veit GbR
Former CEO of Festo AG

Board of Management

Prof. Dr.-Ing. Axel Stepken
Chairman of the Board of Management

Ishan Palit
Member of the Board of Management

Dr. Matthias J. Rapp
Member of the Board of Management

1 _ Employee representative.

COMBINED MANAGEMENT REPORT

COMBINED MANAGEMENT REPORT

GROUP INFORMATION

TÜV SÜD is a global technical services provider. We protect people, property and the environment against technical risks. We have now been working to facilitate technological progress for more than 150 years.

TÜV SÜD's range of services covers certification and testing, inspection, auditing and system certification, knowledge services and training. As committed and responsible process specialists with extensive sector-specific knowledge, we develop tailored solutions – both for retail customers and for industry, trade and government. As advisors, we optimize technology, systems and know-how, always with an eye on the entire value-added chain.

→ WORLD MAP
SEE PAGES
10 – 11

More than 24,500 employees at over 1,000 locations in around 50 different countries work to provide security and added value for our customers. In globally networked competence centers, we make the latest knowledge available to our customers worldwide.

Legal structure guarantees independence

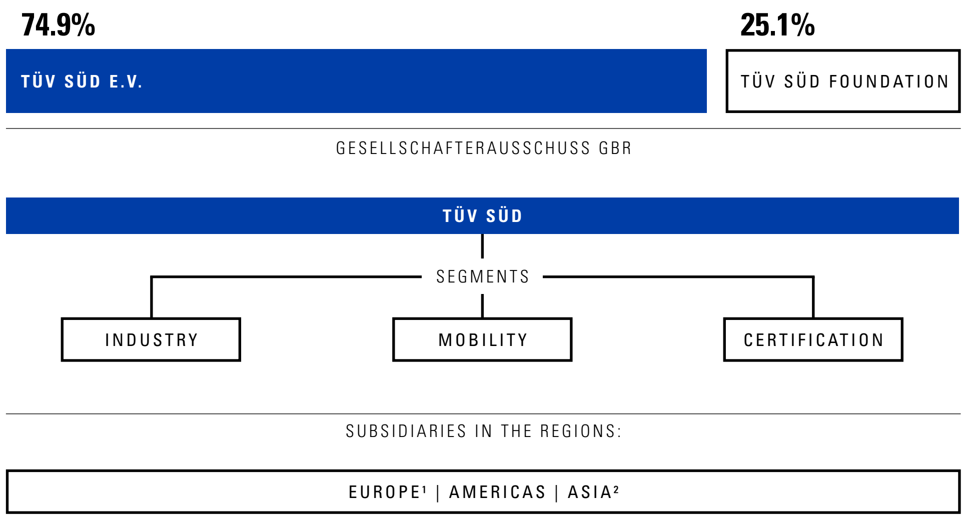
TÜV SÜD stands for independence and impartiality, which are guaranteed by the specific structure of our Group. In its capacity as management holding company, the parent company TÜV SÜD AG with registered offices in Munich, manages its subsidiaries around the world. The beneficial owners of TÜV SÜD shares are TÜV SÜD e. V., Munich, and the TÜV SÜD Foundation, Munich. Both have transferred their shares to the independent TÜV SÜD Gesellschafterausschuss GbR, a shareholder committee with registered offices in Munich. The purpose of the civil law association is to hold and manage this shareholding under stock corporation law.

The managing bodies of TÜV SÜD e. V., the TÜV SÜD Foundation and TÜV SÜD Gesellschafterausschuss GbR were appointed independently of the supervisory bodies of TÜV SÜD AG. This ensures the independence of the bodies in accordance with the German Corporate Governance Code.

05

The TÜV SÜD Foundation publishes its own report annually.

Legal structure 05



1 _ Germany, Western Europe, Central & Eastern Europe
2 _ North Asia, ASMEA (South & South East Asia, Middle East & Africa)

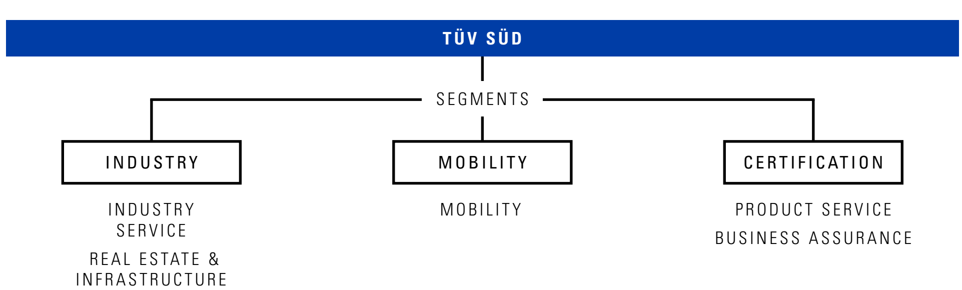
Clearly defined management structure

TÜV SÜD is managed in a matrix organization, and its agile, efficient and transparent structure makes it fit for the future. The Board of Management consists of a Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Operating Officer (COO), who is centrally responsible for the operating business.

Below the Board of Management, the Leadership Council is established as a body comprising both the Board of Management and the heads of the divisions and key regions. The Council's purpose is to implement overarching topics such as strategy, employee development, innovation and digitization.

TÜV SÜD's services are grouped into three segments: INDUSTRY, MOBILITY and CERTIFICATION. 06

TÜV SÜD structure 06



The INDUSTRY Segment comprises the Industry Service and Real Estate & Infrastructure Divisions. The MOBILITY Segment contains the Mobility Division. The Product Service and Business Assurance Divisions make up the CERTIFICATION Segment.

While the divisions are responsible for implementing global strategies, local business development is the responsibility of the regions. The regional breakdown of our activities remained unchanged in the fiscal year 2018.

Business model

We are a reliable partner when it comes to safety and sustainability. With our solutions, we create measurable added value for our customers, in the physical and digital world.

Our services meet two of our customers' key requirements:

→ We facilitate **access to the market** with our testing services and certifications. Our experts are increasingly being involved as early as the development process, helping to meet all of the requirements of the target markets in a way that saves time and money, often long before a product is introduced into the market.

→ We **evaluate and reduce risks**, from risk assessments at facilities to cyber security evaluations. Increased networking between companies and across national borders is helping our experts work closer and closer with our customers.

The market for technical services

As a technical service provider, TÜV SÜD operates in the market for TIC (Testing, Inspection, Certification) services. This is a market with an estimated global volume of around € 75 billion, and one that has been growing steadily for many years.

The market is populated by regulatory authorities, accreditation and standardization authorities, technical service providers like TÜV SÜD, research and development institutions, manufacturers, retailers and systems operators. It is served by large international companies like TÜV SÜD as well as a large number of small specialists. The market also has numerous opportunities to offer in the years ahead. We anticipate annual growth of between 4% and 6%, which means that the accessible market volume could rise to around € 110 billion by the year 2025.

This positive growth forecast is based on multiple factors. The trend toward the outsourcing of TIC activities is gathering pace, and the liberalization of formerly closed markets is also progressing. Continued growth in Asia, mainly in China and India, is also driving this development. Brexit and international trade disputes are potential risks that could hamper the anticipated growth of the market. Free global trade in particular is a significant source of growth.

We expect further growth in the years ahead, especially in connection with our customers in the automotive and consumer goods segments. We want to grow organically on the basis of this foundation, and increase our revenue with high-quality services. We will also make targeted acquisitions in order to seize the opportunity to move into new lines of business, specifically in the field of digital technologies.

Industry-specific environment

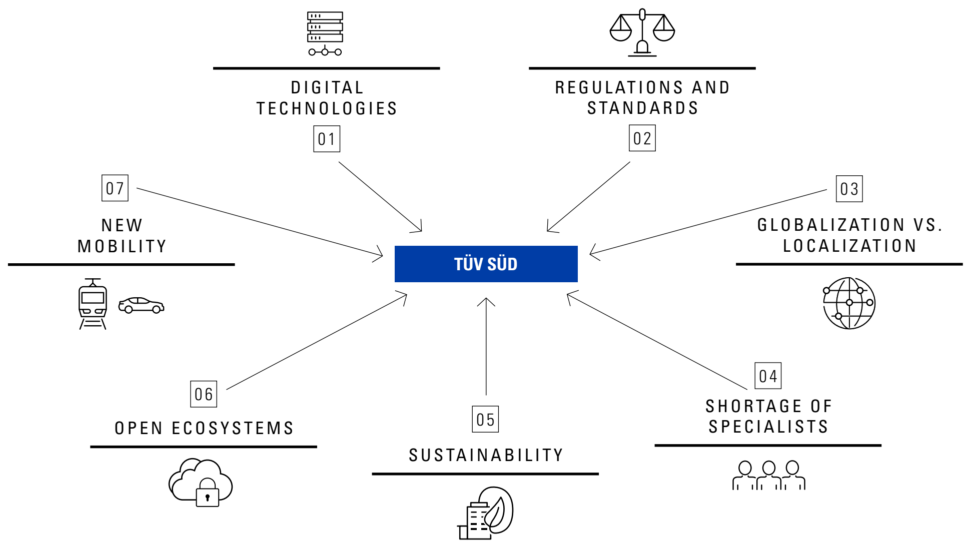
In its history, which goes back more than 150 years, TÜV SÜD has repeatedly proven its ability to benefit from technological development and exploit the resulting challenges as opportunities for the company.

Increasing digitization represents both a challenge and an opportunity for us, because it is impacting almost all of the industries in which our customers operate. Digital technologies are also changing the way we work and approach tasks. At TÜV SÜD we mainly see the opportunities that digitization presents for the ongoing development of our company. We want to exploit the corresponding potential and continue expanding our company's productivity.

In addition to digitization, there are a number of trends that are influential for our company, which we are responding to with a series of initiatives. 07

Challenges and trends for TÜV SÜD

07



01 Digital technologies

→ The development of digital technologies, for example in the field of sensor technology, analytics and artificial intelligence, is gathering pace. For us and for our customers this opens up numerous opportunities for new services, for the way in which services are provided in the future and for new processes.

→ INNOVATIONS REPORT
SEE PAGES 27 – 29

02 Regulations and standards

→ Regulations and standards must be constantly adapted to keep up with rapid technological developments so that they continue to offer security and value to society.
TÜV SÜD is involved in various different bodies around the world in order to ensure that companies also implement these regulations and standards properly, particularly when it comes to new technologies such as advanced analytics and cyber security. These also include international standardization bodies such as the International Electrotechnical Commission (IEC) and the International Organization for Standardization (ISO). Thanks to the extensive experience of our experts, we make a key contribution to adjusting national and international regulations and standards so that they offer our customers safety as well as added value.
TÜV SÜD's broad spectrum of services is reflected in more than 630 accreditations and around 575,000 certificates issued.

03 Globalization vs. localization

→ Companies and their supply chains are becoming interwoven and increasingly global. This entails an understanding of and compliance with the various different national and international standards in effect at present. At the same time, the local markets in the emerging economies such as China are becoming more important. Local know-how and representation are required in order to serve these markets.

→ MARKET FOR TECHNICAL SERVICES
SEE PAGE 23

04 Shortage of specialists

→ The TIC market needs well-trained experts who are also capable of operating in an internationally networked environment. These specialists are in high demand on local markets; in Germany, recruitment is made even more difficult by demographic change.

→ EMPLOYEE REPORT
SEE PAGES 68 – 75

05 Sustainability

→ The energy mix will become progressively climate-neutral, and power will be used more efficiently. This development is being driven by more stringent environmental requirements, but also by a change in the mindset of society. This is also shifting the focus for our industry. Skills and services relating to renewable energies, and the associated challenges of energy storage and power grids, are coming to the forefront of development.

→ SUSTAINABILITY AS THE GROUP'S PURPOSE SEE PAGES 29 – 30

06 Open ecosystems

→ Digitization is giving rise to new business models and partnerships in the TIC industry; however, new competitors are also moving into the market. Data and platform-based services such as the sealed cloud applications of Uniscon universal identity control GmbH (Uniscon), Munich, are increasingly being developed in order to meet customers' needs better and introduce new business models to the market.

→ INNOVATIONS REPORT
SEE PAGES 27 – 29

07 New mobility

→ The future of mobility is electric and highly automated. Mobility is becoming more and more a service, and sharing-based models will be an important aspect of mobility in the future. This will present new challenges for the testing of vehicles and driver assistance systems, but also for the entire charging infrastructure.

→ COURSE OF BUSINESS
SEE PAGES 39 – 42

"The Next Level. Together." – our strategy through to 2025

Our strategy has been shaped by growth and efficiency in recent years. This has allowed us to benefit from the strong performance of the TIC market, and sustainably increase revenue, income and the number of our employees.

With our new strategy "The Next Level. Together.", which runs until 2025, we want to reach the next level in the development of our company. As a result, we have tailored our company's purpose to both the current and new challenges, and amended TÜV SÜD's vision, mission and claim accordingly. This is because new trends and developments, driven in particular by digital technologies, are creating additional potential, both for us and for our customers.

We pursue four strategic angles in order to exploit this potential: 08

The Next Level. Together. 08

→ **Promoting excellence and efficiency:**
We want to always offer our customers the best services – and our customers should notice the difference. This requires excellence in our services, marketing, processes and excellence of our employees. In this way, we want to create in our company the structures required for better collaboration, enhance our employees' skills and know-how, and use the latest systems that set new standards for user-friendliness.

→ **Reinventing testing services:**
Our expertise in almost every industry, combined with knowledge of the possibilities of digitization, enables us to develop data-based, continuous and automated testing services. By providing testing services for new systems and technologies, building up cyber security services and drawing up standards for new fields of technology, we create forward-looking services for our customers and consistently expand our range of services.

- **Adding high-quality services:**
  Based on our expertise, we want to offer technical services with renewed focus while making our business digital and customer-oriented by developing platforms.

- **Promoting internationalization:**
  We aim to be market leaders in our core countries. Our focus is always on offering services and skills across national boundaries. We want to make our relationships with our customers increasingly global, and build up our business activities around the world.

In order to implement these four strategic angles, we defined strategic priorities at a group level and for each of our divisions in 2018 in order to address the main market trends with clear initiatives and plans. We want to set a course for the future of TÜV SÜD, in order to be a partner for our customers with respect to safety and sustainability, in both the physical and the digital world.

→ EMPLOYEE REPORT SEE PAGES 68 – 75

Our employees' skills and know-how are more important than ever to our success. They play a key role in the implementation of our strategy, and we particularly want to invest in their capabilities in the years ahead. In addition to establishing and expanding basic specialist and management skills, one particular focus is on aspects of personal development that benefit our company's progress with respect to digitization and new technologies.

We want to continue to sustainably improve the revenue and profitability of our business. To this end, we are planning to invest between € 100 million and € 150 million each year. But above all, we want to live up to the vision that we have been pursuing for more than 150 years: to facilitate the progress of technology by protecting people, property and the environment against technical risks.

We have condensed this vision into our new slogan: "TÜV SÜD: Add value. Inspire trust."

Innovation is key

TÜV SÜD's business has been driven by the progress of technology since it was founded more than 150 years ago. If we stand for the security of technology, then we must be at the forefront of technological change ourselves. And those who want to remain competitive in the long term must also take every opportunity within their own company to work even more efficiently and offer a customer the highest possible quality of service.

That is why TÜV SÜD has been practicing active innovation management for many years. In the fiscal year 2018 we invested € 19.9 million (prior year: € 17.1 million) in research and development for highly innovative projects.

Our goal is to develop innovations that are clearly tailored to the market and to quickly and effectively translate them into specific products. In 2018, our innovation projects once again focused on the digital transformation of our core business as well as new, technology-driven business models. One particular focus is on implementing pilot projects with our customers and partners.

SHAPING THE DIGITAL REVOLUTION

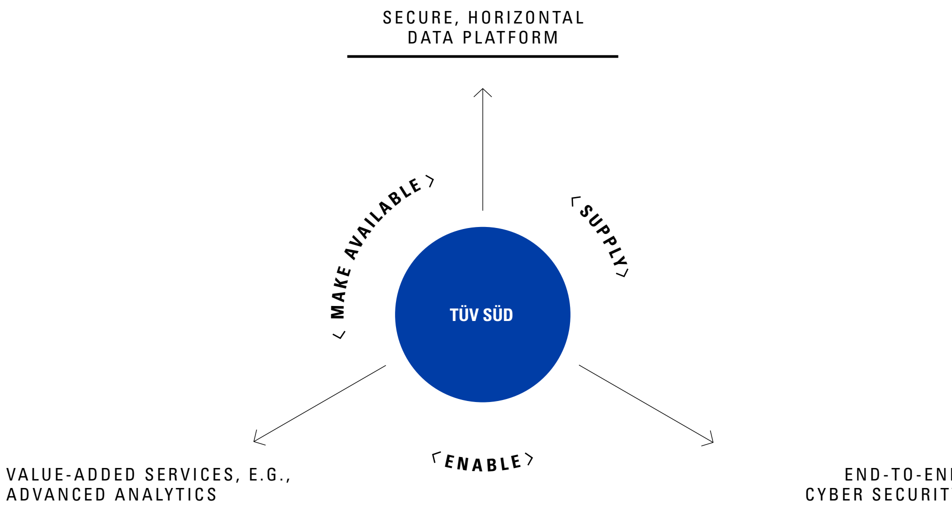
The ongoing process of digitization is changing business models, and constantly presenting us and our customers with new challenges. TÜV SÜD spotted this trend early on.

TÜV SÜD Digital Services GmbH (TÜV SÜD Digital Service), Munich, and its two Centers of Excellence (CoE) for Digital Services in Singapore and Munich offer experts and know-how to assist our customers with almost any issue relating to digitization.

As an "internal start-up", TÜV SÜD Digital Service both develops new solutions and business models, and assists the operating units with the ongoing development of their services. The main focus of the CoE in Singapore is on the rapid implementation of pilot projects in the city-state's highly innovative environment, while the CoE in Munich develops the key technologies that are relevant to TÜV SÜD and promotes them through group-wide initiatives and projects.

TÜV SÜD has therefore defined three priorities for itself in the field of digitization. 09

Strategic priorities 09



In the field of Advanced Analytics we use our technical and sector-specific expertise to offer our customers new or expanded services such as data-based projection models. We expect applications in the field of artificial intelligence in particular to provide a significant boost to existing services as well as entirely new lines of business.

Comprehensive cyber security services will make TÜV SÜD a reliable partner in all matters relating to IT security, particularly for our customers in industry. Our services in this context include certifications in connection with the “Internet of Things”, device and version management for factory automation, and penetration and security tests for industrial, IT-assisted applications. As a member of the “Charter of Trust” initiative, we work with renowned industrial corporations to promote cyber security at all levels and foster trust in it. To this end, the initiative outlines key principles for coordinated action on the part of politics, society and business partners.

The third strategic priority relates to secure, neutral data platforms. Our investment in Uniscon at the end of 2017 expanded our portfolio in this field. Since then we have implemented a wide variety of Sealed Cloud applications for the secure storage and processing of data for customers in industry and administration. And we use the Sealed Cloud at our own company for communicating and sharing data in critical areas.

Numerous concrete projects in the course of the fiscal year show that we are on the right track with our strategy.

We have for example made important progress in our activities in connection with highly-automated driving (HAD). Among other things, we entered into a partnership with a leading insurance provider in order to above all evaluate the possibilities of and different issues raised by the use of artificial intelligence. In Singapore, we are working with a local partner to develop simulation scenarios for self-driving vehicles in order to create as objective a foundation as we can for evaluating the performance of self-driving vehicles.

One focus of our innovation projects in the field of additive manufacturing is on the technical safety of industrial 3D printing processes. This is because binding service specifications based on clearly defined standards are essential for cooperation between companies in the context of Industry 4.0. The projects provide a striking demonstration of the potential that is created when sector-specific knowledge and technical expertise are combined with specific IT know-how.

This always becomes apparent when it comes to ensuring the safety of new, disruptive technologies. We are proving this ability for the first time with the first certification guideline for Hyperloop applications, the core points of which were already presented to a specialist audience in 2018. The project incorporates many of our capabilities in a wide range of specialist fields – and clearly underscores the vision that we encapsulated in the title of our strategy “The Next Level. Together.”. Because the more complex and far-reaching the changes are that result from the digital revolution, the more we need to bundle strength and skills, and face the challenges together in multi-disciplinary teams with partners.

→ EMPLOYEE REPORT SEE PAGES 68 – 75

TÜV SÜD will continue to invest in the development of technology in the future – and above all in the know-how and skills of its employees, because they are the ones who advance the transformation of our company. An amount in the double-digit millions will be spent on the development of new services relating to the field of digitization in the next three years alone.

Sustainability as the Group’s purpose

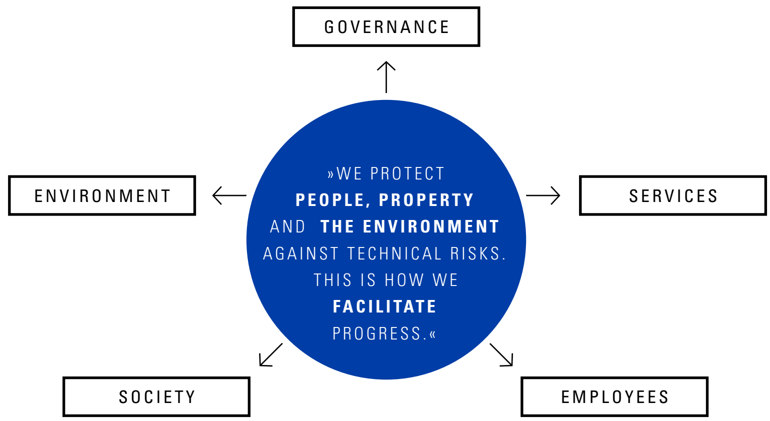
Sustainable action aimed at protecting people and the environment has long been anchored in TÜV SÜD’s corporate objectives. This guiding principle has shaped the company since its foundation over 150 years ago. From the first environment-related assessments at the end of the 19th century to the countless audits and certifications that we currently offer in areas such as environmental management, energy efficiency, renewable energy or electromobility – when it comes to protecting people and the environment TÜV SÜD is almost always the first port of call.

TÜV SÜD also applies stringent standards to its own actions. Absolute integrity and strict compliance with laws and standards are absolutely essential for a technical service provider. Comprehensive compliance management within the Group ensures that all our employees always meet the high standards that our customers and the public expect from us.

In 2018, we started systematizing our sustainability-related activities and defining the main areas in which we need to take action. 10

Action areas

10



Our aim is to make our activities and their impact on our corporate environment measurable and comparable. Because transparency is also an important aspect of sustainable activity, and also necessary in order to get better at everything we do.

→ EMPLOYEE REPORT SEE PAGES 68 – 75

In addition to our campaigns and services for employees, the following are examples of our efforts in connection with sustainability in the fiscal year:

- TÜV SÜD joined the Sustainable Apparel Coalition (SAC). This association's aim is to create greater transparency in the supply chains for clothing, textiles and shoes. To this end, it plans to measure ecological and social factors and identify potential areas where action is required and potential for improvement based on sector benchmarking.
- In order to promote electromobility, TÜV SÜD offers charging stations for electric vehicles at various different locations in Germany. This electricity stems entirely from renewable resources.

Our management system

TÜV SÜD's management system is based on its integrated controlling system and strategic corporate planning.

We use various indicators to gauge our company's performance and leverage them to manage our company.

Revenue growth and earnings before interest, before other financial result and before income tax, but after income from participations (EBIT) and the EBIT margin, are defined as key financial performance indicators.

These indicators are supplemented at group level by the value-based indicator Economic Value Added (EVA®), which has been adapted to the requirements of TÜV SÜD. This measures the value added by the Group and takes into account the cost of capital used to generate the respective earnings. The EVA indicator is a key component of variable compensation in the compensation system for the first and second levels of management.

At Group level, we also use free cash flow and earnings before taxes (EBT) as additional, non-material financial indicators. The free cash flow shows the extent to which we generate long-term cash flows from our operating activities.

With respect to our employees we use a number of different non-financial performance indicators such as the headcount, the average age of employees, the proportion of female employees and the average duration of employment at the company. ≡ 02

Definition of financial performance indicators at TÜV SÜD ≡ 02

KEY PERFORMANCE INDICATOR	DEFINITION
EBIT	earnings before interest, before other financial result and before income tax, but after income from participations
EVA	NOPAT – GROUP'S COST OF CAPITAL **Net operating profit after tax (NOPAT)** = EBIT – income tax (flat rate of 30%), excluding the at equity result from the taxation **Capital Employed** = non-current operating assets + inventories and receivables – non-interest-bearing liabilities and provisions[1] **Group's cost of capital** = average capital employed × weighted average cost of capital (WACC: 7%)
Free cash flow	**Cash flow from operating activities** Cash outflow for investments in intangible assets, in property, plant and equipment, and in investment properties

1 _ Non-interest-bearing liabilities and provisions include current provisions, and tax liabilities.

This value-based management is implemented in our integrated controlling system. It is based on a group-wide management information system, a harmonized global finance function, and accounting in accordance with International Financial Reporting Standards (IFRSs).

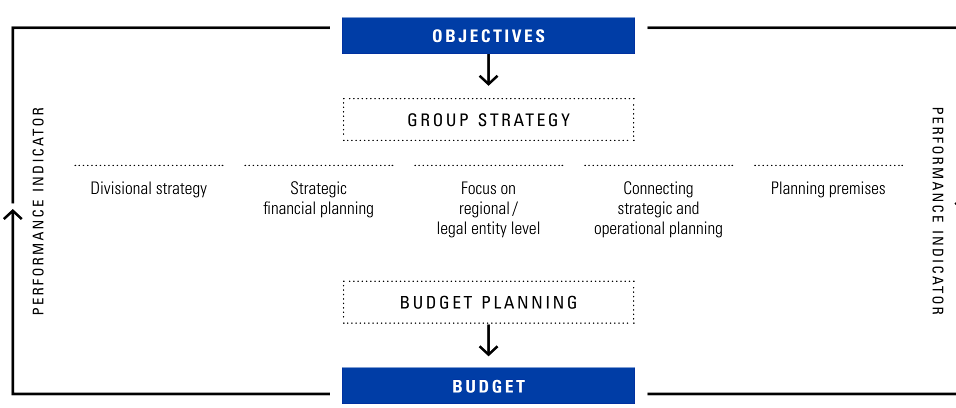
All performance indicators are determined as part of our planning and monitoring processes for the respective levels of the Group (segments, divisions, regions and legal entities) and are made available in standardized format via our internal reporting system.

The starting point for our planning and monitoring processes is strategic planning. This aims to achieve profitable growth and a continuous increase in the value of the company. In addition to quantitative factors and hitting operating targets, the reputation of the TÜV SÜD brand is at the forefront of everything we do. The quality of the services we provide and the satisfaction of our customers are crucial in this regard.

The Group's strategy, which is broken down into the respective divisional strategies, is derived from the long-term strategic goals. The divisions' targets are incorporated into the strategic financial planning, and are specified in more detail at a regional level.

The planning for the next year that is arrived at in this way, and three extrapolations during the year in progress, combined with prompt monthly financial statements, form the basis for our analyses with which we measure the implementation of strategic goals and analyze deviations from the plan. 11

Strategic and operational planning 11



CORPORATE GOVERNANCE REPORT

The Board of Management and Supervisory Board of TÜV SÜD AG are guided by the requirements imposed by the German Corporate Governance Code on capital market-oriented companies. We consider good corporate governance to mean responsible, transparent and values-based management. This is a crucial foundation for our success. It is explained in greater detail in clear guidelines and regulations that apply throughout the company. We regularly review these principles and adapt them in line with new findings, changed legal provisions, and national and international standards. This enhances the trust of our customers, our employees and the public in our work and allows us to meet the steadily increasing information requirements of national and international stakeholders.

Composition of the Supervisory Board

The Supervisory Board of TÜV SÜD AG comprises 16 members. In accordance with German law, half of the members are employee representatives and half are shareholder representatives, who are reputable representatives of business and the public. The Supervisory Board has two female members representing the shareholders.

The audit committee consists of four members and deals primarily with monitoring the financial reporting process, the effectiveness of the internal control system, the risk management system and the internal audit system. In particular, it receives reports on the Group's risk situation, the findings of internal audits (including compliance breaches) as well as planned investment and portfolio measures. It also deals with the audit of the annual financial statements and the independence of the auditors, the additional services provided by the auditors, the award of the audit engagement and the definition of audit priorities and the agreement of fees.

The personnel committee comprises four members. Its main tasks include preparing appointments and removal of members of the Board of Management, drafting recommendations on remuneration of the individual members of the Board of Management and designing and regularly reviewing the remuneration system.

The Supervisory Board as a whole is regularly informed by the respective committee chairman of the activities of the respective committees.

Composition of the Board of Management

→ CLEARLY DEFINED MANAGEMENT STRUCTURE
SEE PAGE 21

The Board of Management of TÜV SÜD AG has three members. It is responsible for running the company and manages its business. It is bound to act in the interest of the company and to increase the long-term value of the company. It discharges its management duties as a collegial body with joint responsibility for managing the company.

Cooperation between the Board of Management and the Supervisory Board

TÜV SÜD's strategic direction is coordinated closely between the Board of Management and Supervisory Board of TÜV SÜD AG. The boards jointly discuss the status of strategy implementation at regular intervals. The Supervisory Board is informed by the Board of Management regularly, comprehensively and without delay about all relevant questions regarding business development, planning and the situation of the company, including the risk position and risk management, as well as compliance, in written and oral reports.

→ CORPORATE BOARDS SEE PAGE 16

Further information on collaboration between the Board of Management and Supervisory Board of TÜV SÜD AG can be found in the Supervisory Board report in this annual report. The members of the Board of Management and Supervisory Board are listed in the notes to the financial statements.

Declaration on the equal representation of women and men in management positions

On June 30, 2017, TÜV SÜD AG set itself new targets and deadlines for the inclusion of women in management positions: ≡ 03

≡ 03

	Newly-fixed target rate	Percentage already achieved (Dec. 31, 2018)	Deadline
Supervisory Board	25%	13%	Dec. 31, 2021
Board of Management	0%	0%	Dec. 31, 2021
First management level	20%	16%	Dec. 31, 2021
Second management level	35%	50%	Dec. 31, 2021

→ EMPLOYEE REPORT SEE PAGES 68 – 75

Target shares were also newly defined for the four German group companies affected by the legislation. The target shares were at least on a par with the shares already achieved then. December 31, 2021 was set as the deadline in most cases.

Compliance

Compliance with international rules and dealing fairly with our business partners and competitors are among our company's most important principles. TÜV SÜD has always felt bound by legal and internal requirements. Ethical principles are an integral part of our corporate culture.

TÜV SÜD takes a preventive approach to compliance and endeavors to achieve a corporate culture that proactively excludes potential breaches by raising employee awareness and educating the workforce. The necessary measures and compliance with implemented checks are monitored at regular intervals by the internal audit function. This involves systematically reviewing compliance and performing controls based on random samples, as well as investigating the facts in the event of actual suspicions.

The Chief Compliance Officer is assisted by the Global Compliance Officers, the Local and Regional Compliance Officers and the Compliance Officers of the Group's divisions.

We have communicated concrete behavioral principles (the TÜV SÜD Code of Ethics) to all entities, and established them as an essential component of the Group's culture. The TÜV SÜD Code of Ethics consists of compliance regulations that include avoiding conflicts of interest and corruption, and observing embargo and trade control provision, among other things. Its guiding principles are independence, integrity and law-abiding behavior.

→ SEE WWW.TUEV-SUED.DE/CODE-OF-ETHICS

Through comprehensive training, including an e-learning program tailored to the company's specific requirements, we ensure that our corporate compliance requirements are put into practice within the company. Employees may contact the Chief Compliance Officer or Global Compliance Officers at any time by letter, e-mail or telephone. There are also Local Compliance Officers available as direct points of contact. In addition, the internet-based EthicsPoint platform is available for communication in selected countries.

Employees and business partners can also report indications of breaches and suspected violations to an external system of ombudsmen, who are sworn to secrecy and anonymity. Breaches of the law or internal policies are subject to appropriate sanctions and may result in consequences for our employees under labor law, up to and including dismissal.

TÜV SÜD's procedure for processing personal data was adapted to the data protection provisions of the General Data Protection Regulation (EU-GDPR) during the fiscal year.

Legal requirements

TÜV SÜD is not required by the German Corporate Social Responsibility Guideline Implementing Act (CSR-RUG) to issue a statement regarding non-financial performance indicators. Where relevant, we already report now on certain aspects of sustainability. As a technical service provider our corporate objective is geared toward sustainable activity, and protecting people and the environment in particular.

Risk management system

→ OPPORTUNITY AND RISK REPORT SEE PAGES 76 – 86

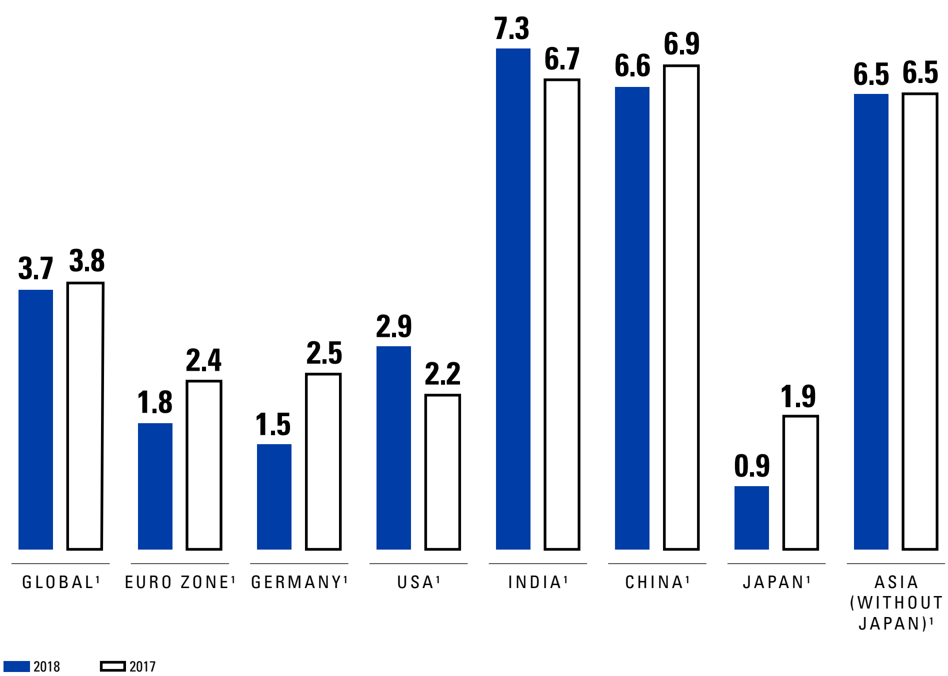
In our daily work, we attach great value to exercising care with respect to potential risks to the company. Our risk management system is designed to identify risks, evaluate existing risk positions and optimize risks taken. This is done in the risk committees set up for this purpose, comprising representatives of the divisions and segments. We continually adapt this system to the changing business environment.

ECONOMIC REPORT

Macroeconomic environment

Global economic output rose 3.7% in 2018, but growth was slowing in the course of the year. The slowdown of growth in the developed economies was particularly due to the weakness of international trade in the euro zone and Japan. By contrast, the US economy underwent a steady recovery. The emerging economies have proved robust thus far, although their economic prospects also darkened as the year progressed. The disparities in the economic trends of individual countries also became more pronounced. The impact of trade policy disputes, increased commodity prices and poorer financial conditions varied; for example, the growth of production in Asia slowed. 12

Economic growth in key markets worldwide 12
IN %



1 _ IWF world economic outlook (prior-year forecast updated with actual figures).

SLOWING PACE OF GROWTH IN EUROPEAN COUNTRIES

The economic growth of most countries in the European Union slowed noticeably during the fiscal year. GDP growth of 1.8% both in the euro zone and for the entire European Union was down on the prior year (2.4%). This was partly due to the new emissions measurement standards, which caused a temporary but significant dip in automotive production.

In Germany, the situation in the fiscal year 2018 was marked by subdued economic growth. The growth of GDP was only moderate (1.5%), down from 2.5% in the prior year. The lively trend of recent years faltered slightly due to extraordinary factors such as the decline of automotive manufacturing, the low water level of the Rhine and the associated problems for inland waterway transport. Growth was also hampered by the high utilization of companies' capacity and the resulting shortages in the employment market. The strength of private consumption in recent years remains a driver of economic growth, not least on account of the increase in disposable income.

The UK's decision to leave the European Union continued to impact its economic growth in 2018. The UK economy grew moderately over the year as a whole by 1.4% (prior year: 1.7%). Italy's economic growth suffered noticeably due to structural problems. The steady positive trend of recent years in Spain also slowed. At 2.5%, economic growth was below the prior-year level of 3.1%. Other countries in the euro zone also reached the limits of their capacity, contributing to weaker economic growth in Europe.

US: ECONOMIC GROWTH PEAKS

Growth in the US continued to pick up throughout 2018. On an annual average, gross domestic product in the US grew by 2.9% (prior year: 2.2%). The trend was driven by private consumption, supported by persistently positive trends in the labor market and an increase in disposable income. Tax incentives once again spurred companies' investment activities, with a positive effect on the strong economic trend.

POSITIVE DEVELOPMENT IN ASIAN EMERGING MARKETS

Growth in China is influenced by the structural transformation being instigated by the state from an extended workbench for the developed economies to a society of service providers. At 6.6%, the Chinese economy grew only slightly slower than in the prior year (prior year: 6.9%). Thus, China remains one of the drivers of global economic development. Trade disputes with the US could however impact willingness to invest and cool the economy.

The output of the Indian economy rose sharply during the fiscal year. Economic growth climbed from 6.7% to 7.3%.

DIVERGENCE IN MONETARY AND FINANCIAL POLICY

The euro zone's prime interest rates remain at historically low levels, while 2018 saw another hike in prime rates by the Federal Reserve. The financial policy of the developed economies provides additional stimuli for the economy. Falling inflows of capital in the emerging economies are leading to the tightening of monetary policy.

The euro continued to depreciate against the US dollar in the course of the fiscal year 2018 and stood at US 1.15 dollar (prior year: US 1.20 dollar) at the end of the year. However, the euro appreciated in value against other important currencies for TÜV SÜD over the year. The development of the reference currencies is shown in the notes to the consolidated financial statements.

Business development

The fiscal year 2018 was characterized by the establishment of the new "The Next Level. Together." strategy for 2025. The focus of this strategy is on our activities in Germany, China, India and the US. This includes concentrating on business activities with future growth prospects, targeted investment in our Center of Excellence (CoE), and the ongoing expansion of our networks of test facilities.

Our business is particularly dependent on economic growth in certain segments and markets abroad. A positive economic trend in those areas provides an additional stimulus to growth. We benefited from the steady economic growth in China and India, for example, while our activities in the UK were impacted by the slowdown associated with Brexit.

INDUSTRY

Based on the new strategy, strategic action areas were defined for the INDUSTRY Segment including global market penetration, automated process monitoring, renewable energy and power supply. Operationalizing the strategic priorities was a core activity during the fiscal year.

Our comprehensive experience with onshore and offshore wind farms, for example, won us various certification and testing contracts in Germany and elsewhere in Europe. In Spain TÜV SÜD's experts supported an innovative, EU-backed offshore wind project from reviewing the design to the installation of the pilot facility. This involvement will be expanded in the future as part of our strategic focus on activities relating to wind power.

In November 2018 TÜV SÜD was recognized by the German National Accreditation Body (DAkkS) as a certifying body in accordance with the new German grid connection regulations. These require proof of conformity in accordance with the German Electrotechnical Properties Substantiation Directive (NELEV). The new specifications are much broader than before. In addition to conventional energy producers, they now also include renewable energy facilities but also energy storage and supply points such as electric vehicle charging stations insofar as they feed electricity back into the grid. We also offer computer simulations for the various conformity tests. The Center of Competence (CoC) for energy storage in Munich started work in the fiscal year, developing and testing new energy storage technologies.

A CO_2 testing center was added to the CoC for cooling and air conditioning technology near Munich in order to be able to satisfy rising demand for the testing of natural coolants in cooling system components and applications. It is Europe's largest independent testing facility for cooling and air conditioning technology.

TÜV SÜD offers the real estate sector a comprehensive range of services that cover the entire life cycle of a property. Certificates evaluating a building's long-term performance are becoming increasingly important for assessing a property's intrinsic value. Demand is strongest for certification in accordance with international standards, which makes it possible to compare properties. We also built a Global CoC for Building Information Modeling (BIM), i.e. modeling a twin digital building. This simulates the entire life cycle, and can be supplemented by other technologies in order to reduce costs during the construction and operation phase, and mitigate risks. The range of services offered is aimed at the real estate sector and large corporations around the world.

Since 2016, TÜV SÜD has offered impartial property portfolio and operation certification in accordance with accredited conditions. Since September 2018, this has been supplemented for the new build sector by BREAAM DE, a certification system based on the internationally recognized BREEAM (Building Research Establishment Environmental Assessment Method) system. This involves awarding certificates for the planning of projects, and upon their completion. Certification is carried out online using a specially-developed web portal that implements the entire certification process digitally (i.e. paperless) in addition to market-friendly functionalities such as advance assessments and variant appraisals.

TÜV SÜD was the first German company to be recognized by the German Federal Railway Authority as a designated body (DeBO), allowing it to offer evaluations and services for the rail sector in accordance with national standards. This makes TÜV SÜD as DeBo the licensing center for railway vehicles operating in Germany, as well as all international railway vehicles that traverse Germany along the European corridors. Since TÜV SÜD also has a test center for railway vehicles and covers all three evaluation segments (AsBo, DeBo, NoBo), it can offer a full testing, evaluation and certification service from a single source.

The CoE for underwater pipelines in the UK, which we are investing more than € 10 million in, is still under construction. The services offered by the research and development center are mainly aimed at the chemical and petrochemical industries. The project is supported by the Scottish Enterprise Fund.

In January 2018, we sold RCI Consultants Inc. (RCI), Houston, which was reported in 2017 as being held for sale. Considering the anticipated development of the South Korean market for nuclear power generation, in July 2018 we parted with TÜV SÜD KOCEN Ltd. (Kocen), Seongam-si. In Singapore the core activities of TUV SUD AL Technologies Pte. Ltd. (ALT), Singapore, were transferred to TUV SUD PSB Pte. Ltd. (TS PSB), Singapore. The remaining activities of ALT were sold or abandoned. We aim to sell Signon Österreich GmbH (Signon AT), Vienna, in 2019.

Local conditions in certain markets led to the impairment of assets. The reintegration of PetroChem Inspection Services Inc. (PetroChem), Pasadena, USA, which had been held for sale in the prior year, resulted in an additional impairment of assets and goodwill.

MOBILITY

In 2018 the MOBILITY Segment laid the foundation for future success by concluding numerous large orders with automotive manufacturers. The orders include dynamometer measurements as well as development and certification tests, and span several years.

TÜV SÜD's testing facilities for emission and consumption measurements as well as the engine and roller testing rigs in Heimsheim have been extensively expanded since fall 2017 and expanded to become the largest mobility laboratory in Europe. The testing facility already offers independent engine and exhaust-gas analyses. In the future, type approvals can also be carried out there in compliance with all international guidelines. Completion is scheduled for 2020.

Strategic priorities were also defined for the MOBILITY Segment in the fiscal year. One important area are new technologies in the field of mobility as well as the development of new business models and innovative services.

This includes expanding activities in the field of highly automated driving (HAD). TÜV SÜD has entered into a partnership with a test site operator for autonomous driving in this respect. The test site offers the ability to test vehicle in everyday traffic.

One focus in the field of new technologies is on the digital and automated detection and evaluation of damage to vehicles. We are using new technologies such as machine learning, i.e. artificial intelligence (AI), to establish an automated vehicle damage detection and evaluation system that has the potential to revolutionize the damage detection process.

With the TÜV SÜD Mobility Service World, our aim is to create a marketplace for mobility services. To this end we are entering into selected partnerships, and adding real and digital services to the range we offer. TÜV SÜD is for example working with partners to develop data-based services and business models in order to meet customers' requirements.

In the real world, our German technical service centers offer professional drivers the health and performance checks required by law to demonstrate fitness to drive. The examination is carried out by our medical experts and psychologists.

In March we acquired the operations of the official inspection body for the state of Baden-Württemberg (Überwachungsorganisation für das Land Baden-Württemberg) from TÜV SÜD e.V., which we now run ourselves. Previously we had been contracted to perform this work in south-west Germany on behalf of TÜV SÜD e.V..

In the interest of focusing on our core areas of expertise we sold APZ Auto-Pflege-Zentrum GmbH (APZ), Darmstadt, Germany, in August. We also prepared our fleet management business for a partnership with a strategic partner in order to develop this business jointly in the future. The fleet management business is disclosed as held for sale; impairment losses on intangible assets and goodwill have been taken into account. In Germany, we also recognized impairment losses on goodwill after identifying asset erosion in the units in question.

CERTIFICATION

The CERTIFICATION Segment offers the most varied range of services in the field of digitization at the TÜV SÜD Group. The segment's strategic priorities include expanding global market access services, services for medical and non-medical products that span the product life cycle, the establishment of a digital academy, the digitization of certification service and cyber security services.

Our global network of laboratories is complemented by the Horticulture Lighting Laboratory, a test laboratory for artificial plant lighting in China. This offers certification testing for lighting systems for all major international markets. The range of services also includes customer-specific assessments and comparative studies on the effectiveness of different lighting systems on plant growth.

The services we offer in our Chinese laboratories also include ENEC (European Norms Electrical Certification) and ENEC+ certification services for electric and lighting products intended for the European market.

TÜV SÜD offers test-based support for medical products throughout their entire life cycle, from the idea for the product through to market maturity and eventually the end of the cycle. This also includes helping the manufacturers of medical products to implement the new Medical Device Regulation (MDR) and In-Vitro Diagnostic Regulation (IVDR).

The entry into force of the EU’s General Data Protection Regulation (EU-GDPR) and the revisions of the ISO 9001 and IATF 16949 management system standards were three important sources of growth that benefited the business performance in the fields of management system certification, training and cyber security services in particular.

TÜV SÜD worked with the Singapore Economic Development Board (EDB) to launch the Singapore Smart Industry Readiness Index onto the market. This is a diagnostic tool that can be used by companies of any size and in any industry to systematically analyze the potential of the Industry 4.0 approach, estimate a company’s specific readiness for Industry 4.0, and develop a customized transformation road map. Auditors from the management system certification unit conduct audits to determine how ready client companies are for Industry 4.0.

TÜV SÜD’s Digital Academy founded in July 2018 represents the next step in the digitization and internationalization of the academy business. Starting in India and Singapore, customers can complete courses online via an e-learning platform, and divide their time up as they please. One other example of the new training opportunities on offer is digital and virtual training for electricians, which was developed with partner companies in order to be able to realistically experience and train for rare and dangerous situations using virtual reality goggles.

DakkS granted TÜV SÜD accreditation for the certification of management systems for occupational health and safety in accordance with the ISO 45001 standard (formerly: OSHAS). The new norm looks at the company and the environment in which it operates. The focus is on the involvement of employees in the company's internal improvement processes in this context.

Business development

The growth of our business in 2018 was mainly driven by organic growth (i.e., from existing entities). This enabled us to more than offset the entities disposed of during the course of the year and other negative factors such as the strength of the euro, the political uncertainty associated with Brexit and the smoldering trade disputes. ≡ 04

Targets and results ≡ 04

	2017	2018 Outlook	2018
Revenue Development compared to prior period	€ 2,427.6 million 3.6%	€ 2.5 billion 3% – 4%	€ 2,498.5 million 2.9%
EBIT Development compared to prior period	€ 201.3 million 1.3%	up to € 215 million high single-percentage range	€ 210.5 million 4.6%
EBIT margin	8.3%	high single-percentage range	8.4%
EVA	€ 80.7 million	€ 80 – 86 million	€ 85.2 million
Employees Development compared to prior period	1.8%	approximately 4%	1.4%

Our forecast for the growth of our business in the fiscal year is based on the existing services business, and therefore defined as organic growth.

The MOBILITY Segment exceeded its targets defined for revenue and profit in the fiscal year, while the EBIT margin fell within the anticipated corridor. The CERTIFICATION Segment also met all expectations apart from those relating to the revenue growth rate. The INDUSTRY Segment, on the other hand, failed to meet its projected growth targets for revenue and EBIT, due in particular to the sale of entities in South Korea and the US. The EBIT margin, however, was within the expected high single-digit percentage range.

For the Group as a whole, at € 210.5 million, earnings before interest, before other financial result and before income tax, but after income from participations (EBIT) was within the expected corridor. At 8.4%, the EBIT margin was within the expected range and above the prior-year EBIT margin (8.3%).

The growth of revenue and the disproportionately low increase in external services relative to revenue lay a good foundation for the growth of EBIT. Positive factors included consistent cost management with respect to other expenses, as well as other income that was positively influenced by the sale of entities. Growth was hampered by a year-on-year increase in the impairment of goodwill and intangible assets. This also takes into account the effect from the fleet management business, which we are planning to develop in the future with a strategic partner.

Adjusted EBIT, which is better suited for a multi-year comparison with other companies in the industry, at € 222.3 million is 2.6% above the prior-year figure (€ 216.7 million) and thus, within the forecast range. The adjusted EBIT margin of 8.9% is on a par with the prior year, and also falls within the anticipated planning corridor.

Consolidated earnings before taxes (EBT) rose 4.9% year-on-year to € 199.6 million, putting it slightly below the target corridor. EBT adjusted for one-off effects was in line with expectations. The adjusted EBT margin stands unchanged at 8.5%.

Consolidated earnings after taxes reached a new record of € 144.8 million (prior year: € 138.8 million).

At € 85.2 million, EVA for the Group is above the prior-year level (€ 80.7 million) and within the range we expected. This key indicator is calculated from the net operating profit after tax (NOPAT) of € 151.1 million, less the Group's cost of capital, yielded by the product of average capital employed (€ 940.7 million) and WACC of 7.0%. NOPAT was positively influenced by the development of business from the MOBILITY and CERTIFICATION Segments. Starting from the already high prior-year level, the average capital employed increased again, resulting in higher capital costs.

The average increase in the headcount (in FTEs) from 22,117 to 22,424 FTEs is lower than anticipated following the sale of fully consolidated subsidiaries and the need for renewed, targeted personnel measures in response to local business development.

Planning and management of the TÜV SÜD Group is based on IFRS. The key financial performance indicators defined for the TÜV SÜD Group are not relevant for TÜV SÜD AG in its function as a management holding company and are therefore not reliable.

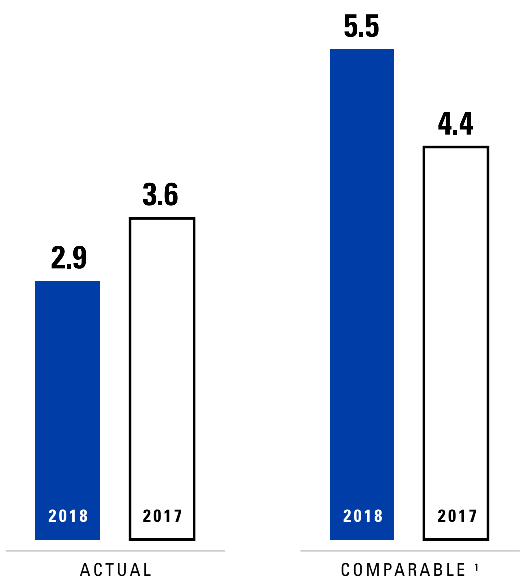
Situation of the company

RESULTS OF OPERATIONS

In the fiscal year 2018, TÜV SÜD generated **revenue** of € 2,498.5 million, equivalent to an increase of € 70.9 million or 2.9% compared to the prior year. In the existing services business, we achieved an increase in revenue of € 134.3 million or 5.5%. The growth of our revenue was however impacted by negative currency effects amounting to € 29.4 million (down 1.2%). The sale of entities in Germany, South Korea and the US also produced a negative portfolio effect of 1.4% or € 34.0 million. On the whole, however, we were able to compensate for these negative factors and achieve our projected target of € 2.5 billion for revenue. Only revenue growth was slightly below the targeted range of 3% to 4%. 13/14

Revenue growth comparable 13

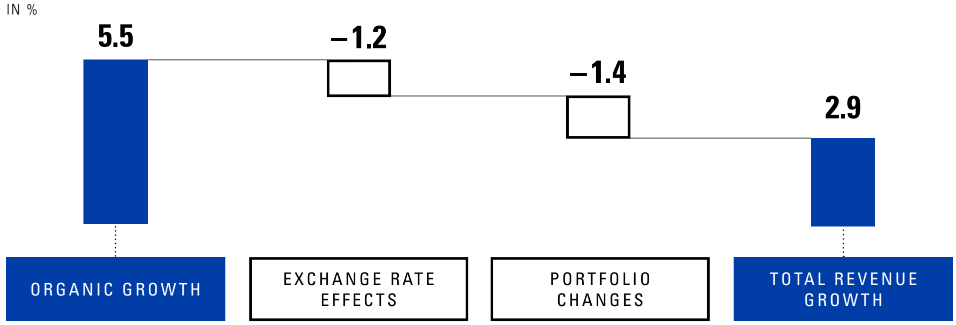
IN %



1 _ Adjusted for exchange rate and portfolio effects.

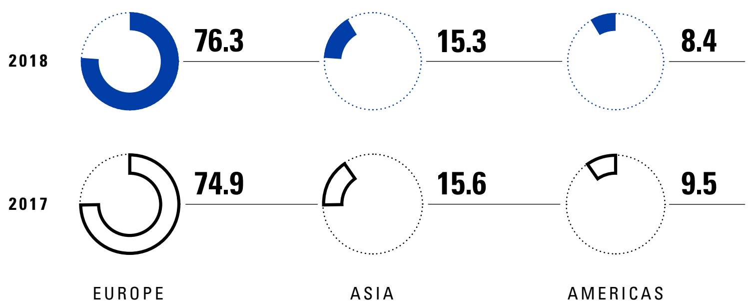
Revenue growth 2018 14

IN %



The German entities generated most of the revenue growth, with € 68.7 million or 96.8% (prior year: 86.7%). The non-German entities contributed € 2.2 million or 3.2% (prior year: 13.3%) to the growth of revenue following the sale of RCI and Kocen. 15

Revenue by region 2017 / 2018 according to customer location 15
IN %



The share of total revenue generated abroad in the fiscal year was 41.0% (prior year: 42.1%) and thus exceeded the long-term target of 40%. Our European home market remains the strongest region in terms of revenue.

With a rise of 2.1%, **purchased service cost** developed at a lower rate than revenue. This increase was boosted by the successful expansion of our vehicle management services and our academy services in Germany, as well as increase demand for laboratory services in China. The opposite effect was had by the sale of our vehicle maintenance business during the year. At 12.5% (prior year: 12.6%) the ratio of purchased service cost to revenue remains at a comparable level year on year.

Personnel expenses rose 3.1% to € 1,510.0 million in the fiscal year 2018. The ratio of personnel expenses to operating performance (68.8%) was roughly on a par with the prior year (68.7%).

The expenses for wages and salaries including social security contributions rose by 3.0% compared to the prior year. The major contributors to this increase were the increase in headcount as a result of new hires, particularly in Germany and China, collective wage increases in Germany and higher extraordinary payments.

Retirement benefit costs increased by 1.0% to € 102.8 million (prior year: € 101.8 million) primarily due to the higher employer's share of social security in Germany, as well as contributions to defined contribution pension funds. This increase completely offset the reduction in current service costs, which among other things stemmed from the sale of Kocen in South Korea and the reduced number of active employees in Germany.

Increased expenses for the medical plan of our subsidiaries in the US and more training measures for our employees caused incidental personnel expenses to rise 13.0% to € 27.9 million (prior year: € 24.7 million).

Amortization, depreciation and impairment losses of intangible assets, property, plant and equipment and investment property came to € 79.6 million in the fiscal year, which was an increase of € 3.4 million on the prior year. Scheduled amortization and depreciation of € 75.7 million are € 1.4 million (1.9%) higher than in the prior year (€ 74.3 million).

Impairment losses were also recognized on property, plant and equipment as well as intangible assets that had been capitalized as a result of purchase price allocation. This impairment had to be recognized as a result of the unsatisfactory performance of a subsidiary in South Africa, the wind power services in the UK and the restructuring of PetroChem in the US that was not sold.

The planned cooperation with a strategic partner in the fleet management business and the downsizing of the remaining petrochemicals business resulted in an **impairment of goodwill** totaling € 15.2 million (prior year: € 3.8 million).

Other expenses increased by 1.9% to € 467.2 million, thus at a lower rate than revenue. The main items were again the expenses for rented premises and travel expenses, which were roughly on a par with the prior year. The increase in other expenses was mainly caused by IT expenses as well as legal and consulting costs. These were incurred in connection with digitization and the disposal of entities. The losses from the sale of Kocen in South Korea and the remaining activities of ALT in Singapore also contributed to expenses. Changes in other expenses were further influenced by purchased administrative services, which also included the use of temporary staff as well as expenses for equipment maintenance.

The increase in **other income** by 30.5% from € 61.9 million in the prior year to € 80.8 million resulted mainly from the sale of APZ and land in Germany. Rental and lease income in Germany was on a par with the prior year.

The **financial result** decreased by € 3.5 million to € –3.0 million in the fiscal year 2018 (prior year: up € 0.5 million).

At € 8.5 million, income from investments accounted for using the equity method was lower than the prior-year level (prior year: € 10.1 million). Our equity investments that are accounted for using the equity method, including the German start-up and TÜV SÜD DOGUS Ekspertiz ve Danismanlik Hizmetleri Ltd. Sti (TÜV SÜD DOGUS), Sariyer/Istanbul, which is being consolidated for the first time, made a smaller contribution to earnings than in the prior year, as did the joint venture TÜVTURK in Turkey. The performance of the Turkish companies reflects the unfavorable exchange rate between the euro and the Turkish lira. The positive local performance was heavily impacted by the effects of currency translation. The higher contribution to earnings was ultimately entirely offset by the negative effect in the result from investments accounted for using the equity method from a company that had previously been held as a participation by the joint venture companies.

The other investment result includes impairment losses on non-consolidated equity investments amounting to € 0.6 million.

The interest result improved by € 3.1 million in the fiscal year, but remains negative at € – 10.3 million. We benefited from the higher coverage of pension obligations in net interest expenses from the pension provisions (unwinding of the discount for pension provisions less expected interest income on plan assets). This resulted in a disproportionately large decrease in interest expenses (down € 0.6 million) in relation to the planned income (up € 1.8 million). There was a slight net increase in other interest revenue and expenses.

Gains and losses from a special fund are mainly summarized in the other financial result.

Income before taxes came to € 199.6 million. This represents an increase of 4.9% on the prior year. The income tax expense increased by 6.6% to € 54.8 million. The effective tax rate of 27.5% is just above the prior-year rate of 27.0%.

The increase in profit in the fiscal year was influenced by **one-off effects** that were negative on a net basis. These totaled € – 11.8 million (prior year: € – 15.4 million). ≡ 05

One-off effects ≡ 05

IN € MILLION	2018	2017
PPA amortization and impairment losses	10.2	9.6
One-off effects, provisions and reversals of impairments	8.6	3.0
Impairment of goodwill	15.2	3.8
Income from deconsolidation	– 23.2	0.0
One-off effects in income/loss from participations	1.0	– 1.0
With EBIT effect	**11.8**	**15.4**
With EBT effect	**11.8**	**15.4**

In the fiscal year 2018 we recognized a correction of € 1.0 million in **personnel expenses** as a one-off effect for personnel measures in Germany.

We recognized adjustments amounting to € 6.5 million in the **amortization of intangible assets**, which we identified by means of purchase price allocation (PPA). Impairment of intangible assets (such as capitalized customer relationships or software) amounting to € 3.7 million was also recognized in the UK, South Africa and Belgium, as well as for property, plant and equipment in the US. In the prior year, one-off impairment losses totaled € 1.9 million.

In **other expenses** we eliminated consulting expenses in connection with the sale of entities as well as losses resulting from the discontinuation of operations in Korea and Singapore. In the prior year, other expenses included a liability for subsequent purchase price installments.

The adjustment in **other income** includes the proceeds from the sale of APZ and RCI.

In addition to the remaining petrochemicals business in the US, the **impairment of goodwill** relates to the fleet management business, which is disclosed as being held for sale as of the reporting date, and the residual activities in the MOBILITY Segment. Corrections were made in the prior year for RCI, which has now been sold, and the wind power business in the UK.

The write-down of an Indonesian participation is recognized in **income/loss from participations.** In the prior year, the write-up of a Spanish participation was adjusted.

At € 210.5 million, **EBIT** in the fiscal year 2018 was 4.6% above the prior-year figure of € 201.3 million. The EBIT margin increased compared to the prior year by 0.1 percentage points to 8.4%. Adjusted EBIT increased by 2.6% to € 222.3 million (prior year: € 216.7 million). In the prior year, the increase amounted to 7.4%. The adjusted EBIT margin stands unchanged at 8.9%. One-off effects on EBIT totaled € 11.8 million. The variance between adjusted and non-adjusted EBIT margin fell slightly in comparison to the prior year.

NOPAT rose 3.9% to € 151.1 million (prior year: € 145.4 million), indicating the solid growth of TÜV SÜD's earnings. The increased operating profit as a basis for the growth of NOPAT was boosted by increased income stemming from the proceeds from the sale of entities. On the other hand, NOPAT was reduced by the disproportionate increase in personnel expenses, expenses associated with the sale of the entities, and the impairment of goodwill.

Average **capital employed** increased from € 924.8 million to € 940.7 million. This resulted from the increase in working capital – combined with an almost stable trend for non-current assets – which significantly exceeded the increase in other, non-interest-bearing liabilities (provisions). In terms of the reporting date, capital employed also showed a positive change compared with the prior year (3.2% or € 29.6 million, respectively).

At € 85.2 million, **EVA for the Group** was € 4.5 million higher than in the prior year (€ 80.7 million).

At € 199.6 million, **EBT** exceeded the prior-year level (€ 190.2 million). The adjusted earnings before taxes rose by € 5.8 million to € 211.4 million (prior year: € 205.6 million).

The return on sales measured in terms of earnings before taxes came to 8.0% in the fiscal year (prior year: 7.8%), and was positively influenced by the steady growth of business and the result from the sale of the subsidiaries. The adjusted EBT margin, which is more suitable for assessing results over time, is holding steady at 8.5%, and thus also reflects TÜV SÜD's long-term and stable growth.

The reported **consolidated net income** increased to € 144.8 million in the fiscal year 2018 and is therefore € 6.0 million or 4.3% higher than the prior-year figure of € 138.8 million.

For further analyses of significant items of the consolidated income statement, we refer to the notes to the consolidated financial statements.

FINANCIAL POSITION

Principles of finance management and financial strategy

With our financing activities, we aim to always maintain a sound financial profile while ensuring TÜV SÜD has sufficient liquidity reserves to meet its payment obligations at all times.

Further objectives of our corporate treasury function include managing the foreign exchange risk effectively and optimizing interest rates on an ongoing basis. Due to the significant volume of assets outsourced to cover pension obligations, the investment and risk management of these positions is of great importance for us.

Capital structure

TÜV SÜD finances itself with cash flows from operating activities. The available cash and cash equivalents are supplemented by a syndicated credit line of € 200 million, with a term until the end of 2020, to give us the financial flexibility necessary to reach our growth targets. The contract also gave TÜV SÜD the opportunity to extend the credit line in 2018 one last time until the year 2021.

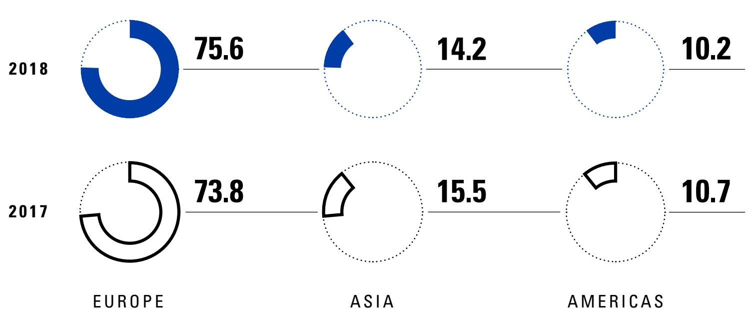
With this credit facility, the available cash and the annual free cash flow, we have sufficient liquidity to finance its planned organic and external growth.

TÜV SÜD strives to ensure its credit rating remains firmly in the investment grade.

Capital expenditures

The volume of capital expenditures excluding business combinations and excluding financial assets and securities came to € 100.6 million in the fiscal year (prior year: € 87.1 million). 16

Capital expenditures 16
IN %



In our domestic German market, € 57.4 million or more than half of the total volume of investment went into expanding the mobility laboratory in Heimsheim, modernizing the technical service center and the ASPro IT application. We also invested in the Business Assurance Division's Training PowerHouse software project, as well as in testing facilities. In Western Europe, we invested a total of € 15.6 million, mainly in the construction of a research and development center for underwater pipelines near Glasgow. In Central & Eastern Europe an Advanced Lateral Impact System (ALIS) was added to the center for testing dynamic components (DYCOT). This is a unique system to physically simulate a side-on vehicle collision. A total of € 3.2 million was spent here. In ASIA, investments amounted to € 14.2 million (14.2% of total investments), mainly for software and testing equipment of the Product Service Division. We spent around € 10.3 million or 10.2% of our total volume of investment in the AMERICAS region. The focus here was on the technical equipment for a new test center in New Brighton.

We invested € 2.1 million in the acquisition of entities in fiscal year 2018 (prior year: € 3.1 million). These investments include payments to acquire shares in consolidated and non-consolidated affiliated companies.

As of the reporting date, there were no material investment obligations.

Liquidity

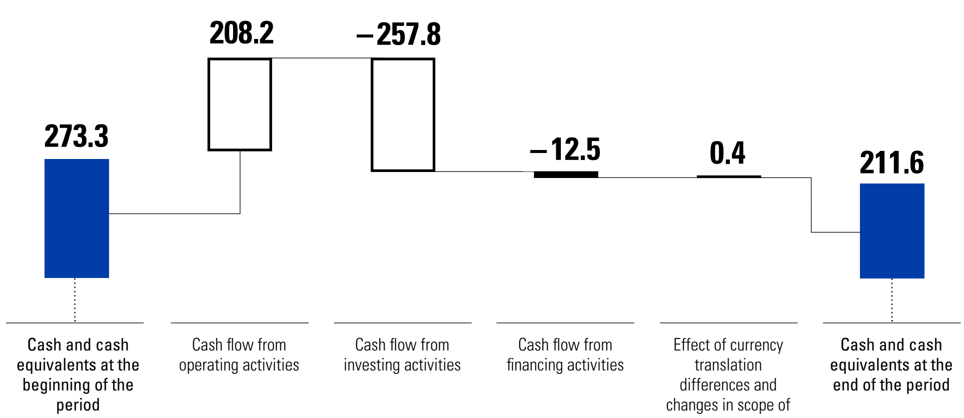
Reserves of cash and cash equivalents decreased by € 61.7 million or 22.6% to € 211.6 million in the fiscal year 2018; of this, € 2.0 million is recognized as non-current assets and disposal groups held for sale. Cash and cash equivalents as presented in the balance sheet are equivalent to 10.2% of total assets (prior year: 13.4%) and stand at € 209.6 million. The development of cash and cash equivalents in the fiscal year is presented in detail in the consolidated statement of cash flows.

17

Liquidity of the TÜV SÜD Group 2018

17

IN € MILLION



The statement of cash flows is based on the Group's net income for the year. This amounted to € 144.8 million in 2018, which is up € 6.0 million year-on-year (€ 138.8 million).

Gains from the disposal of land in Germany and the sale of our German and South Korean subsidiaries reduced the basis for the statement of cash flows by € 19.1 million (prior year: € 0.3 million).

The non-cash items amortization, depreciation, impairment losses and reversals of impairments come to € 99.2 million and therefore are € 18.9 million higher than the prior-year figure of € 80.3 million. In addition to ongoing amortization and depreciation, impairment losses were also recognized for goodwill and intangible assets such as customer relationships and software. Depreciation was also recognized for property, plant and equipment.

Other non-cash income and expenses include the rolling forward of the equity valuation and the adjustment of the market value of an option to acquire further shares in a participation accounted for using the equity method, as well as an earn-out-liability. This also includes the result from group-wide currency hedging.

The changes in working capital and other assets and liabilities resulted in a more substantial outflow of cash in the fiscal year in comparison to the prior year (€ 38.1 million; prior year: € 0.9 million). The cash tied up in current assets resulted from the general increase in revenue in Germany, particularly in the INDUSTRY and CERTIFICATION Segments. The equity and liabilities side of the statement of financial position reflected the reduced tied-up cash in comparison to the prior year. Trade payables including contract liabilities and other liabilities in the INDUSTRY and MOBILITY Segments in particular. **Cash flow from operating activities** therefore decreased by € 50.1 million or 19.4% from € 258.3 million to € 208.2 million.

Cash outflow from investing activities increased by € 45.9 million to € 257.8 million in the fiscal year. Cash paid for investments in intangible assets, and property, plant and equipment increased by € 13.9 million to € 103.0 million (prior year: € 89.1 million). Investments were made mainly in software, technical service centers and test facilities. Cash received from the disposal of assets primarily relate to sales of land in Germany.

In financial assets, the increase in the loan to Uniscon and spending on the acquisition of equity investments in Germany led to a net outflow. The change in the prior year was mainly influenced by the acquisition of Uniscon and the issuing of a loan at the same time.

Excluding the acquired cash and cash equivalents, the acquisition of the operations of in Baden-Württemberg and the payment of the earn-out obligation for the Spanish ATISAE group resulted in an outflow of € 23.3 million. On the other hand, we also generated an inflow of € 33.6 million from the sale of fully consolidated subsidiaries. On the whole, therefore, corporate transactions resulted in an inflow compared to an outflow of € 13.3 million in the prior year, which was above all influenced by the payment of the second installment of the purchase price for the Spanish ATISAE group.

The acquisition of securities in special funds and various different security investments in China, South Korea and the US resulted in a net payment outflow of € 69.2 million (prior year: net inflow of € 0.8 million).

The external financing of pension obligations amounted to € 95.3 million, which is € 1.4 million more than in the prior year (€ 93.9 million). The main influential factors in this regard were the reinvestment of pension payments and an extraordinary contribution to TÜV SÜD Pension Trust e. V. (€ 30.0 million; prior year: € 31.1 million).

Free cash flow – defined as cash flow from operating activities less cash paid for investments in intangible assets, property plant and equipment and investment property – was € 105.2 million in fiscal year 2018 (prior year: € 169.2 million). This represents a decrease of 37.8% on the prior year. The lower cash flow from ongoing activities was also impacted by increased investment in intangible assets and property, plant and equipment. At a value of 0.73, the cash conversion rate, which is calculated from the ratio of free cash flow to consolidated net income, is therefore below the prior-year figure of 1.22.

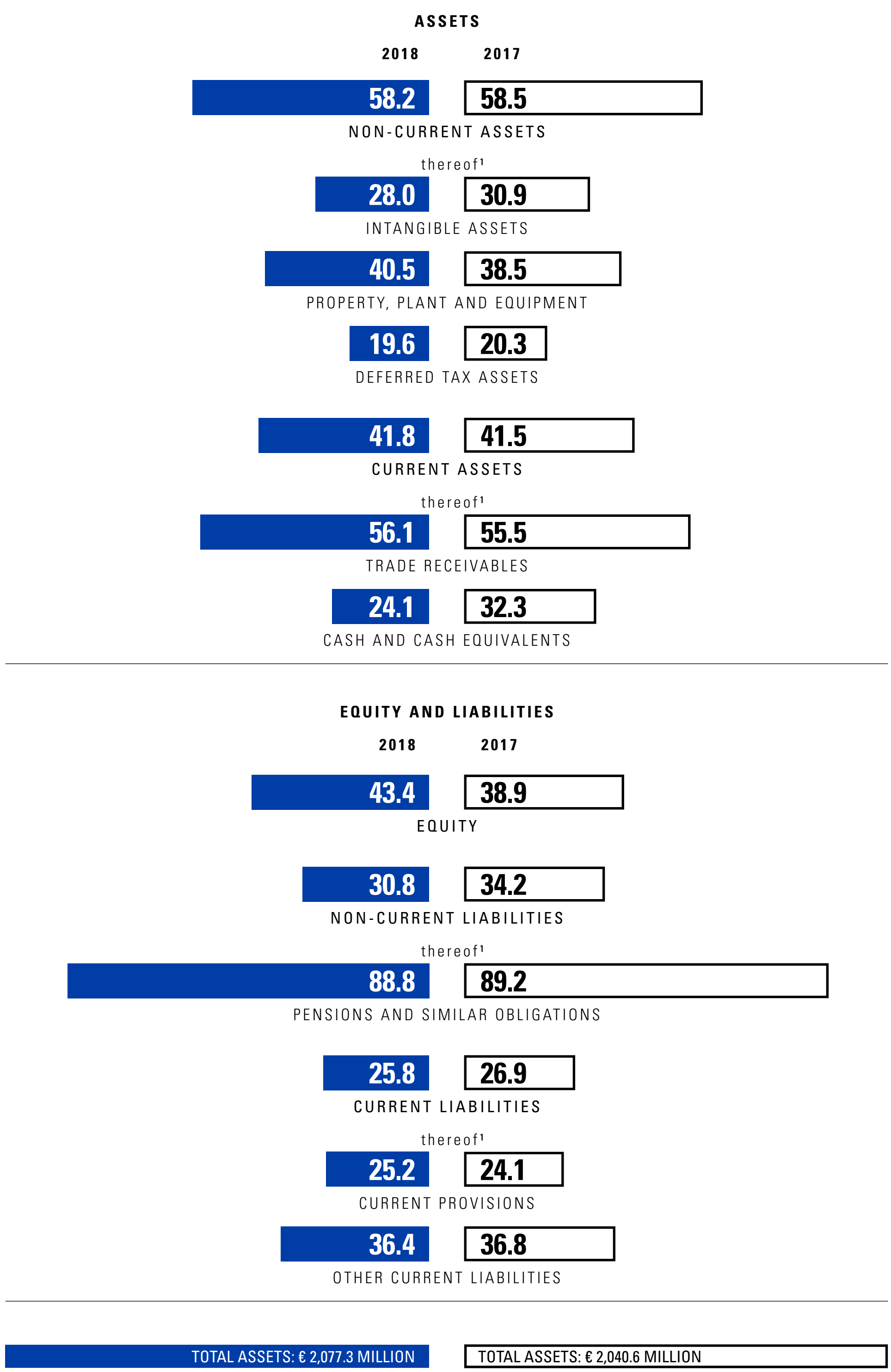
Cash outflow from financing activities increased by € 2.4 million to € 12.5 million. The dividend distribution to TÜV SÜD Gesellschafterausschuss GbR remained unchanged. Payments to non-controlling interests were on a par with the prior year.

Cash and cash equivalents of € 211.6 million – consisting of checks, cash in hand, bank balances and securities with an original term of less than three months and including the cash and cash equivalents of disposal groups – were € 61.7 million lower than the prior-year level. With the securities disclosed in other financial assets which can be liquidated at all times, there are cash and cash equivalents totaling € 323.4 million (prior year: € 316.9 million). Additional financing flexibility is provided by various credit lines (€ 12.4 million) and the existing syndicated loan agreement of € 200.0 million.

NET ASSETS

Composition of the statement of financial position of the TÜV SÜD Group: Assets / Equity and liabilities 18

IN %



1 _ As a percentage of the current or non-current item, not of the total assets.

Assets, equity and liabilities
Total assets increased by € 36.7 million or 1.8% to € 2,077.3 million in the fiscal year (prior year: € 2,040.6 million). 18

Non-current assets rose by € 15.3 million to € 1,209.0 million. Current assets increased by € 21.4 million to € 868.3 million.

Intangible assets decreased by € 30.0 million or 8.1% to € 338.4 million. Goodwill fell as a result of the sale of fully consolidated subsidiaries in Germany and South Korea as well as the impairment of the remaining goodwill of our petrochemicals business in the US. The decline was exacerbated by the reallocation of our fleet management business to non-current assets and disposal groups held for and the/its subsequent impairment. This was partly offset by the addition from the transfer of the operations of the official inspection body for the state of Baden-Württemberg.

Scheduled amortization and impairment of intangible assets, particularly software and customer relationships identified by means of purchase price allocation, caused other intangible assets to decrease. Impairment amounted to € 2.4 million. Intangible assets belonging to the fleet management business were also reallocated to non-current assets and disposal groups held for sale.

Investments in expanding existing test center capacities in Germany, the Czech Republic and the US as well as in modernizing technical service centers characterized the additions to **property, plant and equipment**. There were also considerable investments in furniture and fixtures, particularly in Germany. The volume of investment properties fell by € 3.5 million to € 3.3 million, due among other things to the transfer of a plot of land to TÜV Hessen Trust e. V.

There was a € 3.4 million decline in **investments accounted for using the equity method** to € 39.5 million, mainly relating to our European equity investments. On the other hand, there was an increase at TÜV SÜD Dogus, which was consolidated for the first time, and the Turkish joint venture TÜVTURK, which was lower than we expected on account of currency effects.

Other non-current financial assets increased by € 25.0 million to € 93.3 million, due in particular to the purchase of securities (€ 24.9 million) in a special fund. The position also includes a loan as well as the long-term portion of a financial derivative of our German participation, which is accounted for using the equity method.

Deferred tax assets decreased by € 4.8 million to € 237.3 million. The main reasons for this are the deferred taxes recognized in other comprehensive income on the balance of actuarial gains from the measurement of the pension obligations (€ 22.9 million) and profits from plan assets (€ 1.8 million). Deferred taxes from tax loss carryforwards also contributed to the reduction.

Trade receivables rose by € 17.5 million or 3.7% in 2018 to € 487.2 million, while revenue growth stood at 2.9%. The level of trade receivables – without contract assets – rose by € 18.0 million or 5.1% to € 368.6 million. This change largely stemmed from the healthy order backlog in Germany and the US.

Contract assets fell by € 0.5 million or 0.4% to € 118.6 million. The first-time application of IFRS 15 Revenue from Contracts with Customers means that advance payments are deducted from the corresponding contract assets. The figure for the prior year has been adjusted accordingly.

The sale of entities in the fiscal year caused the volume of trade receivables and contract assets to fall by € 9.5 million or 2.0%. On the other hand, the volume of receivables was increased by € 8.0 million (up 1.7%) as a result of the reintegration of PetroChem in the US, which had disclosed as held for sale in the prior year.

As a result of the decision to enter into a strategic partnership for the fleet management business and to sell Signon AT, the corresponding trade receivables (€ 7.4 million) were reallocated to non-current assets and disposal groups held for sale. This is equivalent to 1.5% of receivables.

Days sales outstanding including receivables reported in accordance with IFRS 5 stand at 58 days (prior year: 56 days) on average throughout the Group.

Other receivables and other assets rose by € 41.2 million, from € 63.5 million to € 104.7 million (64.9%), mainly due to security investments in China and Korea. The position also includes financial derivatives with positive market values.

→ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, CONSOLIDATED STATEMENT OF CASH FLOWS SEE PAGE 101

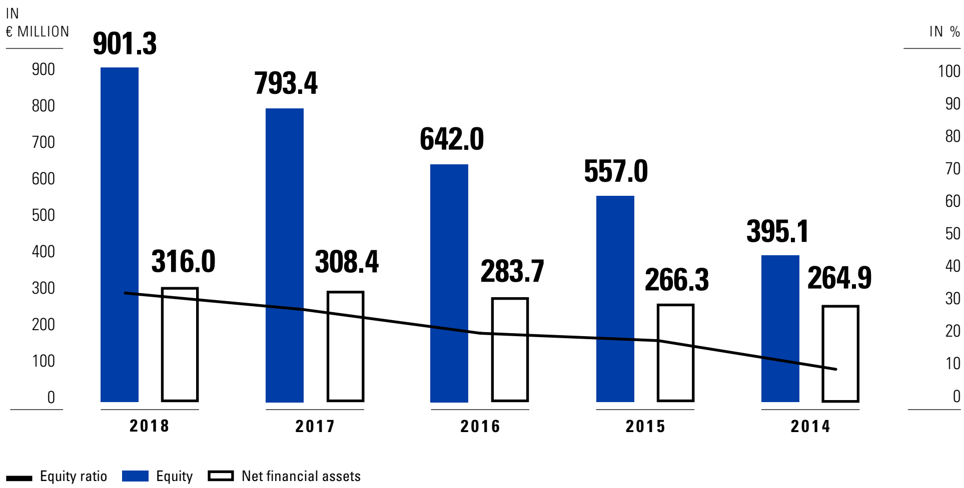
Cash and cash equivalents decreased by € 63.7 million to € 209.6 million. It is therefore equivalent to 10.1% of total assets (prior year: 13.4%).

The assets of the fleet management business, which is up for sale, and Signon AT in Austria, were reported in **non-current assets and disposal groups held for sale** for the first time as of December 31, 2018. The US-based company PetroChem that was reported in this position in the prior year was reintegrated into the Group. RCI, on the other hand, was sold as planned.

Equity increased by € 107.9 million (up 13.6%) in the fiscal year, and stood at € 901.3 million as of the reporting date. The increase is mainly due to the positive consolidated net income of € 144.8 million (prior year: € 138.8 million). Actuarial losses after the recognition of deferred taxes, exchange rate losses and dividend distributions had a counterbalancing effect. The equity ratio increased by 4.5 percentage points to 43.4%. 19

Sound capital basis

19



Non-current liabilities fell by € 57.4 million to € 640.3 million. The main change was from the provisions for pensions and similar obligations (€ 54.3 million). This effect is reinforced by a decrease in deferred tax liabilities.

The **provisions for pensions and similar obligations** decreased by 8.7% or € 54.3 million to € 568.3 million (prior year: € 622.6 million).

The defined benefit obligation throughout the Group stands at € 2,064.4 million and is thus € 4.5 million higher than the prior-year figure (€ 2,059.9 million). An increase of € 16.7 million was observed in Germany. Actuarial losses from the changed assessment of the financial assumptions regarding the anticipated performance and the update of the mortality tables to the 2018 G Heubeck Richttafeln exceed the experience gained. Pension payments offset the effect from the service and interest cost in full. The change outside Germany (down € 12.2 million) can primarily be attributed to the increased interest rate, a reduced salary trend in the UK and the deconsolidation of Kocen.

In order to extend the external financing of pension obligations in Germany, TÜV SÜD has transferred operating assets to TÜV SÜD Pension Trust e.V., Munich, and TÜV Hessen Trust e.V., Darmstadt, under a contractual trust agreement. The funds are administered by these two associations in a fiduciary capacity, and serve solely to finance pension obligations. Pursuant to IAS 19, the transferred trust funds are to be treated as plan assets, and are therefore offset against pension obligations. The plan assets totaled € 1,496.1 million on the reporting date. Of this amount, the trust assets of TÜV SÜD Pension Trust e.V. made up € 1,332.7 million and TÜV Hessen Trust e.V. € 29.2 million. The remaining plan assets of € 134.2 million consisted mainly of policy reserves due to employer's pension liability insurance and assets for pension plans in other countries.

Group-wide plan assets rose to € 58.8 million. The increase is attributable in particular to the actual return on plan assets in Germany and abroad of € 26.9 million as well as one-off additions in Germany of € 34.9 million. The refunded benefit payments of € 61.1 million (prior year: € 58.6 million) were recontributed and thus strengthen the plan assets.

Due to the increase in the plan assets, which was higher than the increase in the defined benefit obligation, the percentage of pension obligations funded by plan assets improved overall from 69.8% in the prior year to 72.5% as of the reporting date. In Germany, coverage stood at 71.9% (prior year: 69.1%).

For a detailed presentation of the development of pension obligations and plan assets, please refer to the notes to the consolidated financial statements.

Other non-current assets remained unchanged year-on-year at € 7.2 million. This position includes a put option from the sale of a share in South Africa, among other things.

The € 3.3 million fall in **deferred tax liabilities** to € 25.7 million mainly stemmed from changes in the scope of consolidation.

Current liabilities fell by € 13.8 million to € 535.7 million, above all due to lower income tax liabilities and the reallocation of liabilities with a direct connection to assets and disposal groups held for sale.

Current provisions mainly include bonus obligations to employees and severance payments as well as restructuring provisions.

The volume of **trade payables,** including contract liabilities, fell by € 24.2 million to € 150.6 million. The decline was mainly due to the sale of APZ and the change in the reporting of fully consolidated subsidiaries held for sale. This change completely offset the billing-related increase in trade payables in the ASIA region. Advance payments are also reported in this position as a result of the introduction of IFRS 15 Revenue from Contracts with Customers.

Other current liabilities fell by € 7.0 million to € 195.2 million. Among other things, these include the increased obligations to employees for vacation and overtime, as well as obligations for outstanding invoices. Other liabilities fell, mainly as a result of reallocations to liabilities with a direct connection to assets and disposal groups held for sale. They also include subsidies received, particularly for the underwater pipeline research and development center in the UK as well as financial derivatives with negative market values.

Liabilities directly associated with assets and disposal groups held for sale mainly comprise other current liabilities attributable to the fleet management business and Signon AT.

SUMMARY REVIEW OF THE SITUATION

In 2018, business development in terms of revenue and results met our expectations.

Our long-term growth is made possible by our global presence, our expertise in our core business and the innovative services we offer. Despite negative currency effects, and although we sold some fully consolidated subsidiaries, we achieved the projected revenue target of € 2.5 billion through the organic growth of our existing entities alone.

The MOBILITY and CERTIFICATION Segments made a positive contribution to the growth of the Group's revenue. With the exception of the AMERICAS region, the regions, including our core market of Germany, saw positive revenue development.

Both EBIT and adjusted EBIT developed positively. The EBIT margin rose slightly to 8.4% (prior year: 8.3%). Due to the higher baseline for EBIT and lower adjusted one-off effects, the adjusted EBIT margin remains unchanged in relation to the prior year (8.9%).

The growth of EBIT was also boosted by the increase in purchased services at a lower rate than revenue, consistent cost management in other expenses and the positive effects on other income from the sale of entities. Increased personnel expenses and impairments, including of goodwill, prevented an even more favorable trend. There was an increase in earnings before taxes (EBT) after adjusting for one-off effects. Like the adjusted EBIT margin, the adjusted EBT margin of 8.5% was on a par with the prior year.

It was no longer possible to exclusively finance the substantial investment plans, securities investments and the extraordinary contributions to pension assets using the cash flow from operating activities, and our reserves of cash and cash equivalents fell accordingly.

TÜV SÜD still has comfortable liquidity, which is secure for the long term thanks to our good credit ratings and the existing syndicated credit line.

We offer high-quality, innovative and sophisticated services, worldwide and in almost all sectors, while maintaining neutrality and objectivity. In this way, we lay the foundation for TÜV SÜD’s success – today and in the future.

TÜV SÜD AG

In addition to reporting on the TÜV SÜD Group, we explain below the results of operations, net assets and financial position of TÜV SÜD AG's annual financial statements in accordance with German GAAP.

TÜV SÜD AG is the management holding company of TÜV SÜD Group. In the fiscal year 2018, the Group comprised a total of 47 (prior year: 55) companies in Germany and 123 (prior year: 136) abroad. In addition to providing support to the participations, TÜV SÜD AG provides central services, in particular in the areas of legal, HR, finance and controlling, innovation, organization, as well as sales and marketing. Via an agency agreement with TÜV SÜD Business Services GmbH, Munich, the real estate owned by the company is leased at arm's length, primarily to subsidiaries within the TÜV SÜD Group. Thus, the economic development of TÜV SÜD AG depends on dividend distributions and profit and loss transfer agreements of the participations, income from the leased real estate, income from investments, income from charges relating to trademarks, offsetting between divisions and regions, charges of company-specific holding services, as well as management and other services.

RESULTS OF OPERATIONS

Income statement of TÜV SÜD AG

≡ 06

IN € MILLION	2018	2017
Revenue	**103.5**	**94.6**
Total operating performance	**103.5**	**94.6**
Other operating income	6.9	5.7
Cost of materials	–25.8	–21.0
Personnel expenses	–34.4	–33.8
Amortization and depreciation	–8.6	–8.6
Other operating expenses	–64.9	–58.9
Operating result	**–23.3**	**–22.0**
Financial result	**11.3**	**57.0**
Income taxes	–19.9	–12.6
Earnings after taxes (net loss for the year; prior year: net income)	**–31.9**	**22.4**
Profit carryforward	119.5	99.2
Retained earnings	**87.6**	**121.6**

TÜV SÜD AG's total operating performance increased by € 8.9 million to € 103.5 million in the fiscal year 2018. Income realized from the management services charged to subsidiaries rose due to the increase in cost allocations in Germany and abroad, as well as the favorable development of revenue. ≡ 06

Higher divisional allocations that were recognized in the cost of materials were the main reason for an increase of € 4.8 million to € 25.8 million in this item.

Personnel expenses rose by € 0.6 million to € 34.4 million, mainly due to collectively bargained pay increases and an increase in the headcount.

The amortization and depreciation of intangible assets and property, plant and equipment was on a par with the prior year at € 8.6 million.

Other operating expenses increased by € 6.0 million to € 64.9 million, mainly due to consulting costs and the utilization of external administrative services.

The financial result fell by € 45.7 million to € 11.3 million, mainly due to a weaker contribution to earnings from the contractual trust agreement (CTA). The investment result was also impacted by the impairment of foreign participations and a fall in the contributions to earnings by subsidiaries with profit and loss transfer agreements. Our Turkish joint ventures made a positive contribution despite negative currency effects (€ 4.5 million, prior year: € 5.7 million).

Income and expenses related to the CTA are presented net in the interest result. CTA investments generated income of € 29.6 million (prior year: € 69.1 million) in the fiscal year. A gain was again realized from interest rate and currency hedging.

The operating result, defined as earnings before taxes and the financial result, at € –23.3 million was slightly lower than the prior-year figure of € –22.0 million.

Taxes on income resulted in a € 7.3 million higher tax expense of € 19.9 million (prior year: € 12.6 million). Additional expenses for pension arrangements within TÜV SÜD AG's consolidated tax group could be not be claimed in full as operating expenses.

The € 31.9 million shortfall for the year is € 54.3 million below the prior year's surplus of € 22.4 million.

The TÜV SÜD Group is managed using performance indicators based on figures prepared in accordance with IFRS. These are not relevant to TÜV SÜD AG's separate financial statements as the Group parent.

TÜV SÜD AG's net result for the year in accordance with German GAAP is primarily influenced by the financial result, which depends on the interest rate as well as on the profit distributions from subsidiaries.

NET ASSETS

Statement of financial position of TÜV SÜD AG

≡ 07

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017
Assets		
Intangible assets	4.7	8.0
Property, plant and equipment	104.1	106.3
Financial assets	917.2	933.6
Fixed assets	**1,026.0**	**1,047.9**
Receivables and other assets	37.0	27.7
Cash and cash equivalents	80.9	80.8
Current assets	**117.9**	**108.5**
Prepaid expenses	**2.3**	**2.2**
Excess of covering assets over pension and similar obligations	**168.1**	**242.2**
Total assets	**1,314.3**	**1,400.8**
Equity and liabilities		
Capital subscribed	26.0	26.0
Capital reserve	124.4	124.4
Revenue reserves	405.1	405.1
Retained earnings	87.6	121.6
Equity	**643.1**	**677.1**
Tax provisions	9.9	15.1
Other provisions	15.9	19.8
Provisions	**25.8**	**34.9**
Liabilities	**645.4**	**688.8**
Total equity and liabilities	**1,314.3**	**1,400.8**

Within fixed assets, scheduled depreciation and amortization reduced intangible assets and property, plant and equipment. Financial assets were reduced by the impairment of equity investments in the UK, Turkey and South Africa. ≡ 07

Receivables and other assets rose by € 9.3 million to € 37.0 million, mainly due to receivables from affiliated companies relating to inhouse cash transactions (cash pool).

The excess of covering assets over pension and similar obligations fell by € 74.1 million to € 168.1 million.

A decrease of € 5.2 million to € 9.9 million was recorded for tax provisions resulting from tax payments made for prior years.

Other provisions fell by € 3.9 million to € 15.9 million, primarily as a result of the utilization of the provision for subsequent purchase price payments.

Compared to the prior year, the € 43.4 million lower liabilities (€ 645.4 million) result mainly from obligations due to affiliated companies from the inhouse cash transactions as well as loans issued by TÜV SÜD Asia Pacific Ltd., Singapore, and TUV SUD China Holding Ltd., Hong Kong.

FINANCIAL POSITION, EQUITY AND LIABILITIES

Our financial management aims to maintain solvency at all times and continuously optimize liquidity.

Cash and cash equivalents came to € 80.9 million, which is only slightly higher than the figure for the prior year (€ 80.8 million). Payments by the subsidiaries from operating activities, which flowed to TÜV SÜD AG via the cash pool, were a key factor. This was offset by the transfer of € 30.0 million to the CTA, and the settlement of liabilities for subsidiaries.

Equity decreased by € 34.0 million to € 643.1 million. The decrease corresponds to the net loss for the year of € 31.9 million plus the dividend payment of € 2.1 million to TÜV SÜD Gesellschafterausschuss GbR, Munich. Together with the profit carried forward from the prior year, retained earnings come to € 87.6 million.

Total assets decreased by € 86.5 million to € 1,314.3 million. The equity ratio increased from 48.3% to 48.9%.

OVERALL STATEMENT ON TÜV SÜD AG'S SITUATION

The fiscal year 2018 was in line with the expectations of the Board of Management. Revenue and liquidity developed in line with our planning.

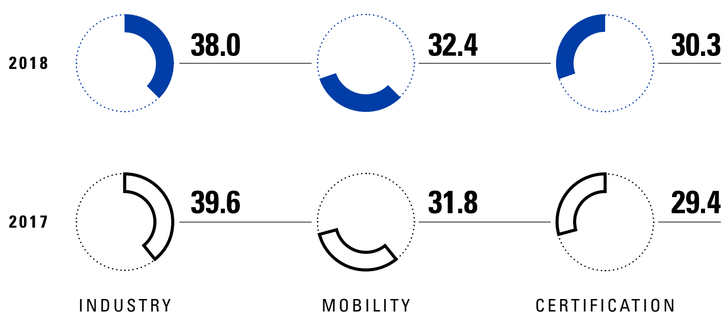
Going forward, TÜV SÜD AG will continue to depend on the business development of its subsidiaries. The discount rate for the pension obligations and the covering assets influence earnings as external factors. The Board of Management of TÜV SÜD AG expects the net assets and financial position to remain stable in the future. The dividend distribution is ensured for the coming years.

Segment report

The MOBILITY and CERTIFICATION Segments continued to grow in the fiscal year 2018, with the INDUSTRY Segment being the only one not to grow on account of the entities disposed of in the course of the year. 20

Revenue by segment 2017 / 2018 [1] 20

IN %



1 _ Without OTHER and reconciliation.

INDUSTRY

With 7,652 employees (on average), the INDUSTRY Segment generated revenue of € 950.6 million. This is equivalent to 38.0% of consolidated revenue. The disposals of the US and South Korean subsidiaries had a significant impact on the growth of the segment's revenue. The projected revenue growth was not achieved as a result.

The Industry Service Division still makes the greatest contribution to the segment's revenue (around 60%), despite suffering a decline in revenue during the fiscal year (down 3.4%). Our business was influenced by the sale of Kocen in South Korea, and in the US by the sale of RCI and the continuation of challenging market conditions for our petrochemical services. Revenue growth was also impacted by delays to a follow-up order in South Africa. By contrast, positive development was seen in Germany, the UK and Italy.

The Real Estate & Infrastructure Division generated around 40% of segment revenue. Transport technology together with infrastructure and rail transport accounted for the business development. The poor order backlog in the UK and Switzerland was more than offset by increased revenue in Germany, Austria and India.

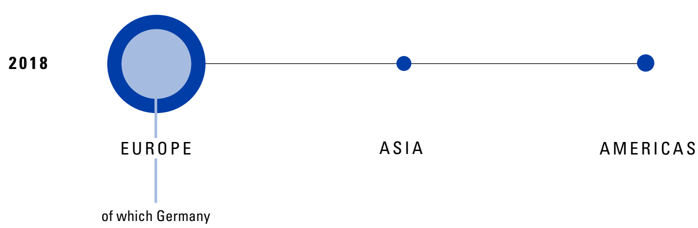
At € 77.1 million, EBIT in the INDUSTRY Segment was just below the prior-year figure (€ 78.1 million; down 1.3%) and thus also fell short of our forecast. In addition to effects from the sales of entities; EBIT was above all impacted by impairment losses at the subsidiaries in the US, South Africa and the UK in order to reflect the local performance of business. This was offset by a reduction in other expenses thanks to consistent cost management.

At 8.1%, the EBIT margin was unchanged on the prior year and thus within our expected corridor.

Segment assets decreased by € 2.5 million to € 509.5 million (prior year: € 512.0 million). Non-current assets fell on account of the sale of entities and impairment losses on intangible assets that we identified by means of purchase price allocation. This effect was not neutralized by the increase in trade receivables in working capital. The change was caused by the reintegration of the petrochemicals business in the US, which was not sold and for which the plan is now to restructure it.

€ 18.2 million was invested among others in the construction of a research and development center for underwater pipelines. 21

Revenue by region – INDUSTRY 21



MOBILITY

The 5,949 employees (on average) of the MOBILITY Segment generated revenue of € 809.5 million in the fiscal year. This is equivalent to 32.4% of consolidated revenue. Revenue growth of € 37.1 million or 4.8% is in line with our expectations.

We once again achieved an increase in revenue in our core business with general inspections and emissions testing. In Germany we also achieved an increase in our market share by volume; price increases also supported this development. An increase in volume was also achieved in Turkey, although this was entirely negated by currency translation effects. The business with driving tests and damage assessment reports continued to grow. Revenue from vehicle maintenance services fell slightly as a result of the sale of APZ. Our homologation services were increasingly in demand, especially in Germany and the Czech Republic. There was also steady growth in medical/psychological services, which we exclusively offer in Germany.

The business model in the MOBILITY Segment is partially geared to franchising as a growth driver. As a result, the ratio of purchased service cost to revenue is 15.1% (prior year: 15.5%), which is above the group-wide ratio of purchased service cost to revenue of 12.5%. The EBIT of € 70.4 million exceeded our expectations despite the fact that the trend was impacted by increased personnel expenses as a result of collective pay increases as well as higher write-downs associated with the planned spin-off of our fleet management business. There was a positive impact on EBIT from a reduction in other expenses as well as an increase in other income from the sale of APZ. At 8.7%, the EBIT margin was within the expected target corridor.

As of the reporting date, segment assets came to € 372.6 million (prior year: € 359.1 million). The increase is exclusively attributable to fixed assets. Working capital fell as a result of the disposal of an entity and the trend in the fleet management business. Investment totaling € 31.7 million was carried out in 2018, including in test centers in Germany and the Czech Republic, in the ASPro IT application system, and in the modernization of the technical service centers. 22

Revenue by region – MOBILITY 22

CERTIFICATION

The CERTIFICATION Segment represents approximately 30% of consolidated revenue generated (€ 757.1 million). The average headcount here was 6,787 in the fiscal year 2018. With an increase in revenue of € 42.8 million or 6.0%, the segment reached the forecast corridor, but fell short of our expected revenue growth rate.

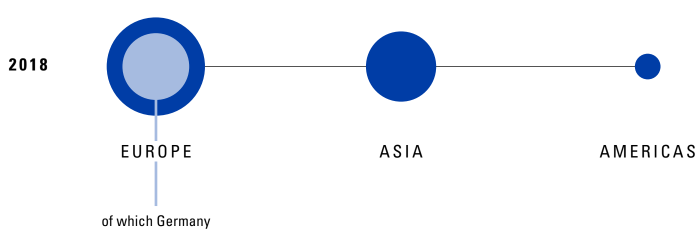
The Product Service Division generated two thirds of the segment's revenue. It also made the biggest absolute contribution to the increase in the segment's revenue, with revenue growth of 5.3%. Our consumer goods audits and certifications were increasingly in demand, especially in China and South Asia. In the industrial goods sector, the strongest increases in revenue were observed in Germany, China and Japan. There was also strong global demand for services relating to healthcare and medical products. As the largest notified body, we benefit from the growth of the global medical market in all countries.

The Business Assurance Division showed positive revenue development (up 7.5%). The growth of our services relating to quality, environment, energy and IT security management systems was driven by audits in accordance with the ISO 9001 and IATF 16949 management system standards. This business produced the most pronounced increase in revenue, and still contributes more than half of the division's revenue. The revenue of the academy business also increased. Germany remains our core market in this respect, with a contribution to revenue of more than 90%. Business relating to data protection services in connection with the EU's new General Data Protection Regulation made a particularly strong contribution to the growth of the Cyber Security Services business, and there was also increasing demand for penetration tests and services to provide security for electronic payments.

Purchased services in the segment increased at a lower rate than revenue, decreasing the ratio of purchased service cost to revenue to 16.5% (prior year: 17.1%). The high ratio of purchased cost to revenue is due in particular to the customary commissioning of external service providers in the academy business. Personnel expenses and other expenses increased at a faster rate than revenue. Personnel expenses increased in Germany (collective wage increases), China and the US in particular. Increased spending on innovation projects in Germany, China and Singapore led to an increase in other expenses. EBIT in the CERTIFICATION Segment amounted to € 81.8 million, and was within the range we expected. The generated EBIT margin of 10.8% exceeded our expectations.

Segment assets increased to € 379.2 million. This is equivalent to an increase of € 31.7 million compared to the prior year. This development was driven by the good course of business and the associated increased billing, as well as investments in fixed assets. A total of € 34.6 million was invested in the segment, with a focus on expanding the network of testing facilities in US and Asia, and also on software projects such as Training Powerhouse. 23

Revenue by region – CERTIFICATION 23



OTHER

In the OTHER section we report on the Group divisional functions, where revenue amounted to € 28.0 million in the fiscal year.

EBIT in OTHER amounted to € –19.1 million in the fiscal year after € –22.6 million in the prior year. Segment assets decreased by € 11.4 million from € 271.4 million to € 260.0 million.

For an overview of the development of revenue in the segments, including OTHER, and in the regions, please refer to segment reporting in the notes to the consolidated financial statements.

NON-FINANCIAL PERFORMANCE INDICATORS

Employee report

Our employees make a key contribution to TÜV SÜD's business success. Their motivation, their expertise and their skills lay the foundation for the ongoing and long-term development of the company. At the end of the fiscal year, TÜV SÜD employed over 24,500 people (prior year: around 24,000), roughly half of whom worked outside Germany. We expect the headcount to increase even more in the years ahead.

Women made up 31% of the total workforce in the fiscal year (prior year: 31%), with the proportion at TÜV SÜD's international locations (33%) being slightly higher than in Germany (29%) (prior year: 29% and 33% respectively). This can be partly attributed to the fact that the number of women studying scientific subjects in Germany is still relatively low, and TÜV SÜD recruits most of its workforce from this field.

As part of the Group's Gender Balance initiative, which is part of our efforts to promote diversity at the company, we have been working since 2016 to significantly increase the proportion of women in specialist and management careers. The focus is on creating the conditions and structures and providing impetus for a diverse and inclusive corporate culture. This is helped by strategic development programs and the expansion of the work/life balance program. The proportion of women at the highest level of management (excluding the Board of Management) rose to 7.5% in 2018 at a global level (prior year: 7.3%). At 9.7%, the proportion of women one level below is at prior-year level.

The average age of our employees in Germany is around 45 years, making them older than their colleagues in other countries (39 years). The average period of company affiliation in Germany (12 years) is also higher than in other countries (6 years).

Voluntary fluctuation across the Group came to 6.0% in 2018, which is 1.0 percentage points below the figure for the prior year (7.0%). The fluctuation rate in Germany was relatively low at 3.5% (prior year: 3.1%). A decline to 8.3% was observed outside Germany (prior year: 11.4%).

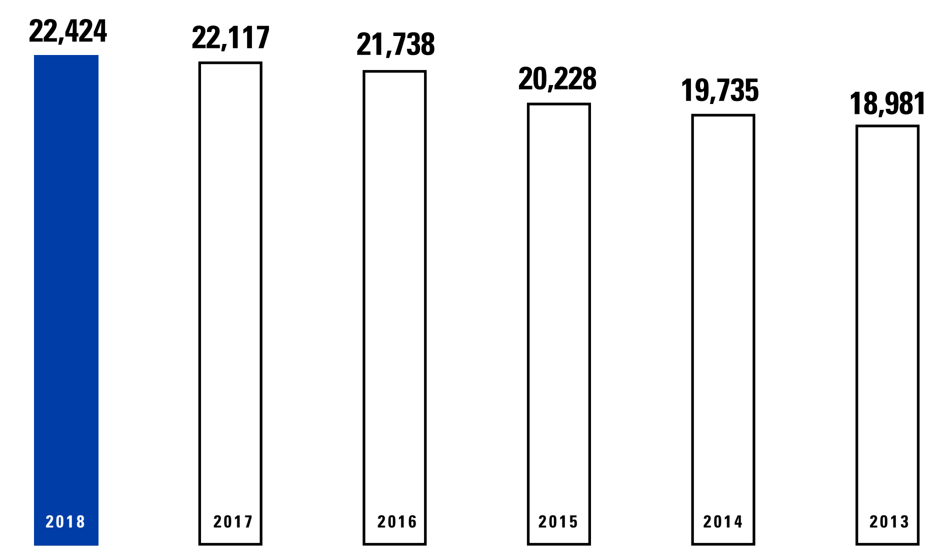
Due to demographic trends and the clear shortage of qualified experts in many markets, the targeted recruitment of employees constitutes a central challenge for TÜV SÜD. That is why, in 2018, the role of recruiter was introduced in Germany. The recruiters actively assist managers with the search for and selection of suitable employees. At an international level the global applicant management system was also expanded. Many job advertisements can now be accessed by interested applicants in 16 countries via a central platform.

CHANGES IN HEADCOUNT

The average number of employees in 2018 was 22,424 FTEs, which is a slight increase of 1.4% in comparison to the prior year (22,117 FTEs). An increase of 3.4% was observed in Germany, while outside Germany there was a decline of – 0.4%. 24

Development of employees 24

ANNUAL AVERAGE HEAD COUNT



TÜV SÜD employed 22,530 people (FTEs) as of December 31, 2018 (prior year: 22,268). The number of people employed by the German entities rose by 324 FTEs, while the headcount outside Germany fell by 62 FTEs.

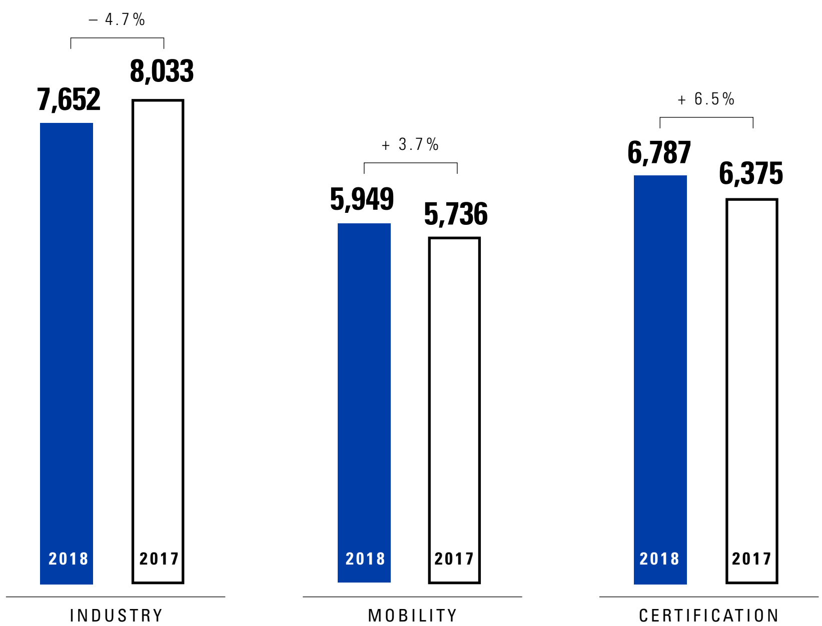
This change takes into account the reduction of the workforce in connection with the sale of entities (338 employees, prior year: 18 employees) in Germany, South Korea and the US.

CHANGES IN HEADCOUNT IN THE SEGMENTS AND REGIONS

Changes in headcount 2017/2018 by segment

25

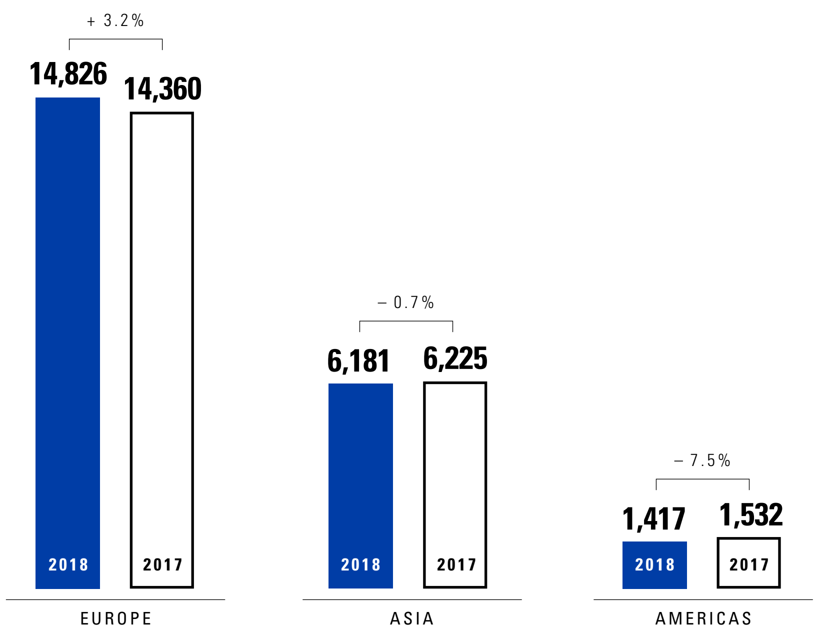
ANNUAL AVERAGE



Reduction of personnel in the INDUSTRY Segment stemmed in particular from the sale of Kocen in South Korea and RCI in the US. We also introduced corrective measures in the UK and South Africa in response to the weak order situation in those markets. Reduced headcount continued in the US as part of the restructuring of the remaining petrochemicals business. Despite a decline in the number of employees, the INDUSTRY Segment continues to have the largest number of employees. The increase in headcount in the MOBILITY Segment was mainly in Germany. The CERTIFICATION Segment continued the targeted expansion of its workforce in the fields of consumer goods and healthcare/medical products. The expansion of the global network of testing facilities also continued.

25

Changes in headcount 2017/2018 by region 26
ANNUAL AVERAGE



In 2018, more than half of TÜV SÜD's employees worked outside Germany. We expanded our core workforce in EUROPE, and in our domestic market of Germany in particular. The countereffect from the sale of APZ was offset in full. The sale of RCI and the restructuring of PetroChem led to the reduction of the workforce in the AMERICAS region. The number of jobs in the ASIA Region was slightly lower than in the prior year. Losses due to the sale of an entity were largely offset by new hires. 26

ONE HR – AN HR STRATEGY FOR FUTURE CHALLENGES

The ONE HR vision and the new HR Strategy 2025 were formulated during the fiscal year on the basis of the company's new "The Next Level. Together." strategy. The core theme of the HR strategy is promoting a culture of collaboration at the company, and allowing it to develop into a tangible benefit for our TÜV SÜD managers and employees in combination with a clear focus on our customers. The plan is to use all available resources and especially all the possibilities offered by digitization to develop those employee skills that are crucial to the implementation of the company's strategy as efficiently as possible.

The anticipated growth of the workforce and fluctuation pose particular challenges in this regard. Extrapolations show that only a smaller part of our global workforce will stay the same in the future. New hires in connection with the planned increase in the workforce and average employee turnover mean that large numbers of new employees will be joining the company in the next few years. These people must be identified, carefully selected and given specialist training.

The company also needs to smooth the transition into the digital revolution and the associated new lines of business for its employees. In addition to creating a corresponding culture of cooperation and innovation, one focus of the HR Strategy 2025 is therefore on providing integrated learning platforms and specific training services in order to give employees customized training and be able to tackle the challenges of digitization. Software will also be used to make harmonized training opportunities and performance appraisals accessible globally.

HR ORGANIZATION EXPLOITING POTENTIAL OF DIGITIZATION

Most of TÜV SÜD's administrative activities are bundled in shared service centers. This means that the HR Business Partners now have more capacity to provide comprehensive advice to the specialists and managers they support in their function as strategic business partners.

The harmonization and digitization of our group-wide core HR processes are crucial in order to overcome the approaching challenges relating to the acquisition and development of talent. The focus in 2018 was on identifying global requirements and evaluating potential IT solutions. The next steps will follow in 2019. A new, global IT platform will be used to support and manage efficient processes for finding and managing talent. This will also allow us to focus on particularly relevant target groups, and generally enhance the agility of the organization by providing rapid access to additional information and data. This will mainly benefit TÜV SÜD with respect to attracting, developing and retaining staff.

ATTRACTING STAFF – SECURING THE FUTURE

Gaining a reputation as an attractive employer and the ability to attract qualified personnel to the company are increasingly becoming key competitive factors. For this reason, the HR Strategy 2025 defines strategic areas for attracting staff in order to become more efficient and effective. In addition to strategic planning, a structured approach in an applicant-centric hiring process, the use of modern technology and the promotion of international talent attraction and mobility, one focus is also positioning TÜV SÜD as an employer brand.

TÜV SÜD has been one of Germany's top-ranked employers for many years now, and we have also gained an outstanding reputation outside Germany in recent years. According to a study conducted by the business magazine "Actualidad Economica" in 2018, TÜV SÜD is once again one of Spain's top 100 employers. TÜV SÜD also ranks among the best 100 employers in the Czech Republic.

In Asia as well, TÜV SÜD enjoys a strong reputation as an employer. In the fiscal year 2018 we were able to further reinforce our strong position among the best employers. This was once again reflected by the "100 Excellence Employer of China 2018" award TÜV SÜD received for exemplary HR management. TÜV SÜD was also recognized as a "Human Capital Partner" in Singapore for its efforts to develop its workforce as well as its fair and progressive workplace conditions.

HR DEVELOPMENT – SUPPORTING SKILLS AND TALENT

HR development plays a crucial role against the backdrop of the digital revolution. It has to anticipate the approaching changes and offer employees training that enables them to successfully overcome new challenges and tasks. To this end, TÜV SÜD has set up a variety of programs aimed at promoting "digital maturity" throughout its entire workforce. In 2018, a dedicated internet page was launched in partnership with the TÜV SÜD Digital Service Center of Excellence in order to give all employees the opportunity to learn about the core topics of digitization and to develop. This page includes multilingual web-based training that offers insights into some of TÜV SÜD's digital projects as well as practical information on subjects such as highly-automated driving and IT security.

Through TÜV SÜD's expert programs (the Global Expert Development Program (GEDP) for senior technical experts with international responsibility and Modular Expert Program (MEP) in Germany), we have been networking and supporting our senior experts for years in a targeted manner in order to equip them with important core skills in preparation for digital challenges. Innovation, product development and a customer-orientation are as much a focus as change management and sharing knowledge. Since 2014, 100 experts have already taken part in the international GEDP alone.

Another point of focus is on managers in their role as multipliers for the company's culture, and their contribution to the success of the digital revolution in the divisions. The corresponding training services are readily and regularly utilized. The "Future Leadership Lab" training workshop, in which complex management and collaboration in a volatile context are experienced and tried out, was also set up for upper and middle management in the fiscal year 2018. The Fit4Digital@TÜV SÜD program was also run in partnership with the University of St. Gallen's Executive School of Management, Law and Technology. With the support of the TÜV SÜD Digital Service Center of Excellence, the focus, in addition to testing new methods of working and gaining a deeper understanding of the digital economy, is on developing new business ideas.

HIGH POTENTIALS ON TRACK

Identifying and promoting people with potential is a key aspect of TÜV SÜD's personnel strategy. The aim is to promote their personal and professional development and reinforce their ties to the company through targeted measures. High potentials have for many years been prepared by the group-wide JUMP program for global management tasks spanning multiple divisions and regions. TÜV SÜD also offers promising junior managers the opportunity to prepare for future management functions through regional programs in Asia, Europe and the US.

TRAINING SECURES THE FUTURE

TÜV SÜD has traditionally focused on training young people in order to secure the long-term availability of well-trained employees who are familiar with the company. During the fiscal year 155 (prior year: 142) trainees started their careers at TÜV SÜD in Germany. This year, cooperative courses of study were once again offered in partnership with renowned educational institutions, particularly in the fields of mechanical, electrical and automotive engineering. TÜV SÜD always seeks to retain as many graduates as possible, and to train them within the company as test engineers or certified experts. The contact with colleges and the facilitation of internships are also proven means of building up contact with good graduates and getting them interested in working for TÜV SÜD at an early stage.

EXPLORING HORIZONS – SUCCESSFUL YOUTH EXCHANGE AND INTERNSHIP PROGRAMS

Acceptance of our Horizons youth exchange program, which is aimed at youths aged 14 to 18 from the families of TÜV SÜD employees, remains high. A total of 38 families, half of which were in Germany, took part in the program in the fiscal year, through which we aim to support the young people’s personal development and facilitate contact between our employees and their families across all boundaries.

TÜV SÜD also offers the Explore program for students aged between 18 and 25 from employees’ families. The students are given the opportunity to complete a paid internship at one of TÜV SÜD’s international locations for up to eight weeks, in order to gain experience in an international environment. Nine international and five German students took part in this program in 2018.

APPEALING MORE TO WOMEN

TÜV SÜD’s international women's network, which it founded on its own initiative in the prior year, was expanded in 2018. The sharing of information and regular meetings, and a new mentoring program, promote transparency and raise the profile of relevant topics within the company at a global level. As an employer TÜV SÜD also participates in the Munich Cross-Mentoring for (junior) female managers. The aim is to promote them through the support of a mentor from another company. The participants are assisted by their mentors as well as attending numerous events and coaching sessions for a year, and work on specific challenges from their daily management tasks.

PROMOTING WORK/LIFE BALANCE

We have numerous programs aimed at offering our employees the best possible conditions for achieving a balance between their professional and private lives. The services offered range from generally accessible information and specific support such as reserved daycare and kindergarten spaces and holiday/emergency care to a large number of working hours models and mobile working. Since 2009 we have ensured the consistent quality of our services by taking part in a regular “berufundfamilie” (“work/life balance”) audit. The third recertification in this respect was carried out in 2018. ≡ 08

We also look at the topic of work/life balance against the backdrop of growing numbers of people requiring care. In order to support our employees in this respect we entered into a partnership with a company specializing in assisted living in Germany. Our employees can contact this company for information or concrete offers of help free of charge and at any time.

Reconciling the demands of career and family ≡ 08

	2018	2017
Employees on parental leave	700	610
Percentage of employees in part-time employment during parental leave	25.1%	24.2%
Total percentage of employees in part-time employment	19.6%	18.9%
Average duration of parental leave	4.6 months	4.2 months
Thereof women	12.4 months	13.6 months
Thereof men	1.8 months	1.3 months

Germany only.

COMPREHENSIVE HEALTH MANAGEMENT

By ratifying our Global Health Policy, we laid the foundation for an international company health management system. This gives TÜV SÜD access to minimum standards and indicators throughout the company in the fields of first aid and emergency management, risk assessment and workplace hygiene. The Global Health Policy complements the works agreement drawn up with the Group Works Council in 2014. The company's health management activities are guided by a health index that is determined using a global employee survey. Data is also recorded locally, including for example accident and sickness rates, or rates of participation in health campaigns.

TÜV SÜD supports individual preventive health measures by means of financial subsidies. Company-wide health campaigns also motivate our employees to more actively take care of their own health. Our bowel cancer prevention program, which has been in place for ten years, gained us second place in the "Company Prevention" category of the renowned Felix Burda Awards.

The motto for 2018's global health campaign was "Listen to your heart". All of TÜV SÜD's employees were also given the opportunity to take part in the Global Step Challenge. This informal, group-wide competition allowed individual employees or entire teams to register the intensity of their daily physical activity on a central platform and compare themselves with other co-workers and teams, thus promoting team spirit at an international level in addition to exercise. The campaign was a big success, with more than 3,400 participants in 26 different countries.

With the "Company Bike" campaign we also offer employees at various locations in Germany the opportunity to lease a high-quality bike and use it to improve their physical fitness. TÜV SÜD locations in the UK continued their Cycle to Work initiative in 2018 with a similar aim.

OPPORTUNITIES AND RISK REPORT

Dealing responsibly with risks and opportunities is key to our success. That is why, at the TÜV SÜD Group, we use an internal control system and a comprehensive risk management system to identify and proactively manage the risks and opportunities arising from our business activities.

INTEGRATED INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR THE FINANCIAL REPORTING PROCESS

The financial reporting internal control and risk management system plays a decisive role in the financial statements of TÜV SÜD AG and the TÜV SÜD Group. It comprises measures designed to ensure complete, correct and timely provision of the information necessary to prepare the separate financial statements of TÜV SÜD AG and the consolidated financial statements and combined group management report. These measures are intended to minimize the risk of material misstatement in the books and records and external reporting.

The TÜV SÜD Group has a decentralized accounting organization. Consolidated companies handle accounting tasks independently and at their sole responsibility or transfer them within the Group's central shared service centers.

The TÜV SÜD IFRS accounting guidelines ensure uniform recognition and measurement and the exercise of options on the basis of the rules applicable to the parent company. These include in particular specific instructions on applying statutory provisions and dealing with industry-specific matters. They also set out in detail the components of the financial reporting packages to be prepared by the Group companies, as well as the guidelines for reporting and processing internal transactions.

Control activities at group level comprise analyzing and, if necessary, adjusting the financial reporting in the reporting packages submitted by the subsidiaries. This takes into account the reports presented by the independent auditor and the results of the closing discussions with representatives of the individual affiliated companies. During the meetings, the plausibility of the separate financial statements and critical individual matters at the subsidiaries are discussed. In addition to plausibility checks, other control mechanisms used during the preparation of the separate and consolidated financial statements of TÜV SÜD AG include the clearly defined segregation of responsibilities and the dual control principle.

Moreover, the financial reporting internal control system is also independently audited by the Group's internal audit function in Germany and abroad and assessed by the Group's independent auditor.

INTEGRATED CONSOLIDATION AND PLANNING SYSTEM

We can consolidate and analyze historical accounting data and future-oriented controlling data via the TÜV SÜD Business Portal. The system offers central master data maintenance, standardized reporting and outstanding flexibility with regard to changes in the legal framework. This provides us with a future-proof technological platform that benefits the Group's accounting and controlling functions alike. The data consistency of the TÜV SÜD Business Portal is ensured by a multi-level validation system.

EARLY WARNING SYSTEM FOR DETECTING RISK

The risk situation of the company is continuously recorded, evaluated and documented. As an operational component of the business processes, risk management serves to identify risks at an early stage and in a structured way, assess their extent, promptly initiate necessary countermeasures and report them to the Board of Management in line with internal regulations. The independent auditor annually verifies the procedures and processes implemented for this purpose as well as the appropriateness of the documentation.

We identify risks and opportunities based on commonly used standards. The categories for risks and opportunities have been adapted to suit TÜV SÜD. The risks are assessed in a standardized basis throughout the Group according to the potential amount of damages and likelihood of occurrence. Reporting on identified risks and implemented countermeasures represents an integral component of our standardized corporate planning and monitoring processes. It is incorporated in TÜV SÜD's information and communication system. Risk and opportunity reports are submitted to the Board of Management, the Audit Committee and Supervisory Board on a quarterly basis. Over and above these standardized reporting processes, significant issues are communicated via internal ad hoc reports.

Risk management is firmly rooted in the Group's management process. Risk Committees have been set up at the division level, and there is also a Corporate Risk Committee for group-wide issues. These bodies convene every quarter to analyze and evaluate the situation with respect to risks and opportunities, and to discuss corresponding measures. Implementation of the measures is monitored by the committees.

The procedural rules, guidelines, instructions and descriptions are set out systematically and are largely available online. Compliance with these regulations is ensured by internal controls. In addition, user training is carried out at regular intervals.

GOALS AND MECHANISMS OF RISK MANAGEMENT

The Group's risk management aims to identify potential risks so that suitable countermeasures can be taken to avert the threat of loss to the company and to rule out any risks that may jeopardize its ability to continue as a going concern at an early stage.

We are prepared to take limited risks that are proportionate to the anticipated benefit from business activities.

Events that could give rise to a risk are identified and assessed locally in the divisions as well as in the subsidiaries. Suitable countermeasures are initiated without delay, and their effects are assessed over time. The results of risk management are factored into budgeting and controlling. Targets agreed in the planning meetings are subject to ongoing review during the revolving revisions to planning.

At the same time, the results of the measures already implemented to counter the risks are promptly included into the forecasts for further business development. In this way, the Board of Management also receives an overall picture of the current risk situation during the year via the documented reporting channels.

CONTINUOUS MONITORING AND FURTHER DEVELOPMENT

The internal control and risk management system is constantly being optimized as part of our continuous monitoring and improvement processes. In this way, we take into account internal and external requirements alike. The aim of the monitoring and improvement process is to ensure the effectiveness of the internal control and risk management system. The results feed into regular and ad hoc reports to the Board of Management, Audit Committee and Supervisory Board of TÜV SÜD AG.

Risk report

The ten most important risks are reported internally to the Board of Management, Audit Committee and Supervisory Board as the "top 10 risks". We report here only on the material risks with an effect on earnings that TÜV SÜD is exposed to in its business operations.

Apart from the top 10 risks, we report on the effects of a change in the interest rate on benefit obligations, such as pensions and allowances. This takes account of the predominantly equity character of this risk and the limited extent to which it can be controlled. The weighted net risk resulting from the further reduction in the discount rate as of the reporting date amounted to about € 38 million (prior year: € 60 million).

At the same time, following an appeal against the "Versorgungsstatut" (articles of association concerning the welfare fund), there is a risk of subsequent payments and increased future pension obligations. A provision in the mid-tens of millions of euros was recognized based on a projected figures model.

There are no pending lawsuits against TÜV SÜD AG and its subsidiaries in connection with the collapse of a tailings dam of a retention basin for an iron ore mine in Brazil that happened after the reporting date. Brazilian criminal and labor authorities are investigating individual employees of a Brazilian subsidiary, and there have been some arrests. Please refer to the following explanations as well as those in the "Events after the reporting date" section of the notes to the consolidated financial statements.

The largest ten risks affecting net income amount to approximately € 15 million weighted net risk. This corresponds to a manageable risk position for equity and earnings in relation to the size of the company. The CERTIFICATION Segment reports four top 10 risks with a weighted net risk of € 11 million.

The other top 10 risks are all below a loss amount, weighted in terms of likelihood of occurrence, of under € 1 million and are therefore not quantified on grounds of materiality.

INDUSTRY AND SYSTEMIC RISKS

TÜV SÜD is exposed to industry and systemic risks that could negatively impact revenue and earnings. These mainly relate to sales risks arising from liberalization, deregulation, but also from protectionism measures and digitization in our core markets. We successfully mitigate these risks by continuously optimizing our business processes, developing and implementing sales and marketing concepts and diversifying the portfolio of products and services.

Changing statutory and regulatory conditions also influence the performance of our segments' business. We therefore monitor the markets closely and take an active role in the public debate on relevant topics. In this way, we seek to identify risks at an early stage and offset their effects. This also enables us to leverage the opportunities arising as a result of changes in the business environment for our company.

We identify the following industry and systemic risks among the top 10 risks.

In Germany we see a risk for the INDUSTRY Segment that it will not be possible to realize synergy and efficiency effects and cross-selling potential in our engineering and real estate service business to the anticipated extent.

The potential loss of a contract in South Africa or a reduced follow-up order following a renewed invitation to tender for long-running maintenance contracts for conventional power plants could significantly reduce prospective earnings and impact the intrinsic value of the company's assets.

The potential liberalization of paragraphs 19 and 21 of the German road traffic licensing regulations (StVzO) governing motor vehicle approval may make it easier for competitors to move into the market and cause us to lose market share in the MOBILITY Segment.

In the CERTIFICATION Segment, an invitation to tender from a major client for testing services could lead to the reduction of the planned contract volume and existing price framework.

An unfavorable business performance by a strategic participation, particularly as the result of a delayed market launch or low acceptance among customers of the key products it has developed, could impact the ongoing contribution to earnings and the future recoverability of the participation.

OPERATING RISKS

With their commitment, motivation and skills, our employees are key success factors for TÜV SÜD. We see our employees' training and international orientation as well as their ability to translate innovations into customer benefits as personnel-related opportunities. However, risks arise if we are unable to recruit suitable staff or retain high performers. We have implemented a large number of measures to ensure the appeal of TÜV SÜD as an employer and support the long-term retention of employees within the Group.

Information processing plays a key role in our business activities. All major strategic and operational functions and processes are supported to a large extent by information technology (IT) at TÜV SÜD. The IT security measures implemented serve to protect the systems against risks and threats, as well as to avoid damage and reduce risks to an acceptable level. Even in an intact IT environment, it is not possible to preclude steadily increasing risks entirely.

Our internal IT security policies are based on national and international standards. We monitor the regulations and compliance on an ongoing basis in order to guarantee the target level of security. The central IT systems are monitored and regularly tested in such a way as to enable us to respond quickly to any disruption. Our corporate data are protected by adequate measures according to the level of protection required for the respective data. To protect our IT system against viruses and other harmful codes, we deploy security software, which we keep up to date at all times.

Extensive contingency measures are in place to ensure that we remain operative in the event of extensive damage to our IT infrastructure – for example, through fire, environmental influences or by force majeure. Comprehensive and regular backups of the central systems also ensure that we can resume operations within an acceptable time frame for the respective applications.

Performance-related risks within the top 10 risks arise for the INDUSTRY Segment as a result of pending cost-cutting programs at a major German client.

The development of IT applications may incur additional costs in the CERTIFICATION Segment that were not taken into account in the project planning.

Another top 10 risk stems from the non-acceptance of submitted documents relating to the training of our technical experts by the Central Authority of the Länder for Health Protection (ZLG).

We also see a risk associated with delays to the maintenance of a laboratory as well as the government certification of selected testing services provided by that laboratory. We also anticipate potential legal costs with respect to a supplier in this context.

FINANCIAL RISKS

TÜV SÜD AG handles the financing of TÜV SÜD and its operating companies centrally. It is responsible for keeping sufficient reserves of liquidity for short- and medium-term financing requirements.

CURRENCY RISKS FROM TRANSACTIONS

Transaction risks can arise from every existing or forecast receivable or liability denominated in foreign currency. The value of such receivables or liabilities fluctuates in line with changes in the respective exchange rate.

An internal policy requires all affiliated companies to monitor their own foreign exchange risks and hedge them if they reach a certain volume. Hedging is carried out primarily by means of forward exchange transactions. The corporate treasury department largely enters into these transactions centrally for the Group companies.

CURRENCY RISKS FROM TRANSLATION

Translation risks arise from the carrying amounts of participations denominated in foreign currency and the related net income or loss for the year. TÜV SÜD prepares the consolidated financial statements in euro. For the consolidated financial statements, the statements of financial position and the items of the income statements of the affiliated companies located outside of the euro zone must be translated to the euro. The effects of fluctuation in the exchange rates are disclosed in the appropriate items within equity in the consolidated financial statements. As the participations are generally of a long-term nature, we monitor this risk, but do not hedge the net assets position. The fact that the current and foreseeable effects on the consolidated statement of financial position are immaterial is decisive here. When borrowing to finance business combinations, we generally ensure the loan is taken out in matched currencies in order to eliminate risk from fluctuations in exchange rates as far as possible.

INTEREST RATE AND PRICE RISKS

Interest rate risks arise from interest-bearing items and items that are directly linked to interest rates. For securities, transaction risks arise from the market prices of the various interest-bearing investment instruments. In principle, a distinction is made between the risk from the pensions portfolio and the operations of the TÜV SÜD Group.

With regard to operating activities, we use financial derivatives exclusively to hedge underlying transactions. Forward exchange transactions are the main currency hedging instrument.

The risk strategy in the pensions portfolio is designed to limit some of the market risk from pension obligations by means of structured, dedicated financial assets. Another objective is to compensate for the interest cost of the hedged pension obligations by means of a corresponding asset allocation wherever possible and to increase coverage over time. This is to be achieved by means of a return on assets, additional new additions or recontributions with the trustors waiving their pension reimbursements.

More than two thirds of the pension obligations are covered by financial assets, most of which have been separated from operating assets as a result of the Contractual Trust Agreement (CTA), in order to reduce risks associated with pension liabilities and to allow a policy of investment that reflects obligations. A very high percentage of the German segregated pension assets is managed in trust by TÜV SÜD Pension Trust e. V. These assets are invested by external investment companies in accordance with specific investment principles. Interest rate risks, currency risks and price risks relating to special non-current capital investment funds are partly hedged by derivative financial instruments. The portfolio's market value is subject to fluctuations resulting from changes in interest, currency and credit spread levels as well as share prices.

A further reduction in the discount rate used to determine pension provisions could have a significant effect on the equity position of the Group. In addition, a change in the discount rate has an effect on income in connection with the measurement of the long-service bonus and medical benefits obligations.

Another negative effect on equity capital could arise from a potential reduction in the return on plan assets compared to planning.

TÜV SÜD Pension Trust e. V. continued its strategy of maintaining long-term investments in 2018. The aim of the sustainability strategy, which is rooted in the relevant TÜV SÜD guidelines, is primarily to minimize risk.

COMPLIANCE AND OTHER RISKS

As of the end of the reporting period, several legal proceedings were still pending in connection with services rendered by TÜV SÜD. Due to the existing global insurance cover, there were no material financial risks. Sufficient provisions were recognized to cover any remaining risk.

A former employee with company pension claims brought an action against the pension assessment from January 2016 under the Versorgungsstatut. On account of the uncertain outcome of the lawsuit, various different scenarios have been assumed. These have been used to determine a projected figure for a potential adjustment based on changed assumptions regarding anticipated performance. A provision in the mid-tens of millions of euros was recognized based on this projected figures model. Depending on the outcome of the ongoing lawsuit, any required adjustment may increase and have a significant impact on the net assets, financial position and results of operations of the TÜV SÜD Group.

On January 25, 2019, the tailings dam of a retention basin for an iron ore mine belonging to mining company Vale S.A. close to the village of Brumadinho, Brazil, collapsed. The dam had been inspected by TÜV SÜD Bureau de Projetos e Consultoria Ltda. (TÜV SÜD Bureau), Sao Paulo, Brazil, in summer 2018. This may result in various legal risks in the future. These include but are not limited to:

→ civil law proceedings, especially relating to the assertion of indemnification claims, and
→ criminal and administrative proceedings under Brazilian environmental law, among others.
→ Proceedings initiated by government authorities, non-governmental organizations (NGO), commercial enterprises as well as private individuals are all conceivable.

If these legal risks materialize, the financial expenses for TÜV SÜD Bureau and potentially also TÜV SÜD AG may be substantial.

The Board of Management and Supervisory Board of TÜV SÜD launched a comprehensive investigation into the matter, engaging external law firms immediately after the accident. External experts have also been consulted to obtain an independent assessment of technical questions.

In addition, there is a risk of back payments arising from a tax field audit in Germany.

OVERALL STATEMENT ON THE RISKS FACED BY THE GROUP

From a Group perspective, we are paying particularly close attention not only to the discount rate risk from the measurement of the pension obligations and the provisions for long-service bonus and medical benefits, which has an effect on equity, but also to the industry and systemic risks. We are also currently monitoring the progress of the ongoing action against the current pension assessment under the Versorgungsstatut.

In comparison to prior years, there were significant additional risks after the reporting date in connection with the dam collapse in Brazil. Based on the current assessment, there may be effects on the current business activities in Brazil and considerable financial expenses for TÜV SÜD Bureau and potentially also TÜV SÜD AG and its other subsidiaries, especially from legal risks and the associated consulting costs.

Looking ahead at the next two years, and based on the information available to us in accordance with the risk management system that is in place, there are no apparent risks that could permanently and significantly impact TÜV SÜD's net assets, financial position and results of operations. All organizational preconditions necessary to recognize developing risks at an early stage have been met.

Opportunity report

Significant opportunities for the favorable business development of TÜV SÜD result from the strategic planning, the business outlook and the individual opportunities of the divisions and segments. Thanks to our global presence, any global economic growth in all segments provides positive impetus for our business. In the following, the main opportunities are presented in accordance with the risk categories mentioned above.

INDUSTRY AND SYSTEMIC OPPORTUNITIES

We expect a gain from the planned sale of Signon AT in Austria and a Spanish participation. At the same time, we see the potential for future earnings from the cooperation with a strategic partner in our fleet business. The continuation of a favorable business trend for APZ, which was sold during the fiscal year, may lead to an earn-out payment in our favor.

We regularly take part in invitations for tenders from automobile manufacturers in the MOBILITY Segment. Our references and expert knowledge enable us to fulfill the qualification requirements and thereby increase the possibility of commissioning. We will be able to expand our network of technical service centers if the decision is made to liberalize the market in a Spanish province.

In the CERTIFICATION Segment we see potential for additional unit sales in connection with the certification of medical devices, as manufacturers of medical devices engage certifiers licensed in the EU in anticipation of a potential no-deal Brexit.

FINANCIAL OPPORTUNITIES

An increase in the discount rate used to determine pension provisions as well as for provisions for long-service bonuses and medical benefits could have a significant positive effect on the position of the Group’s equity or income. Positive development of the key risk factors of nominal interest and credit spread results in a decrease of the pension obligation, thereby reducing the shortfall in cover. After taxes, this change in the shortfall would have a positive effect on equity. If the appeal against the denial of leave to appeal submitted to the Federal Labor Court in October 2018 and the appeal proceedings after that are successful, the non-application of the Regional Labor Court ruling on the pension assessment under the Versorgungsstatut may in turn have a positive effect on consolidated equity.

Following the adjustment of the company pension plan and based on local market conditions, we expect reduced contributions to the British pension fund.

Subsidies can be applied for and collected for individual research and development projects, which are also being conducted in partnership with universities or authorities.

Risk report of TÜV SÜD AG

TÜV SÜD AG is an investment and management holding company. As such, its risk situation is primarily determined by the economic situation of its participations.

There are financial risks in the form of interest rate risks, currency risks and price risks. Interest rate risks arise in connection with the disposition of liquidity and refinancing. To hedge these risks, derivative financial instruments in the form of interest rate swaps are also used, if required. Foreign currency risks can arise from every existing or forecast receivable or liability denominated in foreign currency. They are mainly hedged using forward exchange contracts. Currency risks arise from changes in the market price of held securities.

Industry and systemic risks arising from changes in the market conditions in the segments and regions are recorded using market and competitive analyses. Possible measures are discussed in strategy meetings.

OUTLOOK

Future development of the TÜV SÜD Group

Please note that actual events in the course of the coming fiscal years could differ from our expectations presented below.

The following statements on the outlook for the development of TÜV SÜD in the next fiscal year are based on the planning for 2019. This was prepared by the Board of Management and approved by the Supervisory Board in December 2018.

The strategic planning, which covers the period until the year 2025, was used to determine interim targets that were incorporated into the forecast for 2019. The effects of economic development and the achievement of interim goals are also assessed in regular scenario analyses, and taken into account in the forecast for 2019.

Potential consequences from the technical assessment performed in 2018 by our subsidiary office of the tailings dam in Brazil that collapsed in January 2019 could have a future impact on our brand value and our business development. This and any resulting significant financial expenses have not been included in the current planning. Against the background of the ongoing investigations, it is not currently possible to make any additional disclosures regarding the amount that could deviate from budget in particular as well as estimates and assumptions about the probability of certain scenarios occurring.

We expect global economic growth to slow in 2019. Kiel Institute for the World Economy expects stable growth of 3.4% in 2019 and 2020. ≡ 09

Development of the global economy: outlook for 2019 ≡ 09

Global	Slowed growth
Germany	Slowed growth
Euro zone	Slowed growth
USA	Faster growth
Emerging markets	Faster growth

The somewhat weaker growth of the German economy is expected to continue in 2019. Strong domestic demand up to now and high exports provide a solid foundation for this. Domestic demand is also being bolstered by stable financing conditions for companies, as well as fiscal policy measure such as the family home-building grant for private households. The trade dispute with the US, Brexit and political uncertainty in the euro zone and Turkey will impact Germany's export-based economy, however, although the extent to which it will do so is still uncertain. We therefore expect economic growth to slow overall in 2019.

The euro zone will continue to see slight economic growth. Weaker support from international trade, the further appreciation of the euro (against the Turkish lira and pound sterling, among others) and higher prices for raw materials are hampering the positive trend. Italy is still struggling with high levels of government debt, which could jeopardize the stability of the euro zone. The Spanish economy continues to recover, and the unemployment is still falling. Uncertainty surrounding the outcome of Brexit negotiations is impacting the economy of the UK, where growth is only expected to be modest.

The US economy will continue to grow in 2019. This growth is being fueled by the tax reform and other fiscal policy factors. Strong growth rates are expected to continue in the large emerging economies, although China is expected to see another slowdown on account of the reduction of its debts and the trade dispute with the US. The Indian economy will continue to grow rapidly. High inflation and the significant depreciation of the Turkish lira point to a recessionary trend in Turkey.

Revenue growth: outlook for 2019 ≡ 10

		Development in forecast year 2018	Development in fiscal year 2018	Development in forecast year 2019
Group	4% – 6% up to € 2.6 billion	↗	↗	↗
INDUSTRY Segment	Low-single-digit growth	→	↘	→
MOBILITY Segment	Low-single-digit growth	→	↗	→
CERTIFICATION Segment	Low double-digit growth	↗	↗	↗

We anticipate revenue growth of between 4% and 6% in 2019. The Group's revenue from its existing entities is therefore expected to fall between € 2,600 million and € 2,650 million. The entities in other countries already contribute more than 41% to the Group's revenue (based on customer domicile), and this share is set to rise even more in the years ahead. ≡ 10

We are focusing on our core areas of expertise, where we want to grow under our own steam, on the trends of the future (digitization in particular), and on sectors with long-term prospects for growth. Our focus is on markets that exhibit stable economic growth and reliable framework conditions.

INDUSTRY

The percentage growth of revenue in the INDUSTRY Segment is expected to be in the low single digits in 2019. The Industry Service Division will generate just under 60% of the segment’s revenue, while the Real Estate & Infrastructure Division will account for a share of approximately 40%.

We currently generate around 45% of this segment's revenue outside Germany. The share from other countries will hold steady in the year ahead.

Our facility safety services will make the biggest contribution to revenue in the Industry Service Division. We are taking targeted steps to increase our market presence in eastern Europe and China in this respect. Our services in connection with ASME (American Society of Mechanical Engineers) standards are a key driving force in this regard.

We expect revenue in the international project business in the field of technical construction monitoring, energy production and quality management to increase slightly. The partial cancellation of large-scale projects that had already been awarded, laboratory closures and political uncertainty (particularly in eastern Europe) are preventing a more positive development.

Services for the chemical and petrochemical industries are constantly in demand. Outside Germany in particular, we expect additional impetus for growth from the digital testing business and our Center of Excellence for underwater pipelines in the UK. What activities we still have in the US in the oil and gas market are being restructured and realigned.

We expect demand in the conventional energy sector to continue falling. Services for decommissioning and testing projects could only compensate in part for the decrease in revenue resulting from the gradual decommissioning of conventional power plants. The construction of new power plants in Western Europe and Turkey should fuel growth.

We want to build on our leading position in the global market for independent risk calculation and analysis with international customers.

We expect the planning year to bring constant growth from advisory, testing and certification services for buildings, lifts, infrastructure and the railway sector.

In Germany, we are the market leader for safety-related services for lifts, and we want to continue to reinforce our penetration of the market in this area. We also enjoy a strong position on the market in the Middle East, which we are securing for the long term.

Germany and the UK are our core markets for building-related technical services, from advisory and engineering services, testing and certification to simulations and energy-efficiency. We mainly expect growth in Germany in the fields of testing and certification, as well as simulations and services aimed at improving energy-efficiency. We are planning to continue the internationalization of this business. Demand for advisory and engineering services is expected to stabilize in the planning year. The main positive factor in this respect are the favorable conditions in the Building Information Modeling (BIM) market.

The railway transport segment is continuing to grow at a global level on the basis of a strong market position. The sector is characterized by internationalization combined with the consolidation of manufacturers (OEMs) and ongoing digitization. Our unique selling point in comparison to our competitors is and remains the comprehensive portfolio of services. In the future, in addition to expanding our business activities into Asia, we will be focusing in particular on acquiring major international projects.

MOBILITY

In the MOBILITY Segment we expect percentage growth to be in the low single digits in light of the effect from the sale of APZ. The international business will contribute approximately 10% of revenue in 2019. Total organic growth is expected to be comparable with the trend for the fiscal year 2018.

Our core business is general inspections and emissions testing, but also damage assessment reports, valuations and driving eligibility checks. We offer these services to private and commercial customers in Germany, Turkey and Spain. Growth is driven by the business with damage assessment reports and valuations. We are planning for continuous growth, driven by targeted digital marketing measures.

Apart from damage assessment reports and valuations, the strongest percentage growth (in all regions) will come from licensing services (homologation) and emissions measurements. In addition to emissions tests and homologation, our digital products such as our services relating to autonomous driving are now also contributing to the growth of our revenue. We expect the sale of the fleet preparation business during the fiscal year to result in lower revenue from our services for manufacturers, retailers and workshops. After adjusting for this sale, revenue growth should be slightly positive and result in a slightly improved EBIT margin. The fleet business is undergoing a period of restructuring, and we do not currently expect results to improve without the support of a strategic partner.

The medical and psychological assessment segment will be developed, and make a modest contribution to the growth of revenue.

In the MOBILITY Segment we are counting on innovation and partnerships with customers and research institutions to exploit the potential offered by digitization in the automotive sector.

CERTIFICATION

In 2019, the percentage revenue growth of the CERTIFICATION Segment is expected to be in the low double digits. Two thirds of the segment's revenue stems from the Product Service Division, and the Business Assurance Division provides the other third.

The segment has an international structure. It is expected to generate around 60% of its revenue outside Germany in 2019, primarily through the Product Service Division.

The main sources of growth for the Product Service Division are our services for consumables and industrial goods as well as food, cosmetics and healthcare products. The focus is on establishing innovative digital solutions for customers and on continuing internationalization. The ASIA region will continue to account for the largest share of revenue (45%).

In the field of consumer goods we are focusing on selected, key customers and Asian growth markets. We are also promoting our services for retailers at an international level, and constantly adding services that optimize processes and add value in a digital context to our product portfolio.

Our range of services relating to industrial goods will undergo profitable growth in Germany, China and the US. Our investments in electromobility and stationary energy systems are also concentrated in those markets. We are continuing to expand our development support services for manufacturers and suppliers. New additive manufacturing and digital data modeling solutions are being developed to market maturity faster.

We want to reinforce our leading position in the global healthcare and medical products market, with Germany and the US remaining the most important markets. Growth will be buoyed by the European Medical Devices Regulation (MDR) and In Vitro Diagnostic Regulation (IVDR) as well as our corresponding premium services. With additional services for cardiovascular, in vitro and reusable medical devices, but also IT security in the medical sector, we appeal to a broad range of customers.

We will use standardized laboratory management systems and harmonized regional laboratory structures to improve our laboratories' efficiency and make better use of the capacity of our network of state-of-the-art test laboratories. Thanks to this network, we guarantee our customers with international operations access to TÜV SÜD's services anywhere in the world.

Our management system certification, training and cyber security services are brought together in the Business Assurance Division.

We expect the certification business to grow slightly following the transition of the ISO 9001 and IATF management system standards to the new audit standard in 2017. Our certification-related services ("audit services") will also contribute to growth. We want to use our comprehensive portfolio of services, which we regularly add new products to, to reinforce our leadership of the German market. At the same time, we are taking targeted steps to expand our business with international customers by using our global presence to offer the certification of integrated management systems from a single, local source to customers around the world. That is why, in addition to Asia, we also expect a surge in demand for our certification and audit services in the US.

The positive revenue growth of the training business will continue in Germany in particular. We expect an additional boost in the German market from the digital transformation of the academy business with online training services and the use of new technologies for the secure teaching of educational content. At an international level, the introduction of the Digital Academy in more countries should generate additional growth. Germany – our core market – still accounts for almost 90% of our revenue.

Our cyber security services will make a disproportionately strong contribution to growth in the planning year. The focus of growth in this respect is on the core European market, as well as selected countries such as Singapore. In those regions, demand is expected to rise for our services in the fields of data protection, electronic payments and industrial cyber security.

We expect further growth and improved customer satisfaction from coordinated and multi-segment marketing activities combined with the launch of an online business assurance platform. In this way, we hope to improve communication with our customers, support our customers with additional services, and exploit cross-selling potential and marketing synergies.

NET PROFIT ANTICIPATED

For the growth of our profit it is crucial that we meet our customers' needs and expectations exactly with our services and innovations while keeping our own standards of quality in mind, or that we develop them efficiently and innovatively with our customers to their satisfaction.

When developing our business activities our focus is on markets and cutting-edge sectors in which stable and profitable growth is anticipated, with targeted returns of between 8% and 12%.

Within the Group we regularly analyze our business processes, derive measures to improve efficiency, and continuously optimize our cost and process structures. We focus on increasing earnings and profits in a sustainable way. Excluding any measures taken in connection with the accident in Brazil and the associated external consulting costs, we anticipate that EBT will see a low double-digit increase in 2019. ≡11

EBIT development: outlook for 2019 ≡11

		Development in forecast year 2018	Development in fiscal year 2018	Development in forecast year 2019
Group	Increase to between €220 million and €240 million	↗	↗	↗
INDUSTRY Segment	Slight increase	↗	↘	↗
MOBILITY Segment	Stable performance	↗	↗	→
CERTIFICATION Segment	Stable performance	↗	↗	→

For EBIT, we expect growth within a corridor of 5% to 10% in the planning year. For EBIT we expect growth within a corridor of 5% to 10% in the planning year. The forecast EBIT development could be substantially impacted by additional expenses from the measures taken in connection with the accident in Brazil and the associated external consulting costs.

TÜV SÜD's forward-looking focus on innovative services relating to digitization and new technologies, our intensive partnership with key international customers, and also our expertise in our traditional core markets will have a positive impact on the growth of profit in 2019. Subject to the aforementioned one-off items which cannot be quantified at this time, we therefore expect positive EBIT growth in all segments in 2019.

In the forecast year we expect the INDUSTRY Segment to see a single-digit percentage increase in EBIT. The EBIT margin will presumably also fall within this corridor. The growth of the MOBILITY Segment's profit should be in the mid-range single digits, as should the EBIT margin. The CERTIFICATION Segment should achieve a low single-digit increase in EBIT. The EBIT margin is expected to be in the low double digits.

We expect the partial sale of our fleet management business to a strategic partner to generate a non-recurring effect on the course of business in the future.

The growth of TÜV SÜD's profit is influenced by a number of other factors that are largely independent of each other. The economic development of our markets together with the regulatory political decisions in our markets will set the underlying trend. Our global presence close to our customers and our expertise in innovative technical services are of far greater economic significance. In 2019, we aim to invest tens of millions of euros in innovative, forward-looking projects. Up to € 20 million has been earmarked for employee development. The investment framework has not been set. If this innovation budget is utilized in full in the year ahead, EBIT could therefore fall below the anticipated range.

Economic Value Added (EVA) is a key indicator for measuring TÜV SÜD's success. Based on the positive growth of EBIT as previously described and an increase in average capital employed that is almost proportionate to revenue, we anticipate an EVA of between € 85 million and € 95 million in 2019 excluding one-off items.

In the next few fiscal years, we will be expanding our workforce by between 1% and 6% each year, depending on local and growth forecasts, by means of the targeted recruitment of well-trained and motivated people. In addition to Germany, recruitment will focus on various locations in Asia in the forecast year.

We do not expect to see any significant change in the other non-financial indicators compared to the prior year.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

Consolidated income statement for the period from January 1 to December 31, 2018

≡ 12

IN € MILLION	Note	2018	2017
Revenue	(33)	**2,498.5**	**2,427.6**
Own work capitalized		6.8	7.9
Purchased services		–311.5	–305.1
Operating performance		**2,193.8**	**2,130.4**
Personnel expenses	(6)	–1,510.0	–1,464.1
Amortization, depreciation and impairment losses	(7)	–79.6	–76.2
Other expenses	(8)	–467.2	–458.5
Other income	(9)	80.8	61.9
Impairment of goodwill	(13), (20)	–15.2	–3.8
Operating result		**202.6**	**189.7**
Income from investments accounted for using the equity method	(10)	8.5	10.1
Other income / loss from participations	(10)	–0.6	1.5
Interest income	(10)	2.5	2.1
Interest expenses	(10)	–12.8	–15.5
Other financial result	(10)	–0.6	2.3
Financial result		**–3.0**	**0.5**
Income before taxes		**199.6**	**190.2**
Income taxes	(11)	–54.8	–51.4
Consolidated net income		**144.8**	**138.8**
Attributable to:			
Owners of TÜV SÜD AG		129.0	124.9
Non-controlling interests	(12)	15.8	13.9

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Consolidated statement of comprehensive income for the period from January 1 to December 31, 2018

≡ 13

IN € MILLION	Note	2018	2017
Consolidated net income		**144.8**	**138.8**
Remeasurements of defined benefit pension plans	(22)		
Changes from unrealized gains and losses		–21.1	62.5
Tax effect		1.2	–7.4
		–19.9	**55.1**
Total amount of items in other comprehensive income that will not be reclassified to the income statement		**–19.9**	**55.1**
Available-for-sale financial assets			
Changes from unrealized gains and losses		–	0.3
Tax effect		–	–0.1
		–	**0.2**
Debt instruments at fair value			
Changes from unrealized gains and losses		–0.2	–
Tax effect		0.1	–
		–0.1	**–**
Currency translation differences			
Changes from unrealized gains and losses		1.9	–32.4
Changes from realized gains and losses		–6.9	1.0
		–5.0	**–31.4**
Investments accounted for using the equity method			
Changes from unrealized gains and losses		–3.8	–2.9
		–3.8	**–2.9**
Total amount of the items of other comprehensive income that will be reclassified to the income statement in future periods		**–8.9**	**–34.1**
Other comprehensive income	(11)	**–28.8**	**21.0**
Total comprehensive income		**116.0**	**159.8**
Attributable to:			
Owners of TÜV SÜD AG		100.6	147.0
Non-controlling interests		15.4	12.8

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated statement of financial position as of December 31, 2018

≡ 14

IN € MILLION	Note	Dec. 31, 2018	Dec. 31, 2017 [1]
Assets			
Intangible assets	(13)	338.4	368.4
Property, plant and equipment	(14)	489.1	459.2
Investment property	(15)	3.3	6.8
Investments accounted for using the equity method	(16)	39.5	42.9
Other financial assets	(17)	93.3	68.3
Other non-current assets		8.1	6.0
Deferred tax assets	(11)	237.3	242.1
Non-current assets		**1,209.0**	**1,193.7**
Inventories		4.0	4.0
Trade receivables	(18)	487.2	469.7
Income tax receivables		18.4	16.7
Other receivables and other current assets	(19)	104.7	63.5
Cash and cash equivalents	(32)	209.6	273.3
Non-current assets and disposal groups held for sale	(20)	44.4	19.7
Current assets		**868.3**	**846.9**
Total assets		**2,077.3**	**2,040.6**
Equity and liabilities			
Capital subscribed	(21)	26.0	26.0
Capital reserve	(21)	124.4	124.4
Revenue reserves	(21)	721.1	613.7
Other reserves	(21)	–34.4	–25.5
Equity attributable to the owners of TÜV SÜD AG		**837.1**	**738.6**
Non-controlling interests	(12)	64.2	54.8
Equity		**901.3**	**793.4**
Provisions for pensions and similar obligations	(22)	568.3	622.6
Other non-current provisions	(23)	37.8	36.8
Non-current financial debt	(24)	1.3	1.8
Other non-current liabilities	(26)	7.2	7.5
Deferred tax liabilities	(11)	25.7	29.0
Non-current liabilities		**640.3**	**697.7**
Current provisions	(23)	135.2	132.7
Income tax liabilities		19.1	30.7
Current financial debt	(24)	6.8	6.7
Trade payables	(25)	150.6	174.8
Other current liabilities	(26)	195.2	202.2
Liabilities directly associated with non-current assets and disposal groups held for sale	(20)	28.8	2.4
Current liabilities		**535.7**	**549.5**
Total equity and liabilities		**2,077.3**	**2,040.6**

1 _ Adjusted prior-year figures, see note 5.

CONSOLIDATED STATEMENT OF CASH FLOWS

Consolidated statement of cash flows for the period from January 1 to December 31, 2018

≡ 15

IN € MILLION	Note	2018	2017 [1]
Consolidated net income		144.8	138.8
Amortization, depreciation, impairment losses and reversals of impairment losses		79.5	76.2
Impairment of goodwill		15.2	3.8
Impairment losses and reversals of impairment losses of financial assets		4.5	0.3
Change in deferred tax assets and liabilities recognized in the income statement	(11)	2.5	2.1
Gain / loss on disposal of intangible assets, property, plant and equipment and financial assets		–1.5	–0.3
Gain / loss from the sale of shares in fully consolidated entities and business units		–17.6	0.0
Other non-cash income / expenses		–7.2	8.9
Change in inventories, receivables and other assets		–38.9	–17.7
Change in liabilities and provisions		26.9	46.2
Cash flow from operating activities		**208.2**	**258.3**
Cash paid for investments in			
intangible assets, property, plant and equipment and investment property		–103.0	–89.1
financial assets		–4.8	–20.6
securities		–69.2	–0.4
business combinations (net of cash acquired)	(3)	–23.3	–13.3
Cash received from disposals of			
intangible assets and property, plant and equipment		3.2	3.7
financial assets		1.0	0.5
securities		0.0	1.2
shares in fully consolidated entities and business units (net of cash transferred)		33.6	0.0
Contribution to pension plans	(32)	–95.3	–93.9
Cash flow from investing activities		**–257.8**	**–211.9**
Dividends paid to owners of TÜV SÜD AG		–2.1	–2.1
Dividends paid to non-controlling interests		–10.0	–10.1
Repayments of loans including currency translation differences		–1.9	–2.0
Proceeds from loans including currency translation differences		1.5	3.1
Other cash received or paid		0.0	1.0
Cash flow from financing activities		**–12.5**	**–10.1**
Net change in cash and cash equivalents		**–62.1**	**36.3**
Effect of currency translation differences and change in scope of consolidation on cash and cash equivalents		0.4	–8.4
Cash and cash equivalents at the beginning of the period		273.3	245.4
Cash and cash equivalents at the end of the period	(32)	**211.6**	**273.3**
Net of cash and cash equivalents of disposal groups at the end of the period		–2.0	0.0
Cash and cash equivalents at the end of the period according to the statement of financial position		**209.6**	**273.3**
Additional information on cash flows included in cash flow from operating activities:			
Interest paid		1.0	1.0
Interest received		1.9	1.8
Income taxes paid		67.7	49.0
Income taxes refunded		2.4	1.6
Dividends received		8.5	9.4

1 _ Adjusted prior-year figures, see note 5.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated statement of changes in equity for the period from January 1 to December 31, 2018

			Revenue reserves	
IN € MILLION	Capital subscribed	Capital reserve	Remeasurements of defined benefit pension plans	Other revenue reserves
As of January 1, 2017	**26.0**	**124.4**	**–355.4**	**791.3**
Total comprehensive income			54.3	124.9
Dividends paid				–2.1
Change in scope of consolidation				
Other changes				0.7
As of December 31, 2017	**26.0**	**124.4**	**–301.1**	**914.8**
As of January 1, 2018	**26.0**	**124.4**	**–301.1**	**914.8**
Effect from first-time application of IFRS 9 [1]				0.2
As of January 1, 2018, adjusted	**26.0**	**124.4**	**–301.1**	**915.0**
Total comprehensive income			–19.5	129.0
Dividends paid				–2.1
Change in scope of consolidation [2]			0.4	–0.4
Other changes				–0.2
As of December 31, 2018	**26.0**	**124.4**	**–320.2**	**1,041.3**

1 _ See note 5.
2 _ Non-controlling interests of € 2.7 million not yet paid in.

≡ 16

Other reserves						
Currency translation differences	Available-for-sale financial assets	Debt instruments at fair value	Investments accounted for using the equity method	**Equity attributable to the owners of TÜV SÜD AG**	Non-controlling interests	**Total equity**
23.8	**0.1**	**–**	**–17.2**	**593.0**	**49.4**	**642.4**
–29.5	0.2		–2.9	**147.0**	12.8	**159.8**
				–2.1	–8.6	**–10.7**
				0.0	0.2	**0.2**
				0.7	1.0	**1.7**
–5.7	**0.3**	**–**	**–20.1**	**738.6**	**54.8**	**793.4**
–5.7	**0.3**	**–**	**–20.1**	**738.6**	**54.8**	**793.4**
	–0.3	0.3		**0.2**		**0.2**
–5.7	**–**	**0.3**	**–20.1**	**738.8**	**54.8**	**793.6**
–5.0		–0.1	–3.8	**100.6**	15.4	**116.0**
				–2.1	–10.3	**–12.4**
				0.0	4.3	**4.3**
				–0.2		**–0.2**
–10.7	**–**	**0.2**	**–23.9**	**837.1**	**64.2**	**901.3**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation

1 / GENERAL INFORMATION

TÜV SÜD is a global technical services provider operating in the INDUSTRY, MOBILITY and CERTIFICATION Segments. The range of services covers testing, inspection, certification and training. TÜV SÜD has a presence in the regions EUROPE, AMERICAS and ASIA.

TÜV SÜD Aktiengesellschaft, with registered offices in Munich, Germany, is entered in the commercial register of Munich District Court under the number HRB 109326, as the parent company of the Group.

TÜV SÜD AG prepared its consolidated financial statements as of December 31, 2018 in accordance with the International Financial Reporting Standards (IFRSs) by exercising the option under Section 315e (3) HGB ["Handelsgesetzbuch": German Commercial Code]. All IFRSs that are binding for the fiscal year 2018 and the pronouncements issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) have been applied to the extent that these have been adopted by the European Union.

On March 29, 2019, TÜV SÜD AG's Board of Management approved the consolidated financial statements for the fiscal year 2018 for submission to the Supervisory Board.

2 / SCOPE AND PRINCIPLES OF CONSOLIDATION

All material entities and structured entities over which the Group has control as defined by IFRS 10 are included in the consolidated financial statements as of December 31, 2018. The separate financial statements of the subsidiaries included in consolidation and prepared in accordance with uniform accounting policies serve as a basis.

Associated companies and joint ventures are accounted for in the consolidated financial statements using the equity method. The shares are capitalized at acquisition cost at the time a significant influence is acquired and in subsequent years are increased or reduced by the proportionate net income, distributed dividends and other changes in equity.

Joint operations are consolidated proportionately with their assets and liabilities as well as expenses and income.

With TÜV SÜD AG as parent company, the scope of consolidation comprises the entities listed in the table below. ≡ 17

Scope of consolidation

≡ 17

NUMBER OF ENTITIES	Dec. 31, 2018	Dec. 31, 2017
Fully consolidated entities	106	113
Entities accounted for using the equity method	6	5
thereof joint ventures	5	4
thereof associated companies	1	1
Total number of consolidated entities	**112**	**118**

The scope of consolidation was extended in the fiscal year 2018 to include two entities. Additions relate to one fully consolidated newly founded company as well as a joint venture accounted for using the equity method for the first time. Eight entities were removed from the scope of consolidation, four of which due to intragroup mergers, three due to the sale of the entities and one due to liquidation. Overall, deconsolidations resulted in gains of € 23.2 million and losses of € 3.1 million, which are recognized in other income or other expenses respectively.

The affiliated companies, associated companies and joint ventures included in the consolidated financial statements are listed in note 38 "Consolidated entities" along with the consolidation method applied. The list of the Group's entire shareholdings is published in the German Electronic Federal Gazette (Elektronischer Bundesanzeiger) as an integral part of the notes to the financial statements.

Consolidation decisions based on contractual arrangements

The TÜV SÜD Group holds 50% of the shares in TÜV SÜD Car Registration & Services GmbH (CRS), Munich, and 48% of the shares in TUV SUD South Africa (Pty.) Ltd. (TS SA), Cape Town, South Africa. These entities are fully consolidated in the Group, as the TÜV SÜD Group is responsible for economic control of the entities on the basis of the contractual arrangements and can thus make decisions regarding the relevant activities of each entity.

In 2017, the TÜV SÜD Group acquired 52% of the shares in Uniscon universal identity control GmbH (Uniscon), Munich. After reviewing the entity's purpose and structure as well as analyzing the contractual arrangement, Uniscon is included in the scope of consolidation as a joint venture pursuant to IFRS 11, as decisions regarding the relevant activities and processes can only be made with a voting right majority of 80%. Decision-making powers can thus only be exercised jointly by both owners.

Risks from structured entities

In its capacity as a limited partner of the structured entities ARMAT GmbH & Co. KG, Pullach, and ARMAT Südwest GmbH & Co. KG, Pullach, TÜV SÜD AG has issued liquidity commitments for the aforementioned entities. These commitments serve to cover the current obligations of the structured entities. TÜV SÜD AG can therefore be required to pay if the entities are unable to settle their commitments themselves. The risk of such a claim is considered low.

There are risks typical of ownership resulting from the special fund MI-Fonds F60. No liquidity commitments or guarantees were issued in this connection.

3 / BUSINESS COMBINATIONS

The acquisition of subsidiaries and businesses is accounted for using the acquisition method. For highly complex business combinations, external appraisers are obtained to carry out the purchase price allocation and to determine the fair values.

In fiscal year 2018, TÜV SÜD made two acquisitions. In March, TÜV SÜD acquired the operations of the official inspection body for the state of Baden-Württemberg (Überwachungsorganisation für das Land Baden-Württemberg) from TÜV SÜD e. V. and now runs this itself. Previously TÜV SÜD had been contracted to perform this work in Baden-Württemberg on behalf of, by order and for account of TÜV SÜD e. V. The difference of € 17.1 million arising from this acquisition was recognized in full as goodwill. Another acquisition was immaterial for the consolidated financial statements.

4 / CURRENCY TRANSLATION

All financial statements of consolidated entities that have been prepared in foreign currency are translated into euro using the functional currency concept. As the foreign subsidiaries are independently operating entities, the functional currency is considered to be the currency of the respective country in which they are situated. Items of the statement of financial position are therefore translated using the mean rate on the reporting date. This does not include equity, which is translated using historical rates. Expense and income items are stated using annual average exchange rates. Exchange rate differences are treated as other comprehensive income and recognized under other reserves within equity.

In the subsidiaries' separate financial statements, monetary items in foreign currency are translated using the closing rate as of the reporting date, while non-monetary items continue to be measured using the historical exchange rate as of the date of the transaction. Differences resulting from such translations are generally recognized in the income statement.

The exchange rates used to translate the most important currencies developed as follows:

Selected exchange rates ≡ 18

	Closing rate		Annual average rate	
	Dec. 31, 2018	Dec. 31, 2017	2018	2017
Chinese renminbi (CNY)	7.8751	7.8044	7.8070	7.6264
Pound sterling (GBP)	0.8945	0.8872	0.8847	0.8762
Singapore dollar (SGD)	1.5591	1.6024	1.5928	1.5582
Turkish lira (TRY)	6.0588	4.5464	5.6998	4.1214
US dollar (USD)	1.1450	1.1993	1.1815	1.1293

5 / ACCOUNTING POLICIES

The key accounting and measurement methods for TÜV SÜD are presented below; the mere repetition of standard requirements has been largely avoided. The exercise of options is explained in the respective specific note.

Revenue is recognized pursuant to IFRS 15 "Revenue from Contracts with Customers" and mainly consists of income from the service business with customers. The values agreed in contracts or defined in price lists form the basis for calculating the revenue to be recognized. Revenue from long-term contracts is recognized over time pursuant to IFRS 15.35c, which involves recognizing costs and revenue in line with the degree to which the contract has been completed. The percentage of completion per contract to be recognized is calculated as the ratio of the actual costs incurred to overall anticipated costs of the project (cost-to-completion method). This is the most suitable method for TÜV SÜD to measure progress. Contract costs are expensed in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately expensed. Contracts are generally processed within one year. As a practical expedient, the company opts not to measure financing components pursuant to IFRS 15.63. The revenue recognition, settlement and cash inflows result in trade receivables, contract assets as well as contract liabilities. With respect to the type of the contract, a distinction is made between service contracts, usually training and advisory services, and contracts for work and labor, such as certification or testing services. The timing of revenue recognition and billing can be derived from the type of contract. The majority of service contracts are billed monthly, contracts for work and labor upon reaching individually agreed milestones or upon completion. The average group-wide payment terms range between 30 and 60 days, taking country-specific requirements such as statutory defined payment terms into account.

Goodwill is not subject to amortization but is tested for impairment at least once a year or whenever there is any indication of impairment, and written down if appropriate (impairment only approach). This impairment test is based on cash generating units (CGUs) and compares the recoverable amount with the carrying amount. The cash generating units correspond to the Group's divisions, which are managed on a worldwide basis. The recoverable amount is the higher of fair value less costs to sell and value in use derived from the plan for 2019 prepared and approved by management, with the aid of the discounted cash flow method. The key assumptions made in determining fair value are the growth rates of the cash flows in the planning period, the CGU-specific cost of capital and the forecast sustainable growth rate after the end of the planning period. The planned cash flows are based mainly on estimates by the management of TÜV SÜD of the current and future market environment. Cost of capital is based on the weighted average cost of capital (WACC) of the TÜV SÜD Group adjusted for the specific risk profile inherent in the cash flows budgeted for the cash generating unit in question. The sustainable growth rate used is the forecast long-term rate of the cash generating unit's market growth.

Other **intangible assets acquired for a consideration** are measured at acquisition cost, **internally generated intangible assets** at production cost. Production cost comprises the costs directly and indirectly allocable to the development process.

At each reporting date, the Group assesses whether there is any indication that the carrying amounts of intangible assets, property, plant and equipment, finance leases as well as investment property may be subject to **impairment**. If any such indication exists, an impairment test is performed. Such a test is conducted annually for intangible assets with an indefinite useful life.

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the IFRS statement of financial position and the tax basis of the assets and liabilities, as well as for consolidation measures with an effect on income. In addition, taxes are deferred for tax loss carryforwards provided the realization of such carryforwards is sufficiently certain. The taxable income considered likely on the basis of the respective entity's planning for the subsequent three years is taken as the basis for the assessment. Deferred taxes are calculated on the basis of the anticipated tax rates at the time of realization. For convenience, TÜV SÜD AG's tax rate is used to calculate deferred taxes on consolidation entries with effect on income. Deferred tax assets and liabilities on temporary differences are netted out for each entity and / or tax group.

Contract assets are accounted for using the cost-to-completion method in accordance with IFRS 15. These receivables are normally current and are expected to result in external revenue in the following year. Anticipated losses from these contracts are taken into account on the liabilities side if they can be reliably estimated. Project-related advance payments received from customer contracts are deducted from contract assets.

Advance payments not covered by services already rendered are recognized under **contract liabilities**. Contract liabilities are normally current and are expected to result in external revenue in the following year.

Non-current assets and disposal groups held for sale relate to assets that can be sold in their present condition and whose sale is highly probable. Management has committed to a plan to sell the assets and the sale is expected to be completed within one year from the date of the classification. Liabilities to be sold together with assets in a single transaction are part of a disposal group or discontinued operations and are reported separately as **liabilities associated with non-current assets and disposal groups held for sale**. Non-current assets held for sale are no longer amortized or depreciated. Instead they are stated at their fair value less costs to sell from the date of classification provided that this is lower than the carrying amount.

Provisions for pensions and similar obligations are measured using the actuarial projected unit credit method for defined benefit pension plans. The amount shown on the statement of financial position represents the current value of the pension obligation after offsetting the fair value of plan assets as of the reporting date. The calculation of pension obligations is based on actuarial reports considering biometric assumptions. Remeasurements, comprising actuarial gains and losses and the return on plan assets (excluding interest on the net liability), are recognized in full in the fiscal year in which they occur. They are charged directly against revenue reserves, taking deferred taxes into account, and reported outside of the income statement as a component of other comprehensive income. The net interest expense is obtained by multiplying the discount rate for the respective fiscal year by the net liability (pension obligation less plan assets) as of the reporting date for the prior fiscal year. It is reported in the financial result.

Other provisions are recorded if the obligation to a third party results from a past event which is expected to lead to an outflow of economic benefits and their value can be determined reliably. They are measured using the best estimate of the settlement value, and cannot be offset against reimbursement claims. Provisions due in more than one year are discounted where the effect of the time value of money is material. The effect from unwinding the discount is reported in the financial result. Provisions for restructuring measures are recognized to the extent that a detailed formal restructuring plan has been prepared and communicated to the parties concerned.

A **financial instrument** is a contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and liabilities are initially recognized on the trade date at their fair value taking into account any transaction costs. Subsequent measurement depends on the category to which they are allocated.

Under IFRS 9 “Financial Instruments”, financial assets are classified into measurement categories based on the business model for managing these financial instruments and on the type of their underlying contractual cash flows. A distinction is made between the following **measurement categories**:

→ Debt instruments at amortized cost.

→ Debt instruments at fair value through other comprehensive income: accumulated gains and losses will be reclassified to the income statement upon derecognition of the debt instruments.

→ Debt instruments, derivatives and equity instruments measured at fair value through profit or loss.

→ Equity instruments at fair value through other comprehensive income: gains and losses remain in other comprehensive income even after derecognition of these financial instruments.

The business models were determined by the Board of Management using data, facts and circumstances as of the date of first-time application. The contractual cash flows were checked on the basis of the conditions when the respective assets were recognized for the first time. In the TÜV SÜD Group, the two business models “hold to collect” and “hold to collect and sell” were defined. No debt instruments were designated as at fair value through profit or loss. Debt instruments are thus measured at amortized cost or at fair value through other comprehensive income.

The **equity instruments** held by the TÜV SÜD Group primarily relate to non-consolidated shares in affiliated companies and participations. These are allocated to the “at fair value through other comprehensive income” measurement category. Due to immateriality, they are measured at amortized cost, as this roughly corresponds to their fair values. The TÜV SÜD Group's participations are not listed.

The general approach for recording impairment losses is used on all **debt instruments,** apart from trade receivables. With this method risk provisioning for expected credit losses is recorded in two stages. Debt instruments where the credit risk has not increased significantly since first-time recognition are covered by a risk provision in the equivalent to the credit losses expected to be incurred within the next twelve months. Debt instruments where the credit risk has increased significantly since first-time recognition have to be accounted for with a risk provision equivalent to the credit losses expected to be incurred over the residual term. The TÜV SÜD Group uses external ratings to monitor changing credit risks. A significant change in the credit risk is defined as when the external rating is no longer in the investment grade range, or also when the contractually agreed payments are more than 30 days overdue. If the contractually agreed payments are more than 90 days overdue, this is classed as a default.

The simplified approach is applied to trade receivables. At each reporting date, a risk provision equivalent to the credit losses expected to be incurred over the entire term is recognized. A provision matrix is used to measure loss allowances in the TÜV SÜD Group. The expected loss rates are calculated using the roll-rate method, which is based on the probability of a receivable progressing to payment delay in successive stages. Roll rates are calculated separately for the defaults of each entity in the TÜV SÜD Group. Forward-looking information about expected changes in country ratings is used to supplement the internal historical expected loss rates.

The TÜV SÜD Group does not make use of the option under IFRS 9 to recognize hedges. Derivatives are held to account for economic hedging relationships and are therefore measured at fair value.

Financial liabilities are measured at either amortized cost or fair value pursuant to IFRS 9. In the TÜV SÜD Group, derivatives, liabilities from put options as well as contingent consideration from business combinations as defined by IFRS 3 are carried at fair value. All other liabilities are recognized at amortized cost.

Assumptions, estimation uncertainties and judgments

The preparation of the consolidated financial statements requires that assumptions or estimates be made for some items which have an effect on the values stated in the statement of financial position, the disclosure of contingent liabilities and the recognition of income and expenses. This particularly relates to revenue recognition using the cost-to-completion method, goodwill, deferred tax assets recognized on tax loss carryforwards, the measurement parameters for pension obligations and other provisions, and the calculation of fair values. Actual amounts may differ from the estimates.

Key estimate parameters as part of **testing goodwill for impairment** include the sustainable long-term growth rates as well as the cash flows allocable to cash generating units and the risk adjustment per cash generating unit of the TÜV SÜD Group's weighted average cost of capital. A 10% reduction in the cash flows used to calculate the cash generating unit's fair value less costs to sell or the value in use would not result in an impairment loss. The same applies for an increase in the weighted average cost of capital by one percentage point or a decrease in the sustainable growth rate by one percentage point in the goodwill that is not impaired.

The **defined benefit obligations** (DBO) and the pension expenses for the subsequent year are calculated using the actuarial parameters given in note 22. As in the prior year, the discount rate in Germany is calculated in accordance with the "GlobalRate: Link" – methodology developed by the Group's actuary Willis Towers Watson Deutschland GmbH, Wiesbaden, to determine the discount rate for the measurement of pension obligations. However, a change in parameters would not have an impact on the consolidated net income for the reporting year, as remeasurements are recognized in equity with no effect on income.

In the case of other items of the statement of financial position, a change to the original basis for estimation results in a change to the respective item, with an effect on income, which is immaterial for the consolidated financial statements.

Accounting standards applied for the first time in the current fiscal year

As of January 1, 2018, IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" as well as the associated subsequent changes to other standards were applied for the first time. The effects of each first-time application is presented in the following.

IFRS 15 "Revenue from Contracts with Customers" provides a comprehensive framework for determining whether, in what amount and when revenue is recognized. It replaces existing guidelines on recognizing revenue, including IAS 18 "Revenue," IAS 11 "Construction Contracts," "and IFRIC 13 "Customer Loyalty Programmes". A review of the main contracts revealed that the requirements to recognize revenue over a period of time in accordance with IFRS 15.35c have been met. Therefore, the application of IFRS 15 does not result in a change to the timing of revenue recognition, which had previously been in accordance with the percentage-of-completion method pursuant to IAS 18.20.

The first-time application of IFRS 15 was performed retrospectively and only resulted in a change in disclosure in TÜV SÜD's statement of financial position. IFRS 15 contains regulations on the presentation of contract assets and contract liabilities. Application of these regulations meant that project-related advance payments of € 10.2 million and other advance payments received of € 52.3 million were reclassified from the "Other current liabilities" item in the statement of financial position to "Trade receivables" and "Trade payables", respectively. This caused a reduction in total assets by € 10.2 million as of December 31, 2017. As of January 1, 2017, there were other advance payments received of € 38.4 million, which had to be reclassified from the "Other current liabilities" item in the statement of financial position to "Trade payables". As this did not cause a reduction of total assets, the option not to present the statement of financial position as of January 1, 2017 was exercised.

IFRS 9 "Financial Instruments" replaces the existing guidelines of IAS 39 "Financial Instruments: Recognition and Measurement". The new regulations particularly relate to the classification and measurement of financial instruments, the calculation and recognition of impairment losses and hedge accounting.

TÜV SÜD applies the provisions of IFRS 9 using the modified retrospective approach. This means that all transitional effects as of January 1, 2018 will be shown in the revenue reserves while the comparative information is presented in accordance with the previous regulations. There were no measurement differences resulting from the changed guidelines on the classification and measurement of financial assets and liabilities. The application of the new impairment requirements under IFRS 9 lowered the risk provision for debt instruments measured at amortized cost and debt instruments measured at fair value through other comprehensive income. This meant that revenue reserves increased by € 0.2 million as of January 1, 2018.

New accounting standards that are not yet mandatory

The following amendments of standards generally relevant for TÜV SÜD were issued by the IASB and adopted by the EU prior to the preparation of TÜV SÜD's consolidated financial statements, but have not yet been applied in the consolidated financial statements as of December 31, 2018. The amendments are mandatory for the first time for fiscal years beginning on or after their respective effective dates. TÜV SÜD decided not to early adopt such standards on a voluntary basis.

New accounting standards endorsed by the EU that are not yet mandatory

≡ 19

STANDARD / INTERPRETATION	Effective date pursuant to EU endorsement	Anticipated impact on TÜV SÜD AG's consolidated financial statements
IFRS 16 "Leases"	January 1, 2019	Higher total assets, a lower equity ratio and improved EBIT are expected.
Amendments to IAS 19" Plan Amendment, Curtailment or Settlement"	January 1, 2019	No significant consequences are expected for the consolidated financial statements.
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019	No significant consequences are expected for the consolidated financial statements.
Amendments to IFRS 9 "Prepayment features with Negative Compensation"	January 1, 2019	No significant consequences are expected for the consolidated financial statements.
Improvements to IFRSs issued as a result of the annual improvements project 2015 – 2017	January 1, 2019	No significant consequences are expected for the consolidated financial statements.
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019	No significant consequences are expected for the consolidated financial statements.

IFRS 16 "Leases" replaces the current guidelines on leases, including IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement Contains a Lease". The main changes as a result of IFRS 16 relate to the accounting treatment at the lessee. In the future, the lessee must recognize right-of-use assets for the obtained rights to use an asset and liabilities for the payment obligations entered into for all leases. Exemptions are granted for leases of low-value assets and short-term leases.

TÜV SÜD will apply the modified retrospective method upon transition to IFRS 16. The cumulative effect from the first-time application of IFRS 16 will be recognized without effect on income in revenue reserves as of January 1, 2019; the comparative information will not be adjusted. The Group intends to make use of the practical expedient and maintain the definition of a lease upon transition.

When implementing IFRS 16, TÜV SÜD will exercise the options available for short-term leases and leases of low-value assets. The new regulations will not be applied to intangible assets. Intragroup leases will in the future also be presented as operating leases as defined by IAS 17.

The Group expects the first-time application of IFRS 16 to have a considerable impact on the net assets, financial position and results of operations. The group-wide measurement of all external leases performed as part of the implementation project is not yet complete, meaning that only an estimation of the effects is possible. TÜV SÜD expects lease liabilities and fixed assets to increase significantly as of January 1, 2019. This increase will probably range between € 250 million and € 270 million. This increase in total assets will cause the equity ratio to decrease. In the income statement, the previous item lease expenses will be replaced by depreciation expenses on right-of-use assets and interest expenses on lease liabilities, which will prompt a moderate improvement in EBIT). In the statement of cash flows, cash repayments of lease liabilities will in the future be presented under the cash flow from financing activities. The cash flow from operating activities is expected to see an increase in the mid-single-digit-million range as a result.

The table below shows those standards and amendments to existing standards issued by the IASB which could be relevant for TÜV SÜD, but which have not yet been adopted by the EU and which are therefore not yet applicable for IFRS financial statements prepared pursuant to Section 315e HGB.

New accounting standards and interpretations not yet endorsed by the EU that are not yet mandatory ≡ 20

STANDARD	Effective date	Anticipated impact on TÜV SÜD AG's consolidated financial statements
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020	No significant consequences are expected for the consolidated financial statements.
Amendments to IFRS 3 "Business Combinations"	January 1, 2020	No significant consequences are expected for the consolidated financial statements.
Amendments to IFRS 10 and IAS 28 "Disposal or Contribution of Assets in Associates or Joint Ventures"	Pending	These amendments are currently not relevant for TÜV SÜD.
Framework: "Amendments to references to the Conceptual Framework in IFRS Standards"	January 1, 2020	No consequences are expected for the consolidated financial statements.

Notes to the consolidated income statement

6 / PERSONNEL EXPENSES

Personnel expenses ≡ 21

IN € MILLION	2018	2017
Wages and salaries	1,214.2	1,178.8
Social security contributions and other benefit costs	165.1	158.8
Retirement benefit costs	102.8	101.8
Incidental personnel costs	27.9	24.7
	1,510.0	**1,464.1**

The rise in wages and salaries as well as in social security contributions and other benefit costs is a result of the expansion of the workforce in Germany and other countries and also of collective wage increases in Germany which became effective in the reporting period.

Retirement benefit costs also include employer contributions to state pensions. The current service cost decreased by € 3.4 million in fiscal year 2018. The reason for this is the decrease in the number of active employees and the deconsolidation of a Korean subsidiary. This development is more than compensated for by the increase in expenses for defined contribution pension funds and in employer contributions to state pensions in Germany.

The TÜV SÜD Group had an average headcount (full-time equivalents) of 22,424 employees in the reporting year (prior year: 22,117 employees). The majority of employees are salaried employees.

7 / AMORTIZATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortization, depreciation and impairment losses ≡ 22

IN € MILLION	2018	2017
Amortization and depreciation		
of intangible assets	20.0	19.1
of property, plant and equipment	55.5	55.1
of investment property	0.2	0.1
Impairment losses	3.9	1.9
	79.6	**76.2**

8 / OTHER EXPENSES

Other expenses

≡ 23

IN € MILLION	2018	2017
Rental and maintenance expenses	104.6	104.9
Travel expenses	93.8	93.1
IT costs	45.5	38.9
Cost of purchased administrative services	44.8	43.2
Fees, contributions, consulting and audit costs	27.8	25.2
Telecommunication costs	19.5	20.7
Marketing costs	17.3	17.6
Currency translation losses	10.4	11.1
Impairment losses on trade receivables (including amounts derecognized)	6.5	8.2
Other taxes	4.6	4.5
Miscellaneous other expenses	92.4	91.1
	467.2	**458.5**

9 / OTHER INCOME

Other income

≡ 24

IN € MILLION	2018	2017
Income from the disposal of non-current assets	24.8	1.7
Income from other transactions not typical for the company	8.8	9.1
Currency translation gains	8.7	8.4
Income from the reversal of provisions	6.8	8.8
Income from the reversal of impairment losses on trade receivables	1.1	2.0
Income from the reversal of impairment losses on fixed assets	0.1	0.1
Miscellaneous other income	30.5	31.8
	80.8	**61.9**

The income from the disposal of non-current assets includes a gain of € 1.9 million from transferring land in Darmstadt to TÜV Hessen Trust e. V. Following its contribution, the land constitutes plan assets as defined by IAS 19.

10 / FINANCIAL RESULT

Financial result

≡ 25

IN € MILLION	2018		2017	
Income from investments accounted for using the equity method		**8.5**		**10.1**
Income / loss from participations				
Financial income from participations	5.1		1.6	
Finance costs from participations	–5.7	–0.6	–0.1	1.5
Other income / loss from participations		**–0.6**		**1.5**
Interest income from securities		0.1		0.0
Interest income from loans		0.5		0.3
Other interest and similar income		1.9		1.8
Interest income		**2.5**		**2.1**
Net finance costs for pension provisions		–9.9		–12.3
Interest expenses on finance leases		–0.1		–0.1
Other interest and similar expenses		–2.8		–3.1
Interest expenses		**–12.8**		**–15.5**
Currency gains / losses from financing measures				
Currency translation gains	13.0		20.0	
Currency translation losses	–12.9	0.1	–18.7	1.3
Sundry financial result				
Sundry financial income	1.7		2.3	
Sundry finance costs	–2.4	–0.7	–1.3	1.0
Other financial result		**–0.6**		**2.3**
		–3.0		**0.5**

The income from investments accounted for using the equity method of € 8.5 million (prior year: € 10.1 million) contains a figure of € 8.3 million (prior year: € 8.6 million) from the proportionate net income generated by the Turkish joint venture companies.

The total interest income from assets not measured at fair value through profit or loss amounts to € 2.5 million in the fiscal year 2018 (prior year: € 2.1 million). The total interest expense (without net finance costs for pension provisions) amounts to € 2.9 million (prior year: € 3.2 million).

11 / INCOME TAXES

Income taxes

≡ 26

IN € MILLION	2018		2017	
Current taxes		52.3		49.3
Deferred taxes				
on temporary differences	2.3		– 2.9	
on tax loss carryforwards	0.2	2.5	5.0	2.1
		54.8		51.4

Current taxes for the fiscal year 2018 include income of € 1.1 million (prior year: expenses of € 5.7 million) for current taxes from prior periods.

The following reconciliation for the TÜV SÜD Group presents a summary of the individual entity-specific reconciliations prepared using the respective local tax rates taking consolidation entries into account. The expected income tax expenses are based on the nominal tax rate of the tax group of TÜV SÜD AG:

Tax reconciliation

≡ 27

IN € MILLION	2018	2017
Income before taxes	199.6	190.2
Expected tax rate	30.6%	30.6%
Expected income tax expense	**61.1**	**58.2**
Tax rate differences	– 2.3	– 3.1
Tax reductions due to tax-free income	– 10.3	– 3.5
Tax increases due to non-deductible expenses	6.3	6.0
Tax increases due to non-deductible income taxes and withholding taxes	4.1	4.5
Tax effect on accounting for associated companies and joint ventures using the equity method	– 2.5	– 3.1
Tax increases on account of non-deductible impairment of goodwill	4.3	0.8
Current and deferred taxes for prior years	– 3.1	5.1
Valuation allowances and adjustments to carrying amounts of deferred taxes	– 1.9	1.5
Effect of changes in tax rates and tax status	– 0.8	– 16.0
Other differences	– 0.1	1.0
Reported income tax expense	**54.8**	**51.4**
Effective tax rate	**27.5%**	**27.0%**

Valuation allowances and adjustments to carrying amounts of deferred taxes contain deferred tax income of € 1.8 million (prior year: € 1.4 million) from the decrease in the deferred tax expense caused by previously unrecognized tax loss carryforwards. This was counterbalanced by deferred tax expenses of € 1.6 million (prior year: € 2.8 million) from the change in valuation allowances recognized on deferred taxes on tax loss carryforwards and temporary differences. The current tax expense was reduced by € 1.5 million (prior year: € 0.4 million) on account of previously unrecognized tax loss carryforwards.

Deferred tax assets and liabilities result from the following items of the statement of financial position and tax loss carryforwards:

Deferred taxes by item of the statement of financial position

≡ 28

IN € MILLION	Deferred tax assets Dec. 31, 2018	Deferred tax assets Dec. 31, 2017	Deferred tax liabilities Dec. 31, 2018	Deferred tax liabilities Dec. 31, 2017
Non-current assets	5.5	9.2	66.9	68.8
Current assets	2.8	2.4	15.9	13.0
Non-current liabilities				
Provisions for pensions and similar obligations	262.2	261.1	0.9	0.6
Other non-current liabilities	5.7	6.0	1.5	0.7
Current liabilities	21.2	18.5	5.5	6.1
	297.4	**297.2**	**90.7**	**89.2**
Offsetting	–65.0	–60.2	–65.0	–60.2
Deferred taxes on temporary differences	**232.4**	**237.0**	**25.7**	**29.0**
Deferred taxes on tax loss carryforwards	**4.9**	**5.1**		
	237.3	**242.1**	**25.7**	**29.0**

In Germany, no deferred taxes were recognized on corporate income tax loss carryforwards of € 12.2 million (prior year: € 9.4 million) and trade tax loss carryforwards of € 12.5 million (prior year: € 9.4 million), because it is not likely at present that the tax benefits will be realized. These tax loss carryforwards can be carried forward for an indefinite period. Outside of Germany, no deferred taxes were recognized on tax loss carryforwards of € 33.4 million (prior year: € 32.8 million). Of these tax loss carryforwards, € 30.2 million (prior year: € 28.7 million) can be used indefinitely and € 2.7 million (prior year: € 3.1 million) will expire within the next five years. Furthermore, no deferred tax assets were recognized for deductible temporary differences of € 1.6 million (prior year: € 6.6 million).

Differences on investments in subsidiaries totaling € 14.2 million (prior year: € 14.8 million) did not give rise to deferred tax liabilities because the differences are not expected to reverse in the foreseeable future by way of realization (distribution or sale of the entity).

The net balance of deferred tax assets and deferred tax liabilities changed as follows in the reporting year:

Development of the net balance of deferred tax assets and deferred tax liabilities

≡ 29

IN € MILLION	2018	2017
As of January 1	**213.1**	**221.9**
Currency translation differences	–0.1	0.8
Change in scope of consolidation	1.7	0.0
Income (+) / expense (–) in the income statement	–2.5	–2.1
Deferred taxes recognized in other comprehensive income	1.3	–7.5
Reclassification to "held for sale"	–1.9	0.0
As of December 31	**211.6**	**213.1**

The deferred taxes recognized in other comprehensive income stem from the following:

Income taxes recognized directly in other comprehensive income ≡ 30

	2018			2017		
IN € MILLION	Before tax	Deferred tax expense / income	After tax	Before tax	Deferred tax expense / income	After tax
Remeasurements of defined benefit pension plans	–21.1	1.2	–19.9	62.5	–7.4	55.1
Available-for-sale financial assets	–	–	–	0.3	–0.1	0.2
Debt instruments at fair value	–0.2	0.1	–0.1	–	–	–
Currency translation of foreign subsidiaries	–5.0	0.0	–5.0	–31.4	0.0	–31.4
Investments accounted for using the equity method	–3.8	0.0	–3.8	–2.9	0.0	–2.9
Other comprehensive income	**–30.1**	**1.3**	**–28.8**	**28.5**	**–7.5**	**21.0**

12 / NON-CONTROLLING INTERESTS

Companies with significant non-controlling interests ≡ 31

	TÜV Technische Überwachung Hessen GmbH, Germany		TUV SUD Certification and Testing (China) Co., Ltd., China	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Non-controlling interest	**45.0%**	**45.0%**	**49.0%**	**49.0%**
IN € MILLION				
Non-current assets	83.1	82.0	22.5	22.1
Current assets	44.9	36.6	89.7	80.5
Non-current liabilities	53.8	53.1	0.0	0.0
Current liabilities	18.7	17.6	60.6	53.6
Net assets	**55.5**	**47.9**	**51.6**	**49.0**
Carrying amount of non-controlling interests	25.1	21.6	25.3	24.0
	2018	2017	2018	2017
Revenue	145.8	132.9	178.7	166.7
Net income for the year	11.5	9.7	15.8	13.0
Other comprehensive income	–0.9	1.8	–0.5	–3.1
Total comprehensive income	**10.6**	**11.5**	**15.3**	**9.9**
Net income attributable to non-controlling interests	5.1	4.3	7.7	6.3
Other comprehensive income attributable to non-controlling interests	–0.4	0.8	–0.2	–1.5
Dividends paid to non-controlling interests	1.3	1.3	6.2	4.5
Cash flow from operating activities	19.0	16.3	21.7	23.5
Cash flow from investing activities	–9.4	–5.3	–37.1	–3.6
Cash flow from financing activities	–3.0	–3.0	–12.8	–9.2
Net change in cash and cash equivalents	**6.6**	**8.0**	**–28.2**	**10.7**

Notes to the consolidated statement of financial position

13 / INTANGIBLE ASSETS

Development of intangible assets

≡ 32

IN € MILLION	Goodwill	Licenses and similar rights and customer relationships	Internally generated intangible assets	Other intangible assets	Intangible assets under development	Total
Gross carrying amount as of January 1, 2018	**245.4**	**166.6**	**33.5**	**87.3**	**15.3**	**548.1**
Currency translation differences	2.3	–3.0	0.2	0.1	0.0	**–0.4**
Change in scope of consolidation	–9.9	–8.5	0.0	–0.4	0.0	**–18.8**
Acquisitions of subsidiaries	17.1	0.0	0.0	0.0	0.0	**17.1**
Additions	0.0	0.0	1.5	2.6	7.2	**11.3**
Disposals	0.0	0.0	0.0	–1.2	–0.2	**–1.4**
Reclassifications to and reversals of reclassifications from "held for sale"	–1.4	–1.4	0.0	–1.3	0.0	**–4.1**
Reclassifications	0.0	0.0	8.8	2.2	–10.7	**0.3**
Gross carrying amount as of December 31, 2018	**253.5**	**153.7**	**44.0**	**89.3**	**11.6**	**552.1**
Accumulated amortization and impairment losses	–40.3	–81.5	–17.7	–74.2	0.0	**–213.7**
Carrying amount as of December 31, 2018	**213.2**	**72.2**	**26.3**	**15.1**	**11.6**	**338.4**
Amortization and impairment losses in the fiscal year 2018	**–2.0**	**–9.3**	**–4.2**	**–8.6**	**0.0**	**–24.1**
Gross carrying amount as of January 1, 2017	**284.9**	**187.0**	**28.4**	**79.9**	**8.7**	**588.9**
Currency translation differences	–17.0	–10.8	–0.1	–0.6	–0.1	**–28.6**
Change in scope of consolidation	–1.4	0.0	0.0	0.0	0.0	**–1.4**
Acquisitions of subsidiaries	3.1	0.2	0.0	0.0	0.0	**3.3**
Additions	0.0	0.0	3.6	9.6	10.5	**23.7**
Disposals	–0.4	0.0	0.0	–4.7	–0.2	**–5.3**
Reclassifications to "held for sale"	–23.8	–8.8	0.0	–0.3	0.0	**–32.9**
Reclassifications	0.0	–1.0	1.6	3.4	–3.6	**0.4**
Gross carrying amount as of December 31, 2017	**245.4**	**166.6**	**33.5**	**87.3**	**15.3**	**548.1**
Accumulated amortization and impairment losses	–17.8	–80.3	–13.4	–68.2	0.0	**–179.7**
Carrying amount as of December 31, 2017	**227.6**	**86.3**	**20.1**	**19.1**	**15.3**	**368.4**
Amortization and impairment losses in the fiscal year 2017	**–2.8**	**–9.8**	**–3.3**	**–7.9**	**0.0**	**–23.8**

The carrying amounts of goodwill are principally allocated to the following groups of cash generating units (CGUs):

Goodwill ≡ 33

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017
Industry Service	86.8	89.4
Real Estate & Infrastructure	47.9	49.5
Product Service	38.9	38.8
Auto Service	34.9	44.8
Other	4.7	5.1
	213.2	**227.6**

Intangible assets acquired for a consideration primarily contain software and accreditations as well as values identified in the course of purchase price allocations, such as customer relationships, trademark rights, software and concessions.

Internally generated intangible assets essentially comprise software and development costs.

Intangible assets with finite useful lives are amortized using the straight-line method over a period of two to 20 years.

The item "licenses and similar rights and customer relationships" includes expenses for the license for regular vehicle inspections by TÜV SÜD Bursa, Kestel-Bursa, Turkey, of € 3.9 million (prior year: € 5.8 million). The operator's license is amortized over its term until August 2027 using the straight-line method.

As of the reporting date, the carrying amount of concessions, accreditations and trademark rights with indefinite useful lives comes to € 29.8 million (prior year: € 29.5 million), of which € 20.3 million (prior year: € 20.3 million) relates to the Auto Service CGU and € 9.5 million (prior year: € 9.2 million) to the Industry Service CGU.

Impairment losses of € 2.3 million (prior year: € 1.2 million) were recognized on customer relationships and order backlog, of € 0.1 million (prior year: € 0.2 million) on software and of € 0.0 million (prior year: € 0.5 million) on licenses and accreditations as part of the annual impairment test of intangible assets. Of these amounts, € 2.2 million (prior year: € 0.3 million) is attributable to the INDUSTRY Segment, € 0.2 million (prior year: € 0.4 million) to the MOBILITY Segment and € 0.0 million (prior year: € 1.2 million) to the CERTIFICATION Segment.

For goodwill, impairment losses of € 2.0 million (prior year: € 2.8 million) were recorded primarily resulting from the strategic realignment of businesses in the MOBILITY Segment.

The calculation of fair value less costs to sell per CGU was based on a discount rate of between 6.8% and 7.5% taking income taxes into account (prior year: between 6.9% and 7.8%). As in the prior year, the sustainable growth rate remained unchanged at 1.0% for all CGUs. The calculation of the fair values for the CGUs falls under level 3 of the fair value hierarchy.

Research and development expenses totaling € 19.9 million were recognized in the income statement in the reporting year (prior year: € 17.1 million).

14 / PROPERTY, PLANT AND EQUIPMENT

Development of property, plant and equipment

≡ 34

IN € MILLION	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures	Assets under construction	Total
Gross carrying amount as of January 1, 2018	**505.8**	**202.3**	**280.8**	**21.9**	**1,010.8**
Currency translation differences	0.8	1.8	0.2	0.1	**2.9**
Change in scope of consolidation	–1.4	–0.2	–2.3	0.0	**–3.9**
Additions	8.6	15.0	35.5	30.3	**89.4**
Disposals	–2.0	–3.2	–9.8	–0.2	**–15.2**
Reclassifications to and reversals of reclassifications from "held for sale"	0.4	10.4	0.2	0.5	**11.5**
Reclassifications	7.4	16.5	5.3	–29.9	**–0.7**
Gross carrying amount as of December 31, 2018	**519.6**	**242.6**	**309.9**	**22.7**	**1,094.8**
Accumulated depreciation and impairment losses	–243.9	–153.1	–208.0	–0.7	**–605.7**
Carrying amount as of December 31, 2018	**275.7**	**89.5**	**101.9**	**22.0**	**489.1**
Depreciation and impairment losses in the fiscal year 2018	**–13.9**	**–14.2**	**–27.6**	**0.0**	**–55.7**
Gross carrying amount as of January 1, 2017	**520.2**	**217.7**	**267.6**	**17.8**	**1,023.3**
Currency translation differences	–4.4	–11.0	–3.3	–0.6	**–19.3**
Acquisitions of subsidiaries	0.0	0.5	0.0	0.0	**0.5**
Additions	6.5	11.9	29.6	15.3	**63.3**
Disposals	–5.7	–11.5	–14.9	0.0	**–32.1**
Reclassifications to "held for sale"	–4.1	–10.9	–1.4	–0.6	**–17.0**
Reclassifications	–6.7	5.6	3.2	–10.0	**–7.9**
Gross carrying amount as of December 31, 2017	**505.8**	**202.3**	**280.8**	**21.9**	**1,010.8**
Accumulated depreciation and impairment losses	–231.2	–129.6	–190.3	–0.5	**–551.6**
Carrying amount as of December 31, 2017	**274.6**	**72.7**	**90.5**	**21.4**	**459.2**
Depreciation and impairment losses in the fiscal year 2017	**–14.2**	**–14.1**	**–26.8**	**0.0**	**–55.1**

Depreciation of property, plant and equipment is generally charged using the straight-line method. Buildings and parts of buildings are depreciated over a maximum period of 40 years, technical equipment over a period of five to 15 years, and furniture and fixtures over a period of three to 23 years.

15 / INVESTMENT PROPERTY

≡ 35

Development of investment property

IN € MILLION	2018	2017
Gross carrying amount as of January 1	**12.8**	**5.3**
Change in scope of consolidation	−0.3	0.0
Disposals	−7.7	0.0
Reclassifications	0.4	7.5
Gross carrying amount as of December 31	**5.2**	**12.8**
Accumulated depreciation	−1.9	−6.0
Carrying amount as of December 31	**3.3**	**6.8**
Depreciation and impairment losses in the fiscal year	−0.2	−0.1

Investment properties are measured at amortized cost. As of December 31, 2018, they had a fair value of € 6.8 million (prior year: € 11.0 million).

Measurement at fair value of the investment property is classified as level 3 in the fair value hierarchy. If current market data is not available, the fair value is calculated on the basis of a capitalized earnings method pursuant to the ImmoWertV ["Immobilienwertermittlungsverordnung": German Ordinance on the Valuation of Property] and derived from the standard land values as well as the expected rental income. Essential input factors in the valuation that are not directly observable on the market include property yield, which is significantly influenced by property location and type. The property yield used in the valuation was unchanged on the prior year at 4.5%.

16 / INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method

≡ 36

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017
Investments in joint ventures	36.4	39.4
Investment in an associated company	3.1	3.5
	39.5	**42.9**

Joint ventures

TÜV SÜD holds 33.3% of the shares in each of the two Turkish companies TÜVTURK Güney Tasit Muayene Istasyonlari Yapim ve Isletim A.S. (TÜVTURK Güney), Istanbul, and TÜVTURK Kuzey Tasit Muayene Istasyonlari Yapim ve Isletim A.S. (TÜVTURK Kuzey), Istanbul. The other venturers of the companies are the Dogus Group, Istanbul, Turkey, and Test A.S., Istanbul, Turkey, a company from the Bridgepoint Group, London, UK, which each also hold one third of the shares. The joint arrangements are structured as separate vehicles. TÜV SÜD has a right to the net assets of the companies. As a result, the joint arrangements are classified as joint ventures and accounted for using the equity method. There are no quoted prices for these companies.

In 2007, the TÜVTURK companies concluded a concession agreement with the Turkish government, governing the implementation of regular vehicle inspections throughout Turkey. Using different contractual partners, the joint venture is the exclusive provider of vehicle inspections in Turkey for the 20-year term of the contract. In 2018, 9.5 million (prior year: 8.9 million) vehicle inspections were performed, generating revenue of TRY 1,994.0 million or € 349.8 million (prior year: TRY 1,633.9 million or € 396.4 million).

Other joint ventures are ITV de Levante, S.A. (ITV Levante), Valencia, Spain, Uniscon universal identity control GmbH (Uniscon), Munich, and TÜV SÜD DOGUS Ekspertiz ve Danismanlik Hizmetleri Ltd. Sti. (TÜV SÜD DOGUS), Istanbul, Turkey, which are all consolidated in accordance with the equity method. None of these companies has a quoted market price.

TÜV SÜD has held 50.0% of the shares in ITV Levante since 2016. The company was founded in 1998 and owns the concessions for three vehicle service stations in the Valencia region, which expire in 2022.

TÜV SÜD acquired 52.0% of the shares in Uniscon in July 2017. The company was founded in 2009 and is a provider of high-security cloud solutions for storing and processing data.

TÜV SÜD DOGUS was founded in 2012 and included in the consolidated financial statements for the first time in fiscal year 2018. The company offers certification services for second-hand vehicles and other vehicle-related tests as well as consulting and training services in Turkey.

The following table summarizes the financial information for the joint ventures. The information presented for TÜVTURK's reporting year corresponds to the amounts in the preliminary consolidated financial statements, which were prepared in accordance with IFRSs. For the other joint ventures (ITV Levante, Uniscon and TÜV SÜD DOGUS), the amounts in the companies' separate financial statements have been raised to the respective fair value.

Financial data of the joint ventures (100%)

≡ 37

	Consolidated financial statements TÜVTURK, Turkey		Other joint ventures	
IN € MILLION	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Non-current assets	136.2	185.7	31.9	31.4
Current assets	40.1	38.5	3.6	2.0
thereof cash and cash equivalents	21.2	11.6	1.8	1.4
Non-current liabilities	78.1	118.6	7.4	5.5
thereof financial liabilities	0.4	9.9	3.0	1.0
Current liabilities	52.3	60.2	3.0	2.5
thereof financial liabilities	41.3	46.1	0.2	0.1
Net assets	**45.9**	**45.4**	**25.1**	**25.4**
	2018	2017	2018	2017
Revenue	349.8	396.4	14.1	10.8
Amortization and depreciation	−3.4	−3.5	−2.4	−1.3
Interest income	4.6	3.3	0.1	0.0
Interest expenses	−3.6	−3.7	0.0	0.0
Income taxes	−8.7	−6.4	−0.3	−0.5
Net income for the year	**28.9**	**25.7**	**−1.1**	**0.9**
Other comprehensive income	−4.2	0.0	0.0	0.0
Total comprehensive income	**24.7**	**25.7**	**−1.1**	**0.9**
Dividends received	4.5	5.7	1.0	1.4

In the following table, the financial information is reconciled to the carrying amount of the interest in the joint ventures:

Reconciliation to the carrying amount of TÜV SÜD's interest in the joint ventures ≡ 38

	Consolidated financial statements TÜVTURK, Turkey		Other joint ventures	
IN € MILLION	2018	2017	2018	2017
Net assets (100%) as of January 1	**45.4**	**45.7**	**25.4**	**7.2**
Net assets of Uniscon as of August 1, 2017	0.0	0.0	0.0	19.4
Net assets of TÜV SÜD DOGUS as of January 1, 2018 and capital increase in 2018	0.0	0.0	2.5	0.0
Total comprehensive income	24.7	25.7	–1.1	0.9
Dividends paid	–13.5	–17.1	–1.4	–2.1
Currency translation differences	–10.7	–8.9	–0.3	0.0
Net assets (100%) as of December 31	**45.9**	**45.4**	**25.1**	**25.4**
Attributable to TÜV SÜD Group	15.3	15.1	19.7	19.4
Capital gain on disposal of TÜVTURK Istanbul	–8.7	–8.7	0.0	0.0
Dilution of shares due to acquisition of shares in TÜVTURK Istanbul in 2010 and 2011	–6.4	–6.4	0.0	0.0
Consolidation effect on acquisition of TÜVTURK Istanbul at TÜV SÜD	20.0	20.0	0.0	0.0
Group adjustments and impairment losses	0.0	0.0	–3.5	0.0
Carrying amount as of December 31	**20.2**	**20.0**	**16.2**	**19.4**

17 / OTHER FINANCIAL ASSETS

Other financial assets ≡ 39

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017
Investments in affiliated companies	10.4	13.1
Loans to affiliated companies	0.2	0.0
Loans to joint ventures	3.0	1.0
Other participations	4.5	3.3
Non-current securities	69.7	44.8
Share of policy reserve from employer's pension liability insurance	0.2	0.2
Other loans	5.3	5.9
	93.3	**68.3**

An amount of € 1.2 million (prior year: € 1.2 million) of the non-current securities is pledged under a trust agreement concluded to secure the value of the settlement claims for employees in the block model of the phased retirement scheme (Altersteilzeit).

18 / TRADE RECEIVABLES

Trade receivables ≡ 40

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017 [1]
Contract assets	118.6	119.1
Other trade receivables	368.6	350.6
	487.2	**469.7**

1 _ Adjusted prior-year figures, see note 5.

Contract assets ≡ 41

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017 [1]
Contract assets (gross)	150.2	133.8
Project-related advance payments	–27.1	–10.2
Loss allowances on contract assets	–4.5	–4.5
	118.6	**119.1**

1 _ Adjusted prior-year figures, see note 5.

€ 120.6 million (prior year: € 93.5 million) of the contract assets will be realized within one year. Of the contract assets with a term of longer than one year, € 1.4 million (prior year: € 0.5 million) is impaired and € 5.7 million (prior year: € 0.5 million) is secured by advance payments received.

Revenue expected in the future from contract assets ≡ 42

IN € MILLION	2019	2020	2021
Range of revenue expected	98.1 to 136.6	43.4 to 50.9	up to 11.4

TÜV SÜD makes use of the practical expedient offered by IFRS 15 C5 (d) and opts not to allocate expected revenue to performance obligations to be rendered and also not to disclose when these amounts will be realized in the future as of December 31, 2017.

Loss allowances on trade receivables amount to € 19.7 million (prior year: € 22.0 million) as of the reporting date. The maturity profile of other trade receivables is as follows:

Maturity profile, expected loss rate and loss allowances on trade receivables as of December 31, 2018 (IFRS 9) ≡ 43

IN € MILLION	Expected loss rate	Gross carrying amount	Loss allowance	Credit impaired
Not due	0.4%	213.9	0.8	No
Past due by up to 30 days	0.8%	87.2	0.7	No
Past due by 31 to 60 days	1.8%	27.1	0.5	No
Past due by 61 to 90 days	2.7%	14.9	0.4	No
Past due by 91 to 180 days	5.6%	16.1	0.9	No
Past due by 181 to 360 days	21.4%	11.7	2.5	No
Past due by more than 360 days	79.9%	17.4	13.9	No
		388.3	**19.7**	

Maturity profile of trade receivables as of December 31, 2017 (IAS 39) ≡ 44

IN € MILLION	
Other trade receivables	**350.6**
thereof neither impaired nor past due	205.5
thereof not impaired, but past due by:	
up to 30 days	85.8
31 to 60 days	23.2
61 to 90 days	14.8
91 to 180 days	11.0
181 to 360 days	3.4
more than 360 days	2.7
thereof impaired as of the reporting date	4.2

There is no indication that customers might not be able to settle their obligations regarding receivables that are neither impaired nor past due.

19 / OTHER RECEIVABLES AND OTHER CURRENT ASSETS

Other receivables and other current assets ≡ 45

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017
Receivables from affiliated companies	1.9	1.8
Receivables from other participations	1.7	1.1
Fair values of derivative financial instruments	4.1	2.3
Miscellaneous financial assets	69.2	33.9
Other receivables and other current financial assets	**76.9**	**39.1**
Refund claims against insurance companies	5.0	8.1
Miscellaneous non-financial assets	22.8	16.3
Other current non-financial assets	**27.8**	**24.4**
	104.7	**63.5**

20 / NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

As part of its portfolio optimization measures, TÜV SÜD initiated the sale of five subsidiaries in the fiscal year 2018, and entered into negotiations with potential buyers.

The measurement to fair value less costs to sell resulted in an impairment of intangible assets (€ 0.3 million) and goodwill (€ 9.0 million) totaling € 9.3 million, which is reported in the income statement under amortization, depreciation and impairment losses and impairment of goodwill respectively and is attributable to the MOBILITY Segment.

Assets and liabilities allocated to the disposal groups break down as follows:

Disposal groups held for sale as well as associated liabilities ≡ 46

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017
Intangible assets	11.9	6.5
Property, plant and equipment	0.4	1.5
Other non-current assets	0.0	0.1
Deferred tax assets	2.3	0.0
Trade receivables	7.4	8.8
Other receivables and other current assets	18.4	0.8
Cash and cash equivalents	2.0	0.0
Disposal groups held for sale	**42.4**	**17.7**
Non-current liabilities	0.3	0.1
Deferred tax liabilities	0.4	0.0
Trade payables	1.1	0.4
Other current liabilities	27.0	1.9
Liabilities directly associated with disposal groups held for sale	**28.8**	**2.4**

Land and buildings of € 2.0 million (prior year: € 2.0 million) that are highly likely to be sold in their present condition within twelve months of reclassification are also reported under non-current assets and disposal groups held for sale.

On January 12, 2018, RCI Consultants, Inc., Houston, USA, was sold from the disposal groups disclosed in the prior year. Contrary to the original intention, the sales process for the other subsidiary was not completed. As there is currently no longer any intention to sell this subsidiary, it was reclassified out of the disposal group. This reversal of the reclassification resulted in a total impairment loss of € 5.5 million (on property, plant and equipment of € 1.3 million and on goodwill of € 4.2 million).

In the prior year, impairment losses of € 1.0 million were recorded on goodwill resulting from the measurement of a subsidiary as a disposal group held for sale.

21 / EQUITY

The **capital subscribed** of TÜV SÜD AG is divided into 26,000,000 no-par value registered shares with restricted transferability with an imputed value of € 1.00 for each registered share.

The **capital reserve** mainly includes the premium for various capital increases carried out since 1996.

Revenue reserves contain the undistributed profits generated in the fiscal year and in the past by the entities included in the consolidated financial statements. Moreover, the revenue reserves record the offsetting of debit and credit differences resulting from capital consolidation for acquisitions prior to December 31, 2005, and the net amount of the adjustments recognized in other comprehensive income in connection with the first-time application of IFRSs as well as new IFRS standards. Furthermore, remeasurements of defined benefit pension plans recognized in other comprehensive income were allocated directly to revenue reserves, taking into account the related deferred taxes. This reflects the fact that these amounts will not be reclassified to the income statement in future periods.

Other reserves record the differences arising from the currency translation of foreign subsidiaries' separate financial statements, effects from the measurement of financial instruments and the income and expenses recognized arising from investments accounted for using the equity method, in each case without effect on income and less the corresponding deferred taxes.

In addition to ensuring the continued existence of the company as a going concern, TÜV SÜD's capital management aims to achieve an adequate return in excess of the cost of capital in order to increase the value of the company in the long term.

22 / PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions and similar obligations (net liability) ≡ 47

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017
Provisions for pensions in Germany	550.3	599.3
Provisions for pensions in other countries	7.7	14.4
Provisions for similar obligations in other countries	10.3	8.9
	568.3	**622.6**

The Group's post-employment benefits include both defined contribution and defined benefit plans.

Defined contribution plans
In the case of defined contribution plans, the company pays contributions to state or private pension funds on a legal, contractual or voluntary basis. Ongoing premium payments (including contributions to state pension insurance) are stated as pension expenses for the respective year; in the fiscal year 2018, they totaled € 74.1 million (prior year: € 69.9 million). In Germany, all new pension commitments entered into are only defined contribution plans.

Defined benefit plans
Defined benefit plans comprise commitments for retirement, invalidity and surviving dependents' pensions. The Group's obligations vary according to legal, fiscal and economic framework conditions of the country concerned and are usually based on the length of employee service and level of remuneration.

The pension commitments in Germany are integrated schemes similar to those for civil servants, against which the state pension is offset. When the statutory pension rises, this relieves the burden on TÜV SÜD. When pension values fall, however, the obligation of TÜV SÜD increases. These integrated schemes were closed for new hires in 1981 and 1992.

Furthermore, pension obligations were granted temporarily in Germany in accordance with the "dual pension formula". The amount of the pension benefit is based on the qualifying length of service and the pensionable income; different percentage rates are applied to determine the benefit amount depending on whether the income is above or below the income threshold. These defined benefit plans were likewise closed in 1996.

In addition to this, there are defined benefit plans in Germany from company takeovers that are financed via pension funds in accordance with the demand coverage method. Due to the fact that Bayer-Pensionskasse VVaG and Höchster Pensionskasse VVaG were not able to allocate the assets paid in by contributions to specific individuals in the past, the benefit obligations taken over in the form of a defined benefit plan were classified as a multi-employer plan and accounted for as a defined contribution plan pursuant to IAS 19. As the pension funds do not accept any adjustments to the benefits, the claim from the secondary liability allocated to the member employer was reclassified as a separate defined benefit plan. From December 31, 2018 onwards, the plan is accounted for as a defined benefit plan. As it can no longer be assumed that the adjustment of the benefits resulting from these pledges is covered by the pension funds' surplus, the pension provision was increased by the amount of the expected adjustment obligation. This resulted in an actuarial loss from the change in financial assumptions of € 6.1 million.

In Germany, a former employee with company pension claims filed an action against the pension assessment made in January 2016 under the "Versorgungsstatut" (articles of association concerning the welfare fund) and was succesful in the courts of first and second instance. As it is not possible to foresee the outcome of the appeal against the denial of leave to appeal submitted to the Federal Labor Court, various scenarios have been considered. Based on modelled expectations, a provision of € 36.1 million was recognized for the change to the assumption of the anticipated benefit level. The revaluation was recorded as an actuarial loss.

There is a defined benefit pension plan in the UK based, among other things, on salary and on length of service. Eligible employees have to pay additional contributions which are agreed between the plan actuary, the trustee and the TÜV SÜD member employer. This pension plan has been closed for new hires.

In other countries there are defined benefit obligations for annuity and termination benefits, based partly on statutory requirements. The resulting obligations are reported under provisions for similar obligations.

Funding the pension plans

In Germany, new pension commitments are financed as defined contribution plans via the pension funds of Allianz and Alters- und Hinterbliebenen-Unterstützungskasse der Technischen Überwachungs-Vereine e. V.

In order to secure the pension entitlements from the defined benefit plans, there are legally separate funds in Germany and the UK that are structured as contractual trust agreements (CTAs). The transferred funds, which are managed in trust and used only for a specific purpose, are plan assets within the meaning of IAS 19 which are offset against pension obligations.

The German companies' plan assets are primarily managed by TÜV SÜD Pension Trust e. V. and TÜV Hessen Trust e. V. and are irrevocably protected from recourse by the group companies. The plan assets are invested by professional investment managers in accordance with the policy specified by trustees. The objective is for the strategic allocation to be aligned with the pension obligation. This is monitored on a regular basis by performing asset liability management (ALM) studies in consultation with external experts.

As of December 31, 2018, the plan assets comprise shares, fixed-interest securities, real estate, alternative investments, derivatives, cash and cash equivalents and other assets.

TÜV SÜD Pension Trust e. V. is funded such that the pension payments reimbursed by TÜV SÜD Pension Trust e. V. are contributed back into the CTA by the relevant domestic companies and additional funds are made available by the Board of Management of TÜV SÜD AG as part of a new allocation. The actual contribution is determined each year by resolution of the Board of Management.

In the case of domestic group companies that are not part of the contractual trust agreements, the pension obligations are funded from generated cash flows.

To fully fund the obligations, in the UK there is a company-based pension plan according to which the fund assets can only be used to settle the pension obligations. If, calculated in accordance with actuarial principles, there is a deficit in these pension plans, the member employer TÜV SÜD (UK) Ltd., Fareham Hants, UK, and the trustee must agree on a restructuring plan that is renewed every three years and has to be presented to The Pension Regulator (TPR) for approval. To finance the deficit of around GBP 12.9 million determined at the end of 2016, the member employer agreed to make an annual contribution of GBP 2.1 million until the end of 2023 in addition to the regular employer's contribution. In December 2017, obligations and existing plan assets totaling GBP 30.1 million were transferred to an external insurer, which will bear the investment, inflation and mortality risk in return.

Because of the defined benefit plans, the TÜV SÜD Group is subject to duration risks, foreign currency risks, interest and credit spread risks, share price risks, liquidity risks, investment risks for infrastructure projects and property market risks.

In the fiscal year 2019, the Group intends to make a contribution to plan assets of € 78.8 million in order to further reduce the existing deficit (the planned figure for 2018 was € 65.5 million, the end-of-year figure, including one-off additions of € 34.9 million, amounted to € 100.2 million).

The funded status of defined benefit obligations as well as a reconciliation to the amounts recognized in the statement of financial position are shown in the table below:

Funded status of the defined benefit obligation

≡ 48

	Germany		Other countries		Total	
IN € MILLION	2018	2017	2018	2017	2018	2017
Defined benefit obligation	1,955.7	1,939.0	108.7	120.9	2,064.4	2,059.9
Fair value of plan assets	1,405.4	1,339.7	90.7	97.6	1,496.1	1,437.3
Carrying amount as of December 31 (Net defined benefit liability)	**550.3**	**599.3**	**18.0**	**23.3**	**568.3**	**622.6**

The development compared with prior fiscal years is shown below:

Development of funded status

≡ 49

IN € MILLION	2018	2017	2016	2015	2014
Defined benefit obligation	2,064.4	2,059.9	2,089.6	2,026.3	2,021.2
Plan assets	1,496.1	1,437.3	1,340.2	1,253.5	1,123.2
Funded status as of December 31	**568.3**	**622.6**	**749.4**	**772.8**	**898.0**

Change in net defined benefit liability

Development of defined benefit obligation

≡ 50

	2018			2017		
IN € MILLION	Germany	Other countries	Total	Germany	Other countries	Total
Defined benefit obligation as of January 1	**1,939.0**	**120.9**	**2,059.9**	**1,945.0**	**144.6**	**2,089.6**
Service cost	24.3	3.0	27.3	26.0	4.7	30.7
Interest cost	32.3	2.7	35.0	32.5	3.1	35.6
Benefits paid	–73.5	–4.4	–77.9	–71.5	–8.2	–79.7
Contributions by the beneficiaries	0.0	0.5	0.5	0.0	0.6	0.6
Gains (–) and losses (+) from remeasurements						
Actuarial gains and losses from demographic assumptions	25.4	–3.1	22.3	0.0	–3.2	–3.2
Actuarial gains and losses from financial assumptions	42.4	–7.9	34.5	0.0	–6.1	–6.1
Actuarial gains and losses from experience adjustments	–33.6	–0.3	–33.9	7.0	–8.6	–1.6
Past service cost	0.0	–0.6	–0.6	0.0	–0.5	–0.5
Change in scope of consolidation	–0.4	–2.1	–2.5	0.0	0.0	0.0
Currency translation differences and other	–0.2	0.0	–0.2	0.0	–5.5	–5.5
Defined benefit obligation as of December 31	**1,955.7**	**108.7**	**2,064.4**	**1,939.0**	**120.9**	**2,059.9**
thereof unfunded	263.5	8.9	272.4	254.3	7.3	261.6
thereof partially funded	1,692.2	99.8	1,792.0	1,684.7	113.6	1,798.3

Around 56% (prior year: 54%) of the defined benefit obligation is allocable to pensioners, and 44% (prior year: 46%) to active employees and vested beneficiaries. The weighted average duration of the obligations is 14.5 years (prior year: 14.8 years).

Pension payments of € 82.2 million are expected for the fiscal year 2019.

Development of plan assets

≡ 51

	2018			2017		
IN € MILLION	Germany	Other countries	Total	Germany	Other countries	Total
Fair value of plan assets as of January 1	**1,339.7**	**97.6**	**1,437.3**	**1,240.2**	**100.0**	**1,340.2**
Interest income	22.8	2.3	25.1	21.1	2.2	23.3
Gains (+) and losses (–) from remeasurements						
Return on plan assets excluding interest income	8.9	–7.1	1.8	49.5	2.1	51.6
Contributions by the employer	96.4	3.8	100.2	89.7	4.2	93.9
Contributions by the beneficiaries	0.0	0.5	0.5	0.0	0.6	0.6
Benefits paid	–62.3	–3.9	–66.2	–60.8	–7.6	–68.4
Change in scope of consolidation	–0.1	–2.0	–2.1	0.0	0.0	0.0
Currency translation differences and other	0.0	–0.5	–0.5	0.0	–3.9	–3.9
Fair value of plan assets as of December 31	**1,405.4**	**90.7**	**1,496.1**	**1,339.7**	**97.6**	**1,437.3**
Actual return on plan assets	31.7	–4.8	26.9	70.6	4.3	74.9

The net defined benefit liability thus changed as follows:

Development of the net defined benefit liability

≡ 52

	2018			2017		
IN € MILLION	Germany	Other countries	Total	Germany	Other countries	Total
As of January 1	**599.3**	**23.3**	**622.6**	**704.8**	**44.6**	**749.4**
Service cost	24.3	3.0	27.3	26.0	4.7	30.7
Net interest cost	9.5	0.4	9.9	11.4	0.9	12.3
Contributions by the employer	–96.4	–3.8	–100.2	–89.7	–4.2	–93.9
Benefits paid	–11.2	–0.5	–11.7	–10.7	–0.6	–11.3
Gains (–) and losses (+) from remeasurements						
Actuarial gains and losses from demographic assumptions	25.4	–3.1	22.3	0.0	–3.2	–3.2
Actuarial gains and losses from financial assumptions	42.4	–7.9	34.5	0.0	–6.1	–6.1
Actuarial gains and losses from experience adjustments	–33.6	–0.3	–33.9	7.0	–8.6	–1.6
Return on plan assets excluding interest income	–8.9	7.1	–1.8	–49.5	–2.1	–51.6
Past service cost	0.0	–0.6	–0.6	0.0	–0.5	–0.5
Change in scope of consolidation	–0.3	–0.1	–0.4	0.0	0.0	0.0
Currency translation differences and other	–0.2	0.5	0.3	0.0	–1.6	–1.6
As of December 31	**550.3**	**18.0**	**568.3**	**599.3**	**23.3**	**622.6**

Plan assets

Composition of plan assets

≡ 53

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017
Shares (prior to hedging)	338.3	419.2
Fixed-interest securities	569.2	592.2
Share in investment company for infrastructure projects and private debt funds	159.3	110.7
Real estate and similar assets – used by third parties, vacant or under construction	251.5	205.4
Other (including cash and cash equivalents)	177.8	109.8
	1,496.1	**1,437.3**

All shares and fixed-interest securities are traded at the prices quoted on active markets.

The investment strategy for the plan assets is geared to covering the deficit between plan assets and pension obligations on a long-term basis. This is based on the increase in the obligations adjusted for current service cost and pension payments. The investment strategy also includes a controlled downside risk (low probability of a sharp fall in the coverage ratio) and is determined at regular intervals in ALM studies. The resulting target allocation includes an optimized risk return profile, taking into account the interdependency of plan assets and obligations.

The risks for plan assets stem chiefly from the investments in the Oktagon fund. Among others, these include interest and credit spread risks which, however, run counter to changes in the pension obligations. Further risks stem from fluctuations in share prices. Interest and share price risks can be hedged as needed by means of publicly traded futures in a dedicated control segment. Most of the foreign currency risks relating to investments in fixed-interest securities are hedged in full. The investment in AHV also entails interest, credit spread and share price risks. In the case of infrastructure investments, risks include illiquidity and regulatory intervention by individual countries. Investments in real estate involve technical risks (maintenance) and economic risks (rental price changes for new lets, level of occupancy).

Risk management takes a holistic approach, taking into account the development of plan assets and pension obligations. The main risk relates to a deterioration in the funded status (coverage shortfall) on account of negative developments of the pension obligations and/or plan assets. Risk management is based on the risk budget for pension risks, which breaks down into a budget for non-controllable risks (e.g., the portion of pension obligations not covered by plan assets) and for controllable risks. The controllable risks relate first and foremost to the risks in the CTA. The risk budget requirement and exploitation are determined using value-at-risk methods and monitored periodically.

Implementation of the findings from the most recent ALM study in 2017 resulted in greater use of alternative investments compared to highly liquid securities. The findings from the ALM study were systematically implemented in order to further optimize the risk return profile of all assets.

Defined benefit obligation

Actuarial assumptions for determining the defined benefit obligation

≡ 54

	Dec. 31, 2018		Dec. 31, 2017	
IN %	Germany	Other countries	Germany	Other countries
Discount rate	1.70	2.62	1.70	2.30
Future salary increases	2.25	2.06	2.25	2.22
Future pension increases	1.80	3.10	1.80	3.20

The actuarial assumptions were continuously derived in accordance with uniform principles compared to the prior year and set out for each country depending on the respective economic circumstances.

The discount rate is based on the return on fixed-interest corporate bonds with the same term and in the same currency that rating agencies have awarded an AA rating.

Adjustment for forecast long-term inflation is taken into account in the development of future salary and pension increase. The respective inflation rate does not exceed the interest rate observable on the market.

As far as life expectancy is concerned, the new mortality tables 2018 G from HEUBECK-RICHTTAFELN-GmbH were applied in Germany. This is in large part the reason behind the actuarial losses from demographic assumptions. Outside Germany, the customary mortality tables for the respective country were used.

A change in the aforementioned assumptions used to determine the defined benefit obligation in Germany as of December 31, 2018 would lead to a corresponding change in this figure. An analysis of historical changes in parameters from this perspective showed that if there was a change in the discount rate of up to 100 base points, a change of up to 75 base points for the development of future salary and pension increase as well as an increase of up to 5.3% for life expectancy up to the next measurement date can be regarded as realistic. The change in the underlying assumptions regarding life expectancy translates into a one-year increase in life expectancy for a currently 65-year-old man. The respective effects from such a change in measurement are presented on the assumption that all other parameters remain constant.

Sensitivity analyses

≡ 55

	DBO Germany as of Dec. 31, 2018		DBO Germany as of Dec. 31, 2017	
IN € MILLION	Increase	Decrease	Increase	Decrease
Discount rate (1% variation)	–268.0	338.4	–276.7	350.4
Future salary / pension increase (0.75% variation)	230.7	–194.7	240.7	–200.1
Life expectancy (5.3% increase for all persons)	85.7	–	84.8	–

Net pension expense

The assumptions made to calculate the defined benefit obligation as of the respective measurement date (December 31) apply to both the calculation of the interest cost and the current service cost as well as to the interest income on plan assets in the following fiscal year. The assumptions used in the calculation of the pension expenses for the fiscal year 2018 were therefore already defined as of the reporting date December 31, 2017.

The key assumptions in calculating pension expenses are presented in the following overview:

Actuarial assumptions for determining pension expenses

≡ 56

	2018		2017	
IN %	Germany	Other countries	Germany	Other countries
Discount rate	1.70	2.30	1.70	2.28
Future salary increases	2.25	2.22	2.25	3.01
Future pension increases	1.80	3.20	1.80	3.20

The expense recognized for defined benefit pension plans in total comprehensive income for the fiscal years 2018 and 2017 breaks down as follows:

Expenses (+) / income (–) recognized for defined benefit plans in total comprehensive income

≡ 57

	2018			2017		
IN € MILLION	Germany	Other countries	Total	Germany	Other countries	Total
Service cost	24.3	3.0	27.3	26.0	4.7	30.7
Net interest cost	9.5	0.4	9.9	11.4	0.9	12.3
Past service cost	0.0	–0.6	–0.6	0.0	–0.5	–0.5
Expenses for defined benefit plans recognized in the consolidated income statement	**33.8**	**2.8**	**36.6**	**37.4**	**5.1**	**42.5**
Return on plan assets excluding interest income	–8.9	7.1	–1.8	–49.5	–2.1	–51.6
Gains (-) and losses (+) from remeasurements of the defined benefit obligation	34.2	–11.3	22.9	7.0	–17.9	–10.9
Remeasurements of defined benefit plans recognized in other comprehensive income	**25.3**	**–4.2**	**21.1**	**–42.5**	**–20.0**	**–62.5**
Expenses recognized for defined benefit plans in total comprehensive income	**59.1**	**–1.4**	**57.7**	**–5.1**	**–14.9**	**–20.0**

23 / OTHER PROVISIONS

Development of other provisions

≡ 58

IN € MILLION	Personnel provisions	Litigation, warranty and similar obligations	Restructuring provisions	Miscellaneous provisions	Other provisions
As of January 1, 2018	**129.3**	**13.0**	**10.1**	**17.1**	**169.5**
thereof non-current	**28.2**	**0.0**	**0.1**	**8.5**	**36.8**
Currency translation differences	0.1	0.0	–0.1	0.0	**0.0**
Change in scope of consolidation	–0.3	0.0	0.0	0.0	**–0.3**
Additions	106.0	1.9	0.6	6.3	**114.8**
Utilization	–92.6	–1.0	–0.5	–4.9	**–99.0**
Reversals	–4.4	–4.9	–0.1	–0.7	**–10.1**
Unwinding of the discount	0.1	0.0	0.0	0.0	**0.1**
Reclassifications to “held for sale”	–1.3	–0.3	0.0	–0.4	**–2.0**
As of December 31, 2018	**136.9**	**8.7**	**10.0**	**17.4**	**173.0**
thereof non-current	**28.9**	**0.0**	**0.0**	**8.9**	**37.8**

The personnel provisions mainly pertain to variable remuneration for staff and management including associated social security contributions, obligations arising from the agreements under the German phased retirement scheme, medical benefits and long-service bonuses.

The provisions for litigation costs, warranty and similar obligations are counterbalanced by refund claims from insurance companies totaling € 5.0 million (prior year: € 8.1 million) that have been recognized as current assets.

The restructuring provisions relate to adopted and announced restructuring measures in the INDUSTRY Segment.

24 / FINANCIAL DEBT

Financial debt

≡ 59

	Non-current		Current		Total	
IN € MILLION	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Liabilities to banks	0.0	0.2	4.1	5.3	4.1	5.5
Finance lease liabilities	0.6	0.7	0.1	0.2	0.7	0.9
Cash pool liabilities to affiliated companies	0.0	0.0	0.7	0.0	0.7	0.0
Cash pool liabilities to other related parties	0.0	0.0	1.9	1.2	1.9	1.2
Loan liabilities to third parties	0.7	0.9	0.0	0.0	0.7	0.9
	1.3	**1.8**	**6.8**	**6.7**	**8.1**	**8.5**

All the liabilities to banks are due in less than five years.

25 / TRADE PAYABLES

Trade payables

≡ 60

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017 [1]
Contract liabilities	80.1	95.1
Other trade payables	70.5	79.7
	150.6	**174.8**

1 _ Adjusted prior-year figures, see note 5.

Of the contract liabilities, an amount of € 38.2 million (prior year: € 32.3 million) will be invoiced within one year. In the reporting year, € 56.6 million (prior year: € 44.4 million) of the prior-year contract liabilities was realized. Contract liabilities contain advance payments of € 28.0 million (prior year: € 52.3 million).

26 / OTHER LIABILITES

Other liabilities

≡ 61

	Non-current		Current		Total	
IN € MILLION	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Liabilities to affiliated companies	0.0	0.0	4.5	5.8	4.5	5.8
Liabilities to other participations	0.0	0.0	0.4	0.5	0.4	0.5
Fair values of derivative financial instruments	0.0	0.0	3.4	0.8	3.4	0.8
Outstanding invoices	0.0	0.0	42.4	39.8	42.4	39.8
Miscellaneous financial liabilities	7.2 [2]	7.5 [2]	15.1	34.5	22.3 [2]	42.0 [2]
Other financial liabilities	**7.2** [2]	**7.5** [2]	**65.8**	**81.4**	**73.0** [2]	**88.9** [2]
Advance payments received	0.0	0.0	0.0	0.0 [1]	0.0	0.0 [1]
Vacation claims, flexitime and overtime credits	0.0	0.0	55.2	50.7	55.2	50.7
Other taxes	0.0	0.0	43.7	44.2	43.7	44.2
Social security liabilities	0.0	0.0	5.7	5.6	5.7	5.6
Miscellaneous non-financial liabilities	0.0	0.0	24.8	20.3	24.8	20.3
Other non-financial liabilities	**0.0**	**0.0**	**129.4**	**120.8**	**129.4**	**120.8**
	7.2 [2]	**7.5** [2]	**195.2**	**202.2** [1]	**202.4** [2]	**209.7** [1,2]

1 _ Adjusted prior-year figures, see note 5.
2 _ Thereof due in more than five years: € 6.4 million (prior year: € 5.8 million).

27 / CONTINGENT LIABILITIES

The table below presents the contingent liabilities for which the main debtor is not a consolidated entity:

Contingent liabilities ≡ 62

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017
Guarantee obligations	41.0	71.2
Contingent liabilities arising from litigation risks	1.3	1.6
Miscellaneous contingent liabilities	1.8	0.3
	44.1	**73.1**

The guarantee obligations include a guarantee issued for T.P.S. Benefits Scheme Limited, Fareham, UK. The guarantee reduces the insurance fees charged by the Pension Protection Fund, Surrey, UK, which the UK companies participating in T.P.S. Benefits Scheme Limited, Fareham, UK, would otherwise have to pay on an annual basis.

The obligations were entered into for current business transactions where no utilization is to be expected based on the assessment of the current business situation.

Apart from the contingent liabilities reported, the entities of TÜV SÜD Group have assumed joint and several liability in relation to interests in civil law associations, other partnerships and joint ventures.

28 / LEGAL PROCEEDINGS

An action relating to the current pension assessment was filed against TÜV SÜD e. V. After the first-instance decision was confirmed in the appeal proceedings and leave to appeal was denied, TÜV SÜD filed an appeal against the denial of leave to appeal at the Federal Labor Court. Regarding the potential effects of the legal proceedings, reference is made to the opportunity and risk report in the combined management report.

In connection with the dam accident in Brazil in 2019, renowned law firms in Germany and Brazil have been engaged to investigate the events in question and clarify any potential legal risks that may arise. Please refer to the explanations in note 37 “Events after the reporting date”. There are no pending lawsuits against TÜV SÜD AG and its subsidiaries as well as any of its employees in this matter.

Apart from that, TÜV SÜD AG and its subsidiaries are not involved in any litigation which could have a material impact on the economic or financial situation of the individual entities or the Group as a whole.

29 / OTHER FINANCIAL OBLIGATIONS

Future obligations from rental and lease agreements as of December 31, 2018 ≡ 63

IN € MILLION	Due in less than one year	Due in one to five years	Due in more than five years	Dec. 31, 2018 Total
Future obligations from rental and lease agreements for real estate	50.3	109.6	39.3	199.2
Future obligations from other operating leases	11.9	15.2	0.0	27.1
	62.2	**124.8**	**39.3**	**226.3**

Future obligations from rental and lease agreements as of December 31, 2017 ≡ 64

IN € MILLION	Due in less than one year	Due in one to five years	Due in more than five years	Dec. 31, 2017 Total
Future obligations from rental and lease agreements for real estate	51.4	121.0	52.0	224.4
Future obligations from other operating leases	12.4	16.5	2.1	31.0
	63.8	**137.5**	**54.1**	**255.4**

Rental and lease expenses for the fiscal year 2018 amount to € 72.6 million (prior year: € 70.1 million).

Other notes

30 / ADDITIONAL INFORMATION ON FINANCIAL INSTRUMENTS

Carrying amounts by measurement category in accordance with IFRS 9

≡ 65

IN € MILLION	Dec. 31, 2018
Financial assets	
Debt instruments at amortized cost	618.4
Debt instruments at fair value through other comprehensive income	81.1
Financial assets at fair value through profit or loss	37.8
Equity instruments at fair value through other comprehensive income	18.0
Financial liabilities	
Financial liabilities at amortized cost	140.9
Financial liabilities at fair value through profit or loss	10.0

Only insignificant valuation allowances were recognized for debt instruments measured at fair value through other comprehensive income.

Carrying amounts by measurement category in accordance with IAS 39

≡ 66

IN € MILLION	Dec. 31, 2017
Financial assets	
Financial assets at fair value through profit or loss	29.3
thereof held for trading	29.3
Held-to-maturity investments	0.0
Loans and receivables	773.4
Available-for-sale financial assets	63.3
Financial liabilities	
Financial liabilities at fair value through profit or loss	13.9
thereof held for trading	13.9
Financial liabilities at amortized cost	205.0

The following tables show the carrying amounts of financial instruments and, where they are measured at fair value, the respective classification in the fair value hierarchy.

Carrying amounts and fair values of financial instruments as of December 31, 2018

≡ 67

IN € MILLION	Carrying amounts	Fair value	Fair value hierarchy		
			thereof level 1	thereof level 2	thereof level 3
Other financial assets [1, 2, 3]	93.1	69.7	69.7	0.0	0.0
Other non-current assets [2, 3]	7.1	1.9	0.0	0.3	1.6
Non-current assets	**100.2**	**71.6**	**69.7**	**0.3**	**1.6**
Trade receivables [2]	368.6	0.0	0.0	0.0	0.0
Other receivables and other current assets [2, 3]	76.9	50.3	44.0	4.7	1.6
Cash and cash equivalents [2]	209.6	0.0	0.0	0.0	0.0
Current assets	**655.1**	**50.3**	**44.0**	**4.7**	**1.6**
Total financial assets	**755.3**	**121.9**	**113.7**	**5.0**	**3.2**
Non-current financial debt [2]	1.3	0.6	0.0	0.6	0.0
Other non-current liabilities [2, 3]	7.2	6.6	0.0	0.0	6.6
Non-current liabilities	**8.5**	**7.2**	**0.0**	**0.6**	**6.6**
Current financial debt [2]	6.8	0.1	0.0	0.1	0.0
Trade payables [2]	70.5	0.0	0.0	0.0	0.0
Other current liabilities [2, 3]	65.8	3.4	0.0	3.4	0.0
Current liabilities	**143.1**	**3.5**	**0.0**	**3.5**	**0.0**
Total financial liabilities	**151.6**	**10.7**	**0.0**	**4.1**	**6.6**

1 _ Includes investments in equity instruments that do not have a quoted price in an active market.
2 _ Includes financial assets or liabilities for which the carrying amount is a reasonable approximation of fair value.
3 _ Includes financial assets or liabilities that are not within the scope of IFRS 7.

Carrying amounts and fair values of financial instruments as of December 31, 2017

≡ 68

IN € MILLION	Carrying amounts	Fair value	Fair value hierarchy		
			thereof level 1	thereof level 2	thereof level 3
Other financial assets [1, 2, 3]	68.1	44.8	44.8	0.0	0.0
Other non-current assets [2, 3]	5.7	0.1	0.0	0.1	0.0
Non-current assets	**73.8**	**44.9**	**44.8**	**0.1**	**0.0**
Trade receivables [2]	479.9	0.0	0.0	0.0	0.0
Other receivables and other current assets [2, 3]	39.1	4.4	0.2	4.2	0.0
Cash and cash equivalents [2]	273.3	26.9	26.9	0.0	0.0
Current assets	**792.3**	**31.3**	**27.1**	**4.2**	**0.0**
Total financial assets	**866.1**	**76.2**	**71.9**	**4.3**	**0.0**
Non-current financial debt [2]	1.8	0.7	0.0	0.7	0.0
Other non-current liabilities [2, 3]	7.5	6.5	0.0	0.0	6.5
Non-current liabilities	**9.3**	**7.2**	**0.0**	**0.7**	**6.5**
Current financial debt [2]	6.7	0.2	0.0	0.2	0.0
Trade payables [2]	122.5	0.0	0.0	0.0	0.0
Other current liabilities [2, 3]	81.4	7.1	0.0	0.8	6.3
Current liabilities	**210.6**	**7.3**	**0.0**	**1.0**	**6.3**
Total financial liabilities	**219.9**	**14.5**	**0.0**	**1.7**	**12.8**

1 _ Includes investments in equity instruments that do not have a quoted price in an active market.
2 _ Includes financial assets or liabilities for which the carrying amount is a reasonable approximation of fair value.
3 _ Includes financial assets or liabilities that are not within the scope of IFRS 7.

There were no reclassifications out of or into another level of the fair value hierarchy in the current fiscal year.

The financial instruments allocated to level 2 are derivatives, securities and liabilities from finance leases. At level 3, mainly liabilities from contingent purchase price elements and purchase price liabilities from put options are recognized.

The calculation of the fair values of forward exchange transactions and currency swaps is based on FX forward swap market data used to interpolate the current forward points (FX forward swaps) on a straight-line basis from the information available from Reuters and add them to the spot rate. This makes it possible to calculate the current price at which the hedge can be closed out.

The fair value of interest derivatives is calculated using discounted cash flow methods. To this end, the total value of an interest derivative is broken down into its individual cash flows, each of which is measured individually. Forward interest rates and valuations are recognized at the mean of the buying and the selling rate. The interpolation and any simulations are based on nominal interest, which is used to determine the zero interest rates in order to derive the discount factors. For interest derivatives in foreign currency, the present value is translated to euro at the mean of the buying and the selling rate.

The table below shows the development of the financial instruments recorded in level 3:

Reconciliation of financial instruments in level 3 ≡ 69

	Assets		Equity and liabilities	
IN € MILLION	2018	2017	2018	2017
As of January 1	**0.0**	**0.0**	**12.8**	**6.8**
Currency translation differences	0.0	0.0	0.1	0.1
Additions	3.2	0.0	0.0	3.0
Changes recognized with an effect on income	0.0	0.0	0.4	3.5
Changes with an effect on cash and cash equivalents	0.0	0.0	–6.7	–0.6
As of December 31	**3.2**	**0.0**	**6.6**	**12.8**

The addition to assets relates to a forward transaction used to acquire a joint venture in Germany in full.

The changes to equity and liabilities with an effect on income in fiscal year 2018 are primarily attributable to the discounting of a purchase price liability from a put option in South Africa. The changes with an effect on cash relate to the payment of contingent purchase prices, especially for a Spanish entity.

The net gains and losses 2018 (IFRS 9) and 2017 (IAS 39) on the financial instruments recognized in the income statement, by measurement category, are as follows:

Net gains and losses by measurement category in accordance with IFRS 9 ≡ 70

IN € MILLION	2018
Debt instruments at amortized cost	–3.1
Debt instruments measured at fair value through other comprehensive income	–0.2
Financial assets / liabilities at fair value through profit or loss	–2.2
Equity instruments at fair value through other comprehensive income	–0.6
Financial liabilities at amortized cost	–2.7

Net gains and losses by measurement category in accordance with IAS 39

≡ 71

IN € MILLION	2017
Financial assets / liabilities at fair value through profit or loss	8.7
Loans and receivables	−8.8
Available-for-sale financial assets	1.5
Financial liabilities at amortized cost	−6.4

The net gains and losses were mainly attributable to effects from impairment losses, currency hedging and currency translation.

Dividend income from other participations totals € 1.9 million.

The development of the valuation allowances on financial assets as well as the impairment losses recognized in the income statement in the fiscal year are as follows:

Development of valuation allowances on financial assets

≡ 72

IN € MILLION	Other financial assets	Trade receivables	Other receivables and other current assets	Total
Valuation allowances as of January 1, 2017	**13.4**	**20.8**	**3.8**	**38.0**
Currency translation differences	−0.4	−0.8	0.0	**−1.2**
Change in scope of consolidation	0.0	0.1	0.0	**0.1**
Additions	0.3	8.4	0.1	**8.8**
Utilization	−1.5	−2.6	−0.7	**−4.8**
Reversals	0.0	−3.9	−0.1	**−4.0**
Valuation allowances as of December 31, 2017	**11.8**	**22.0**	**3.1**	**36.9**
Effect from first-time application of IFRS 9	0.0	−0.2	0.0	**−0.2**
Valuation allowances as of January 1, 2018 adjusted	**11.8**	**21.8**	**3.1**	**36.7**
Currency translation differences	0.1	0.1	0.0	**0.2**
Change in scope of consolidation	0.0	−0.1	0.0	**−0.1**
Additions	1.3	7.4	0.0	**8.7**
Utilization	0.0	−5.2	0.0	**−5.2**
Reversals	0.0	−3.9	0.0	**−3.9**
Reclassifications to "held for sale"	−0.3	−0.4	−1.1	**−1.8**
Valuation allowances as of December 31, 2018	**12.9**	**19.7**	**2.0**	**34.6**
Impairment losses 2018	**1.3**	**6.5**	**0.0**	**7.8**
Impairment losses 2017	0.1	7.9	0.3	**8.3**

31 / FINANCIAL RISKS

The TÜV SÜD Group faces financial risks in the form of credit risks, liquidity risks and market risks. The principles of risk management are defined by TÜV SÜD's internal finance policy as well as numerous binding strategies and guidelines and are discussed in more detail in the management report.

Credit risks (default risks) exist with regard to the operating business as well as to financial assets and derivative financial instruments. Depending on the nature and extent of the respective transaction, risk-mitigating measures must be taken for all transactions relating to the operating business. These include obtaining collateral, credit ratings or track records of prior business relations, particularly payment behavior. Recognizable risks are taken into account through appropriate valuation allowances on receivables that are based on objective indications in individual cases, or the maturity profile and actual default history.

The maximum credit risk for trade receivables, contract assets and loans is their carrying amount as of December 31, 2018.

The maximum credit risk of financial assets and derivative financial instruments corresponds to their market value as of December 31, 2018.

The risk of default on securities is minimized by a high degree of diversity in the investment strategy. Only securities with an investment grade credit rating are purchased. The TÜV SÜD Group did not record any default on securities in the reporting year. Derivative financial instruments are only concluded with partners that have an investment grade rating and where a breach of contractual obligations is thus not expected.

According to internal trading policies, derivative financial transactions may only be concluded in close consultation with the corporate finance department and in connection with an underlying transaction. To limit risks, subsidiaries in Germany and other countries are prohibited from purchasing securities without approval from the corporate finance department.

In order to manage **liquidity risks**, the TÜV SÜD Group always has up-to-date liquidity planning and sufficient liquidity reserves in the form of cash and credit lines. Bank balances are held solely at banks with excellent credit ratings. In addition, maximum investment limits are set for investment funds at various banks based on their credit rating in order to avoid cluster risks. Risks relating to current securities are also minimized by widely diversifying issuers. In addition to cash and securities, the liquidity reserve comprises a syndicated credit line for € 200 million. The syndicated credit line had an original term until December 2019 but was extended until December 2021 in 2018 by exercising the corresponding option. As of the reporting date, payments due within one year of € 143.1 million (prior year: € 167.8 million) and payments due in more than one year of € 8.5 million (prior year: € 9.3 million) are covered by cash and cash equivalents of € 211.6 million (prior year: € 273.3 million) as well as undrawn credit lines of € 212.4 million (prior year: € 210.8 million).

The main **market risks** resulting from financial instruments are currency and interest rate risks.

The scope for action with regard to currency management is defined by TÜV SÜD's internal policies. **Currency risks** in connection with the operating business are hedged using derivative financial instruments. Forward exchange transactions and cross-currency swaps are used to hedge intra-group loans in foreign currencies.

With regard to trade receivables and payables, a 10% increase or decrease in the value of the euro against all other currencies as of December 31, 2018 would only have an immaterial effect on consolidated net income for the year. In the event of a 10% decrease in value of the euro, the market value of forward exchange transactions would fall by € 3.9 million (prior year: € 2.7 million). The market value of cross-currency swaps would increase by € 0.3 million (prior year: € 0.4 million) accordingly. In the event of a 10% increase in value of the euro against all other currencies, the market value of forward exchange transactions would rise by € 3.2 million (prior year: € 2.2 million). The market value of cross-currency swaps would decrease by € 0.3 million (prior year: € 0.3 million) accordingly.

Interest rate risks may arise for investments in fixed-interest securities. A 1% increase or decrease in interest rates would result only in insignificant changes in the market value. Financial debt may also be exposed to an interest rate risk. Derivative financial instruments are used on a case-by-case basis to hedge against this interest rate risk.

32 / NOTES TO THE STATEMENT OF CASH FLOWS

The cash and cash equivalents presented in the statement of cash flows contain all highly liquid items shown in the statement of financial position, i.e., cash in hand, checks and bank balances as well as current securities that are available within three months.

The contribution to pension plans consists of contributions equivalent to the pension payments made by the trustors to TÜV SÜD Pension Trust e.V. of € 61.1 million (prior year: € 58.6 million). Together with one-off additions with an effect on cash of € 30.0 million (prior year: € 31.1 million) to TÜV SÜD Pension Trust e.V. and further additions to other plan assets of € 4.2 million (prior year: € 4.2 million), these payments are recognized as part of the cash flow from investing activities.

33 / SEGMENT REPORTING

Based on the organizational structure and existing reporting structures, TÜV SÜD has the three reportable segments INDUSTRY, MOBILITY and CERTIFICATION, as defined by the Board of Management. These cover the technical services in the TIC (testing, inspection, certification) market. As the highest management level, the entire Board of Management regularly receives comprehensive information in order to assess the profitability of the segments described below and make decisions regarding the allocation of resources.

→ **INDUSTRY** The Industry Service and Real Estate & Infrastructure Divisions support customers in operating industrial plants, infrastructure facilities, refineries, power plants and buildings safely and economically, as well as ensuring the functionality and safety of rail vehicles, signaling technology and rail infrastructures.

The INDUSTRY Segment collects revenue over time for services already rendered. These are invoiced pursuant to standard terms and conditions or individual contractual conditions. Any associated certification and license fees are invoiced annually, regardless of the services rendered, and collected over the term on a straight-line basis.

→ **MOBILITY** This segment comprises all services for automobiles, which are offered by the Auto Service Division. These include services for homologation, used car valuations, management of vehicle fleets and product and process enhancement services for the automotive industry. For retail customers, roadworthiness tests and exhaust gas analyses, driver's license tests as well as driving suitability tests for road users and support with regaining and retaining their drivers' licenses in particular are offered.

In the MOBILITY Segment, revenue in the core business of roadworthiness tests and exhaust gas analyses as well as driver's license tests is recognized at a point in time, although advance payments are regularly made in the private customer business. In the fleet business, services rendered are invoiced monthly. All other services in this segment are invoiced pursuant to individual contractual conditions or standard terms and conditions. Revenue from these services is generally recognized over time.

→ **CERTIFICATION** The activities of the Product Service and Business Assurance Divisions are bundled in this segment. The Product Service Division offers services for the testing, inspection and certification of consumer goods as well as industrial and medical products. The Business Assurance Division comprises the three business units Management Systems, Academy and Cyber Security. All three business units support customers in optimizing their business processes, systems and resources.

In the CERTIFICATION Segment, revenue from services is collected over time. These are invoiced pursuant to standard terms and conditions or individual contractual conditions. Any associated certification and license fees are invoiced annually, regardless of the services rendered, and collected over the term on a straight-line basis.

Holding activities are reported under **OTHER**. OTHER also includes individual assets of subsidiaries that cannot be allocated to actual business operations of the operational segments.

TÜV SÜD operates in the following **geographic** segments:

→ **EUROPE** comprises the home market of Germany as well as Western Europe and Central & Eastern Europe.

→ **AMERICAS** covers both American continents, from Canada to the southern tip of South America.

→ **ASIA** combines all the countries of the Asia/Pacific and South Asian area as well as the Middle East & Africa Region.

TÜV SÜD realizes revenue from service contracts with customers at a point in time and over time. External revenue is broken down by segment and region. Consolidations of business relationships between the segments are recorded in the reconciliation column.

Segment information from January 1 to December 31, 2018 and as of December 31, 2018

≡ 73

IN € MILLION	INDUSTRY	MOBILITY	CERTIFICATION	OTHER	Reconciliation	Group
External revenue	940.6	808.6	748.4	2.6	– 1.7	**2,498.5**
thereof EUROPE	739.1	800.8	378.0	0.1	– 1.7	**1,916.3**
thereof AMERICAS	109.7	0.0	88.3	0.0	0.0	**198.0**
thereof ASIA	91.8	7.8	282.1	2.5	0.0	**384.2**
Intersegment revenue	10.0	0.9	8.7	25.4	– 45.0	**0.0**
Total revenue	950.6	809.5	757.1	28.0	– 46.7	**2,498.5**
Amortization, depreciation and impairment losses	– 17.8	– 18.8	– 19.3	– 23.7	0.0	**– 79.6**
Income from investments accounted for using the equity method	0.0	9.4	– 0.9	0.0	0.0	**8.5**
EBIT	77.1	70.4	81.8	– 19.1	0.3	**210.5**
Capital expenditures	18.2	31.7	34.6	16.1	0.0	**100.6**
Segment assets as of December 31, 2018	509.5	372.6	379.2	260.0	– 18.7	**1,502.6**

Total revenue in the home market of Germany amounts to € 1,588.9 million (prior year: € 1,507.5 million) and relates with € 548.5 million (prior year: € 532.5 million) to the INDUSTRY Segment, with € 735.9 million (prior year: € 690.6 million) to the MOBILITY Segment and with € 306.2 million (prior year: € 286.6 million) to the CERTIFICATION Segment.

Segment information from January 1 to December 31, 2017 and as of December 31, 2017

≡ 74

IN € MILLION	INDUSTRY	MOBILITY	CERTIFICATION	OTHER	Reconciliation	Group
External revenue	952.4	771.6	705.5	0.3	– 2.2	**2,427.6**
thereof EUROPE	715.7	763.8	351.2	0.0	– 2.2	**1,828.5**
thereof AMERICAS	133.4	0.0	88.2	0.0	0.0	**221.6**
thereof ASIA	103.3	7.8	266.1	0.3	0.0	**377.5**
Intersegment revenue	8.9	0.8	8.8	20.7	– 39.2	**0.0**
Total revenue	961.3	772.4	714.3	21.0	– 41.4	**2,427.6**
Amortization, depreciation and impairment losses	– 16.1	– 18.0	– 20.1	– 22.0	0.0	**– 76.2**
Income from investments accounted for using the equity method	0.0	10.4	– 0.3	0.0	0.0	**10.1**
EBIT	78.1	64.8	81.1	– 22.6	– 0.1	**201.3**
Capital expenditures	14.4	27.3	19.8	25.6	0.0	**87.1**
Segment assets as of December 31, 2017 [1]	512.0	359.1	347.5	271.4	– 20.1	**1,469.9**

1 _ Adjusted prior-year figures, see note 5.

The same accounting policies are used as for the consolidated financial statements.

Transfer prices for revenue with other segments are determined using a market-based approach (at arm's length).

Segment performance is evaluated based on EBIT.

Reconciliation of EBIT to income before taxes ≡ 75

IN € MILLION	2018	2017
EBIT according to segment reporting	**210.5**	**201.3**
Interest income	2.5	2.1
Interest expenses	–12.8	–15.5
Other financial result	–0.6	2.3
Income before taxes according to consolidated income statement	**199.6**	**190.2**

Assets are allocated according to their geographic location.

Segment assets based on geographic segments ≡ 76

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017 [1]
EUROPE	1,105.6	1,080.6
AMERICAS	191.6	185.1
ASIA	228.5	228.0
Reconciliation	–23.1	–23.8
Total segment assets	**1,502.6**	**1,469.9**

1 _ Adjusted prior-year figures, see note 5.

Segment assets in Germany come to € 844.3 million (prior year: € 832.4 million).

Reconciliation of segment assets to group assets ≡ 77

IN € MILLION	Dec. 31, 2018	Dec. 31, 2017 [1]
Segment assets	**1,502.6**	**1,469.9**
Interest-bearing financial assets	78.3	52.0
Deferred tax assets	237.3	242.1
Cash and cash equivalents	209.6	273.3
Other interest-bearing current assets	49.5	3.3
Group assets	**2,077.3**	**2,040.6**

1 _ Adjusted prior-year figures, see note 5.

34 / RELATED PARTIES

Related companies

The ultimate parent companies of the TÜV SÜD Group are TÜV SÜD e.V., Munich, and TÜV SÜD Stiftung, Munich ("TÜV SÜD Foundation"). Both TÜV SÜD e.V. and the TÜV SÜD Foundation have transferred their shares in TÜV SÜD AG to the independent shareholder committee, TÜV SÜD Gesellschafterausschuss GbR. Internally, TÜV SÜD e.V. and the TÜV SÜD Foundation hold 74.9% and 25.1% stakes in the assets of TÜV SÜD Gesellschafterausschuss GbR.

Within the framework of an agency contract, the activities under the accreditation to operate the road vehicle technical inspectorate and the official inspection body in Baden-Württemberg are carried out by the group company TÜV SÜD Auto Service GmbH for TÜV SÜD e.V., as principal and recognized contractor. Following the approval of the respective authorities, TÜV SÜD e.V. transferred the official inspection body in Baden-Württemberg in full and irrevocably to TÜV SÜD Auto Service GmbH as of March 1, 2018 for € 17.1 million. This means that the former agent TÜV SÜD Auto Service GmbH replaces TÜV SÜD e.V. as the inspection body pursuant to exhibit VIIIb StVZO ["Straßenverkehrs-Zulassungs-Ordnung": German Road Traffic Licensing Regulations] in Baden-Württemberg and is officially recognized as such.

Business from the activities under the accreditation to operate the road vehicle technical inspectorate and until February 28, 2018 the official inspection body in Baden-Württemberg is conducted on behalf of, by order and for account of TÜV SÜD e.V. All transactions and business processes are carried out in the TÜV SÜD Group. TÜV SÜD Auto Service GmbH maintains personnel and material in the scope necessary for the activities and operation. From the cost center accounting, the revenue allocable to TÜV SÜD e.V. is calculated and transferred. 98.5% of revenue from the business officially mandated is invoiced by the operating entity as a lump-sum payment for agency services. In the fiscal year 2018, a total volume of € 112.6 million (prior year: € 145.8 million) was charged to TÜV SÜD e.V. TÜV SÜD e.V. recorded revenue of € 114.3 million (prior year: € 148.0 million) from this source.

Cash pool liabilities of € 1.7 million (prior year: € 0.3 million) to TÜV SÜD e.V. and of € 0.2 million (prior year: € 0.2 million) to subsidiaries of TÜV SÜD e.V. are recorded as of the reporting date.

In the fiscal years 2018 and 2017, the TÜV SÜD Group had business relationships with non-consolidated subsidiaries, associated companies and joint ventures that qualify as related parties. In the course of ordinary operations, all service transactions with these entities were carried out at arm's length conditions. In 2018, transactions were carried out with material related parties that led to the following items in the consolidated financial statements:

Items of the statement of financial position from transactions with non-consolidated subsidiaries, associated companies and joint ventures

≡ 78

	Non-consolidated subsidiaries		Associated companies		Joint ventures	
IN € MILLION	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Loans	0.2	0.0	0.0	0.0	3.0	1.0
Receivables	1.9	1.8	0.0	0.0	0.4	0.0
Financial debt	0.7	0.0	0.0	0.0	0.0	0.0
Liabilities	4.5	5.8	0.0	0.0	0.1	0.1

Receivables from non-consolidated subsidiaries include valuation allowances amounting to € 2.0 million (prior year: € 3.1 million). In the prior year, there was a cash pool liability of € 0.7 million due to the welfare association of TÜV Bayern e. V., Munich. In 2018, the welfare association was merged into TÜV Südwest GmbH and renamed TÜV SÜD BUV GmbH. Its investment of cash of € 0.7 million (cash pooling) at TÜV SÜD AG is disclosed under financial debt to non-consolidated subsidiaries.

The business relationships with the Turkish joint ventures are based primarily on a license agreement between TÜVTURK Kuzey and TÜVTURK Güney (both licensors) and TÜV SÜD Bursa (licensee). In 2018, dividend distributions of these companies amounted to € 4.5 million (prior year: € 5.7 million). Furthermore, there was a distribution of € 1.0 million (prior year: € 1.4 million) of the Spanish joint venture ITV Levante.

Dividend distributions of € 1.1 million (prior year: € 0.9 million) were received from associated companies.

TÜV SÜD AG issued a letter of comfort for one related company and one joint venture. It is assumed that the companies can pay their current obligations themselves. Claims are therefore not expected.

TÜV SÜD ATISAE issued letters of comfort for two subsidiaries, ATISAE Trauxia ITV, S. L., Madrid, Spain, and Servicios Técnicos y Consultoria ITV, S.L., Torrelodones, Spain. For the expected utilization, a provision of € 0.2 million (prior year: € 0.3 million) has been recognized in the consolidated financial statements.

Remuneration of active members of the Board of Management and Supervisory Board

The total remuneration of active members of the Board of Management amounted to € 3.4 million in the fiscal year 2018 (prior year: € 5.0 million). This includes variable, EVA-based salary components totaling € 1.4 million (prior year: € 1.9 million), the majority of which have not yet been paid out as of December 31 (provision as of December 31, 2018: € 1.4 million). In the prior year, total remuneration included termination benefits of € 1.3 million. The additional service cost incurred for pension obligations amounted to € 0.3 million (prior year: € 0.3 million). The present value of the defined benefit obligation calculated in accordance with IFRSs amounted to € 5.3 million as of the reporting date (prior year: € 4.6 million).

The active members of the Supervisory Board received total remuneration of € 1.1 million in the fiscal year 2018 (prior year: € 1.0 million).

Remuneration of former members of the Board of Management and Supervisory Board

The total remuneration of former members of the Board of Management and their surviving dependents including pension payments and other payments (advisory services) amounted to € 1.2 million (prior year: € 1.1 million). Defined benefit obligations amounting to € 17.8 million (prior year: € 17.9 million) exist for former members of the Board of Management and their surviving dependents.

35 / PROPOSAL FOR THE APPROPRIATION OF PROFIT

The Board of Management and Supervisory Board will propose to the annual general meeting to distribute € 2.1 million from the retained earnings under German GAAP of TÜV SÜD AG totaling € 87.6 million, equivalent to € 0.08 per share. The remaining amount of € 85.5 million is to be carried forward to new account.

36 / AUDITOR'S FEES

Fees of the auditor KPMG AG Wirtschaftsprüfungsgesellschaft ≡ 79

IN € MILLION	2018	2017
Audit of the financial statements	0.9	0.8
Tax advisory services	0.4	0.5
Other services	0.2	0.1
	1.5	**1.4**

37 / EVENTS AFTER THE REPORTING DATE

On January 25, 2019, the tailings dam of a retention basin for an iron ore mine belonging to mining company Vale S.A. close to the village of Brumadinho, Brazil, collapsed. The dam's stability had been inspected by TÜV SÜD Bureau de Projetos e Consultoria Ltda., São Paulo, Brazil, in summer 2018 and a statement on stability was issued in September 2018. After the accident, Vale S.A. who as the operator of the dam is responsible for operational safety, referred to external appraisals, including that issued by TÜV SÜD on the safety of the dam. However, TÜV SÜD no longer considers the criteria stipulated for the inspection in Brazil sufficient to issue a statement on stability. TÜV SÜD has offered to work closely with Vale S.A. and the authorities concerned. Furthermore, TÜV SÜD has convened its own investigative commission of internationally recognized technical experts to independently assess the causes and the statement on stability issued as well as the proposed measures for improvement. The commission is also charged with reviewing assessments and statements on stability issued by TÜV SÜD Bureau de Projetos e Consultoria Ltda. on other dams in Brazil. The Board of Management has also prepared a plan of action for handling high-risk assignments.

No indemnification claims or other lawsuits have been filed yet against TÜV SÜD or its employees in connection with the inspection carried out in 2018. At the moment, it is not possible, or only to a limited extent, to estimate the future expenses for litigation and consulting costs.

The purchase agreement for 60% of the shares in FleetCompany GmbH, Oberhaching, Fleet Logistics International N.V., Vilvoorde, Belgium, Fleet Logistics France S.A.S, Boulogne-Billancourt, France, and Fleet Logistics Finland Oy, Helsinki, Finland, was completed on February 7, 2019. The purchase agreement contains conditions precedent for completing the share transfer that have not yet been fulfilled as of the date of the audit opinion. The assets and liabilities of these companies were disclosed as non-current assets and disposal groups held for sale as of December 31, 2018.

38 / CONSOLIDATED ENTITIES

Consolidated entities

≡ 80

NAME AND REGISTERED OFFICES OF THE ENTITY		Share in capital in %
FULLY CONSOLIDATED AFFILIATED COMPANIES – GERMANY		
ARMAT GmbH & Co. KG, Pullach i. Isartal	*)	100.00
ARMAT Südwest GmbH & Co. KG, Pullach i. Isartal	*)	100.00
FleetCompany GmbH, Oberhaching	*)	100.00
MI-Fonds F60, Munich		100.00
PIMA-MPU GmbH, Munich	*)	100.00
SIGNON Deutschland GmbH, Berlin		100.00
TÜV Hanse GmbH TÜV SÜD Group, Hamburg		90.00
TÜV Hessen Immobilien Service GmbH & Co. KG, Gräfelfing		55.00
TÜV SÜD Advimo GmbH, Munich		100.00
TÜV SÜD Akademie GmbH, Munich		100.00
TÜV SÜD Auto Partner GmbH, Hamburg	*)	100.00
TÜV SÜD Auto Plus GmbH, Leinfelden-Echterdingen	*)	100.00
TÜV SÜD Auto Service GmbH, Stuttgart	*)	100.00
TÜV SÜD Battery Testing GmbH, Garching		70.00
TÜV SÜD Business Services GmbH, Munich	*)	100.00
TÜV SÜD Car Registration & Services GmbH, Munich		50.00
TÜV SÜD Chemie Service GmbH, Leverkusen	*)	100.00
TÜV SÜD Digital Service GmbH, Munich	*)	100.00
TÜV SÜD ELAB GmbH, Siegen		100.00
TÜV SÜD Energietechnik GmbH Baden-Württemberg, Filderstadt	*)	100.00
TÜV SÜD Food Safety Institute GmbH, Neu-Isenburg		100.00
TÜV SÜD ImmoWert GmbH, Munich	*)	100.00
TÜV SÜD Industrie Service GmbH, Munich	*)	100.00
TÜV SÜD Life Service GmbH, Munich	*)	100.00
TÜV SÜD Management Service GmbH, Munich	*)	100.00
TÜV SÜD Pluspunkt GmbH, Munich	*)	100.00
TÜV SÜD Product Service GmbH, Munich		100.00
TÜV SÜD Rail GmbH, Munich		100.00
TÜV SÜD Sec-IT GmbH, Munich	*)	100.00
TÜV SÜD Umwelt GmbH, Munich		100.00
TÜV Technische Überwachung Hessen GmbH, Darmstadt		55.00

*) The domestic subsidiary meets the requirements of Section 264 (3) HGB or Section 264b HGB, and takes advantage of the corresponding exemption regulations.

NAME AND REGISTERED OFFICES OF THE ENTITY	Share in capital in %
FULLY CONSOLIDATED AFFILIATED COMPANIES – OTHER COUNTRIES	
ARISE Boiler Inspection and Insurance Company Risk Retention Group, Louisville, USA	100.00
ARISE Inc., Wilmington, USA	100.00
ATISAE de Castilla y León, S.A.U., Miranda de Ebro, Spain	100.00
Bytest S.r.l., Volpiano, Italy	100.00
Dunbar & Boardman Partnership Ltd., Fareham Hants, UK	100.00
ÉMI-TÜV SÜD Minöségügyi és Biztonságtechnikai Karlátolt Felelösségü Társaság, Szentendre, Hungary	62.13
Fleet Logistics Finland Oy, Helsinki, Finland	100.00
Fleet Logistics France S.A.S, Boulogne-Billancourt, France	100.00
Fleet Logistics International N.V., Vilvoorde, Belgium	100.00
Fleet Logistics Italia S.r.l., Milan, Italy	100.00
Fleet Logistics UK Ltd., Birmingham, UK	100.00
Global Risk Consultants (Australia) Pty Ltd, Melbourne, Australia	100.00
Global Risk Consultants (Guangzhou) Co. Ltd., Guangzhou, China	100.00
Global Risk Consultants Corp., Wilmington, USA	100.00
Global Risk Consultants Ltd., West Byfleet, UK	100.00
Global Risk Consultores (Brasil) Ltda., São Paulo, Brazil	100.00
Magyar TÜV SÜD Müszaki Szakértöi Korlátolt Felelösségü Társaság, Szentendre, Hungary	100.00
National Association of Boiler and Pressure Vessel Owners and Operators, Inc., Louisville, USA	100.00
Nuclear Technologies plc., Fareham Hants, UK	100.00
P.H. S.r.l., Tavarnelle Val di Pesa, Italy	100.00
PetroChem Inspection Services Inc., Pasadena, USA	100.00
PT. TUV SUD Indonesia, Jakarta Pusat, Indonesia	99.59
SIGNON Österreich GmbH, Vienna, Austria	51.00
Superfresh Ltd., Fareham Hants, UK	100.00
TÜV Italia S.r.l., Milan, Italy	100.00
TUV SUD (Malaysia) Sdn. Bhd., Kuala Lumpur, Malaysia	100.00
TUV SUD (Thailand) Ltd., Bangkok, Thailand	100.00
TÜV SÜD (UK) Ltd., Fareham Hants, UK	100.00
TÜV SÜD America de México, S.A. de C.V., San Pedro Garza Garcia, Mexico	100.00
TÜV SÜD America Inc., Danvers, USA	100.00
TUV SUD Asia Ltd., Shatin, Hong Kong	100.00
TUV SUD Asia Pacific Pte. Ltd., Singapore	100.00
TÜV SÜD ATISAE, S. A. U., Madrid, Spain	100.00
TUV SUD BABT Unltd., Fareham Hants, UK	100.00
TUV SUD Bangladesh (Pvt.) Ltd., Dhaka, Bangladesh	100.00
TÜV SÜD Benelux B.V.B.A., Boortmeerbeek, Belgium	100.00
TÜV SÜD Benelux VZW, Boortmeerbeek, Belgium	100.00
TÜV SÜD Bureau de Projetos e Consultoria Ltda., São Paulo, Brazil	100.00
TÜV SÜD Bursa Tasit Muayene Istasyonlari Isletim A.S., Kestel-Bursa, Turkey	100.00
TÜV SÜD Canada Inc., Newmarket, Canada	100.00
TÜV SÜD Central Eastern Europe s.r.o., Prague, Czech Republic	100.00
TUV SUD Certification and Testing (China) Co., Ltd., Wuxi, China	51.00

NAME AND REGISTERED OFFICES OF THE ENTITY		Share in capital in %
TUV SUD China Holding Ltd., Shatin, Hong Kong		100.00
TÜV SÜD Czech s.r.o., Prague, Czech Republic		100.00
TÜV SÜD Danmark ApS, Hellerup, Denmark		100.00
TÜV SÜD France S.A.S., Écully, France		100.00
TUV SUD Hong Kong Ltd, Shatin, Hong Kong		100.00
TÜV SÜD Iberia, S.A.U., Barcelona, Spain		100.00
TUV SUD Inspection Authority (Pty) Ltd., Cape Town, South Africa		48.00
TÜV SÜD Japan Ltd., Tokyo, Japan		100.00
TUV SUD Korea Ltd., Seoul, South Korea		100.00
TÜV SÜD Landesgesellschaft Österreich GmbH, Jenbach, Austria		100.00
TUV SUD Ltd., Glasgow, UK		100.00
TUV SUD Middle East Co. LLC, Muscat, Oman		51.00
TUV SUD Middle East LLC (Qatar), Doha, Qatar		51.00
TUV SUD Middle East LLC, Abu Dhabi, United Arab Emirates		51.00
TÜV SÜD Nederland B.V., Ede, Netherlands		100.00
TÜV SÜD New Energy Vehicle Testing (Jiangsu) Co., Ltd., Changzhou, China	F	52.00
TÜV SÜD Polska Sp. z.o.o., Warsaw, Poland		100.00
TÜV SÜD Products Testing (Shanghai) Co., Ltd, Shanghai, China		100.00
TÜV SÜD PSB Philippines Inc., Pasig City, Philippines		99.99
TUV SUD PSB Pte. Ltd., Singapore		100.00
TÜV SÜD Romania S.R.L., Bucharest, Romania		100.00
TÜV SÜD Sava d.o.o., Ljubljana, Slovenia		100.00
TÜV SÜD Schweiz AG, Zurich, Switzerland		100.00
TUV SUD Services (UK) Ltd., Fareham Hants, UK		100.00
TÜV SÜD SFDK Laboratório de Análise de Produtos EIRELI, São Paulo, Brazil		100.00
TÜV SÜD Slovakia s.r.o., Bratislava, Slovakia		100.00
TUV SUD South Africa (Pty) Ltd., Cape Town, South Africa		48.00
TUV SUD South Asia Pvt. Ltd., Mumbai, India		100.00
TÜV SÜD Sverige AB, Malmö, Sweden		100.00
TÜV SÜD Teknik Güvenlik ve Kalite Denetim Ticaret Ltd. Sirketi (TGK), Istanbul, Turkey		100.00
TUV SUD Vietnam Co. Ltd., Ho-Chi-Minh-Stadt, Vietnam		100.00
TÜVSÜD Portugal, unipessoal Lda., Lisbon, Portugal		100.00

NAME AND REGISTERED OFFICES OF THE ENTITY		Share in capital in %
CONSOLIDATED ASSOCIATED COMPANIES – OTHER COUNTRIES		
SECTA Société Européenne de Contrôle Technique Automobile S.A., Courbevoie, France		38.22
CONSOLIDATED JOINT VENTURES – GERMANY		
Uniscon universal identity control GmbH, Munich		52.00
CONSOLIDATED JOINT VENTURES – OTHER COUNTRIES		
ITV de Levante, S.A., Valencia, Spain		50.00
TÜV SÜD DOGUS Ekspertiz ve Danismanlik Hizmetleri Ltd. Sti., Istanbul, Turkey	F	50.05
TÜVTURK Güney Tasit Muayene Istasyonlari Yapim ve Isletim A. S., Istanbul, Turkey		33.33
TÜVTURK Kuzey Tasit Muayene Istasyonlari Yapim ve Isletim A. S., Istanbul, Turkey		33.33

F = First-time consolidation

Munich, March 29, 2019

TÜV SÜD AG

The Management Board

Prof. Dr.-Ing. Axel Stepken   Ishan Palit   Dr. Matthias J. Rapp noch offen

INDEPENDENT AUDITOR'S REPORT

"We have audited the consolidated financial statements prepared by TÜV SÜD AG, Munich, comprising the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and the notes to the consolidated financial statements, together with the combined management report of the TÜV SÜD Group and TÜV SÜD AG for the business year from January 1 to December 31, 2018. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315e (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Munich, March 29, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Feege	Hachmann
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

GLOSSARY

Additive manufacturing	Process to construct a structural element by depositing material layer by layer based on digital 3D construction data (3D printing).
Advanced analytics	Autonomous or semi-autonomous examination of data or content using processes such as data mining, Big Data analytics or Location Intelligence to predict future events and behaviors.
AI	Artificial intelligence Branch of information technology that deals with the automation of intelligent behavior and machine learning. Attempt to recreate human perception and behavior in machines.
ALIS	Advanced Lateral Impact System System to physically simulate a side-on vehicle collision
ALM	Asset liability management
AsBo	Assessment body
ASME	American Society of Mechanical Engineers
BIM	Building Information Modeling Modeling a digital building twin
BREEAM	Building Research Establishment Environmental Assessment Method Certification system in the area of sustainable building
CCR	Cash conversion rate Free cash flow in relation to consolidated net income
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash-generating unit
CoC	Center of Competence
CoE	Center of Excellence
COO	Chief Operating Officer
Credit spread	Difference between high-risk and risk-free benchmark interest rate with the same term. Defines the risk premium that an investor receives as compensation for the credit risk entered into.
CSR-RUG	"Corporate-Social-Responsibility-Richtlinie-Umsetzungsgesetz": German Act to Implement the CSR Directive
CTA	Contractual trust agreement Pension trust; legal model as part of a company pension scheme to remove pension obligations implemented as direct pledges from the statement of financial position.
Cyber security	Computer or information technology security Methods to protect and defend computers, servers, mobile devices, electronic systems, networks and data against malicious attacks, theft, damage or disruptions.
DAkkS	"Deutsche Akkreditierungsstelle": German Accreditation Body
Data analytics	Scientific method to extract and examine large volumes of data from various sources. The aim is to draw conclusions from the data that are related in a certain context.
DBO	Defined benefit obligation
DeBo	Designated body
Digital transformation/ digitalization	Ongoing change process that is affecting society as a whole and companies in particular. The basis is digital technologies that are being developed at ever faster rates and thus pave the way for other new digital technologies.
DSO	Days sales outstanding
DYCOT	Dynamic Component Testing Laboratory Hydraulic-powered sledge installation for testing vehicle safety components
Earn-out	Performance-based share of the purchase price in the purchase agreement that is paid at a later date.
EBIT	Earnings before interest and taxes Earnings before interest, before other financial result and before income tax, but after income from participations
EBT	Earnings before taxes
EDB	Economic Development Board
ENEC	European Norms Electrical Certification Symbol to label electronic devices in the European Union
EU-GDPR	EU's General Data Protection Regulation
EVA®	Economic Value Added
Free cash flow	Cash flow from operating activities less cash paid for investments in intangible assets, property, plant and equipment and investment property
FTE	Full-time equivalent
GbR	"Gesellschaft bürgerlichen Rechts" partnership under the Civil Code
GDP	Gross domestic product
GEDP	Global Expert Development Program
German Corporate Governance Code	Key statutory requirements on managing and supervising German listed companies. Contains recommendations and suggestions for proper and responsible corporate governance based on international and national standards.
HAD	Highly-automated driving
HGB	"Handelsgesetzbuch": German Commercial Code
HR	Human resources
Hyperloop	Planned high-speed transportation system where pods travel through virtually-zero-pressure tubes on air bearings at close to the speed of light.

IAS	International Accounting Standards
IASB	International Accounting Standards Board
IATF	International Automotive Task Force
IEC	International Electrotechnical Commission
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standards
IfW	"Institut für Weltwirtschaft": Institute for the World Economy
Industry 4.0	Connecting industrial production with modern information and communication technology. The technical foundation is digitally connected smart systems. People, machines, installations, logistics and products communicate and cooperate with each other directly. Optimization of the entire value chain.
Interest rate swaps	Interest derivative where two counterparties agree to exchange interest payments at fixed nominal amounts at a specific point in the future.
IoT	Internet of Things Connecting machines and devices with each other that previously relied on human control.
ISO	International Organization for Standardization
IT	Information technology
IVDR	In-Vitro Diagnostic Regulation
IWF	"Internationaler Währungsfond" International Monetary Fund
MDR	Medical Device Regulation
MEP	Modular Expert Program
Multi-employer plan	Joint pension plan of several employers
NELEV	"Elektrotechnische-Eigenschaften-Nachweis-Verordnung": German Electrotechnical Properties Substantiation Directive
NoBo	Notified body
NOPAT	Net operating profit after taxes
OEM	Original equipment manufacturer
OSHAS	Occupational health and safety assessment series Certification standard for management systems on occupational health and safety
Outsourcing	Engaging of external contractors or service providers to perform render services previously rendered in-house
PPA	Purchase price allocation
RDS-PP®	Reference designation system for power plants
SAC	Sustainable Apparel Coalition
Scrum	Scrum is one of the most well-known agile approaches for software development and project management.
Sealed Cloud	Patented security technology that uses purely technical means to ensure that data is encrypted during transfer and storage and also that data AND connection information is protected during processing. Operators and administrators have no technical access to the data.
StVzO	"Straßenverkehrszulassungsordnung": German road traffic licensing regulations
TIC	Testing, Inspection, Certification
TPR	The Pension Regulator British regulatory agency for pensions
VVaG	"Versicherungsverein auf Gegenseitigkeit": German mutual insurance association
WACC	Weighted average cost of capital
ZLG	"Zentralstelle der Länder für Gesundheitsschutz": Central Authority of the Länder for Health Protection

Notes and future-oriented statements

In this annual report, TÜV SÜD makes statements relating to the future development of business and future financial and non-financial performance indicators. These statements can be recognized by wording such as “expect”, “intend”, “anticipate”, “plan” and similar terms. These statements are based on current expectations and certain assumptions on the part of the company management, many of which are beyond the control of TÜV SÜD. They are subject to a large number of risks, uncertainties and factors, including but not limited to those described in the annual report. If one or more of these risks or uncertainties should occur, or if it should prove to be the case that the underlying expectations do not materialize or that assumptions were incorrect, the actual events, performance and profits of TÜV SÜD can deviate significantly from the events explicitly or implicitly referred to in the outlook.

Due to rounding, it is possible that individual figures in this annual report do not add up to exactly the given total, and that percentages presented do not reflect exactly the absolute figures to which they refer.

In the event of differences between the English translation and the German version of this annual report, the German version is authoritative and has precedence over the English.

For technical reasons, there may be differences between the accounting documents in this annual report and those published due to statutory requirements.

Imprint

Published by

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MPM Corporate Communication
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www.mpm.de

Printed by

G. Peschke Druckerei GmbH, Parsdorf

Published on
April 17, 2019