

MANAGEMENT COMBINED AGREEMENT REPORT

—— **COMBINED
MANAGEMENT REPORT**

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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 – 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.

More than 24,000 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.

→ **WORLD MAP**
SEE PAGES
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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 governing bodies of TÜV SÜD e.V., the TÜV SÜD Foundation and TÜV SÜD Gesellschafterausschuss GbR, are largely independent of the supervisory bodies of TÜV SÜD AG. This ensures the independence of the bodies.

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The TÜV SÜD Foundation publishes its own report annually

Legal structure

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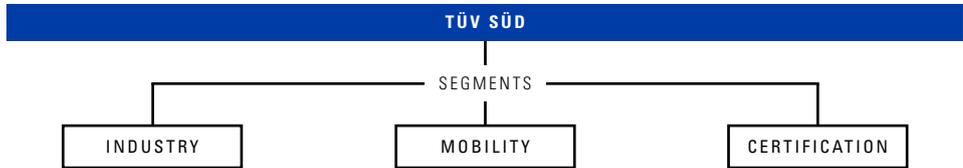
74.9%

25.1%

TÜV SÜD E.V.

TÜV SÜD FOUNDATION

GESELLSCHAFTERAUSSCHUSS GBR



SUBSIDIARIES IN THE REGIONS:

EUROPE¹ | AMERICAS | ASIA²

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.

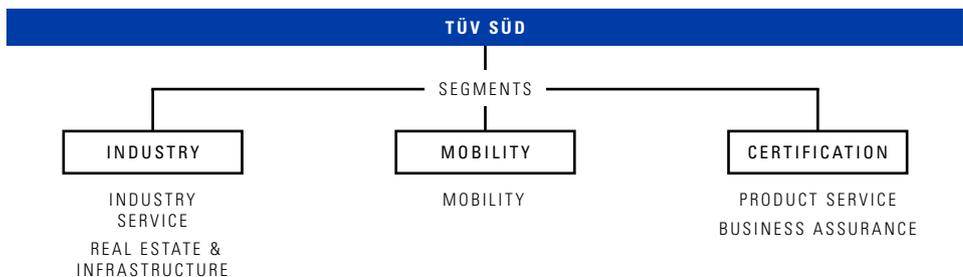
Below the Board of Management, the Leadership Council is established as a body comprising both the Board of Management and the heads of the divisions and key regions. The Council's purpose is to implement overarching topics such as strategy, employee development, innovation and digitization.

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

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TÜV SÜD structure

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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.

Market players include 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

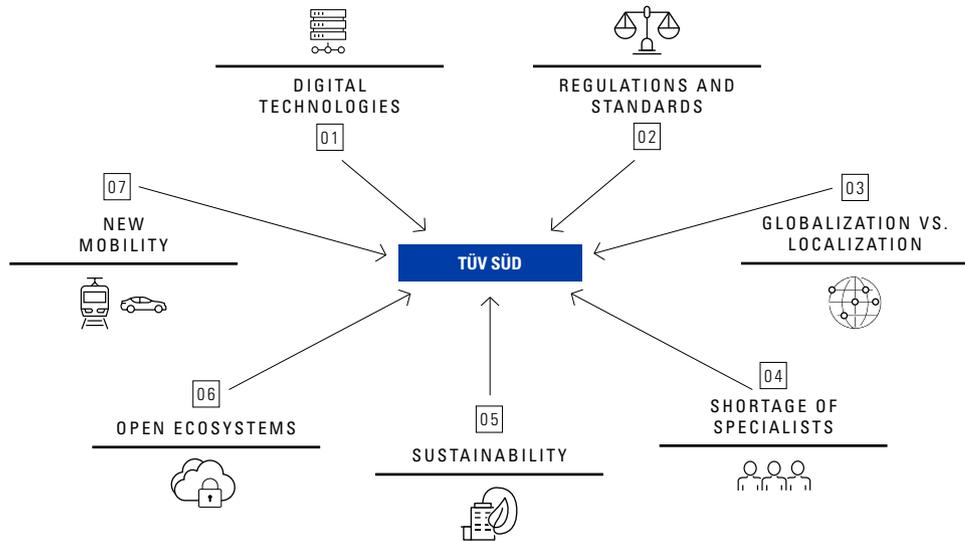
In its history, which goes back more than 150 years, TÜV SÜD has repeatedly proven its ability to benefit from technological development and exploit the resulting challenges as opportunities for the company.

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.

Challenges and trends for TÜV SÜD

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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 69 – 76](#)

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 Unicon universal identity control GmbH (Unicon), Munich, are increasingly being developed in order to meet customers' needs better and introduce new business models to the market.

→ [INNOVATIONS REPORT](#)
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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.

→ [BUSINESS AND ECONOMIC ENVIRONMENT](#) [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.

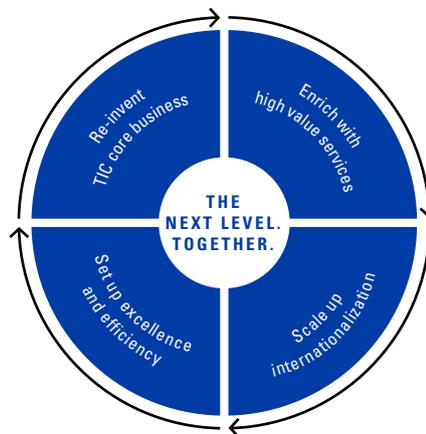
With our new strategy “The Next Level. Together.”, which runs until 2025, we want to reach the next level in the development of our company. As a result, we have tailored our company’s purpose to both the current and new challenges, and amended TÜV SÜD’s vision, mission and claim accordingly. This is 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:

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The Next Level. Together.

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→ **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, distribution, 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.

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.

→ **EMPLOYEE REPORT**
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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 claim: "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.

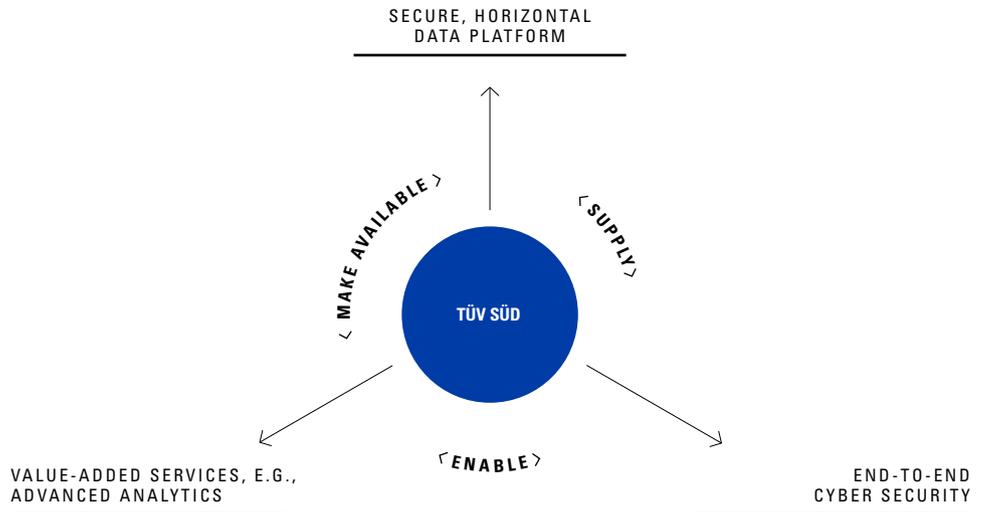
TÜV SÜD Digital Service GmbH (TÜV SÜD Digital Service), Munich, and its two Centers of Excellence (CoE) for Digital Services in Singapore and Munich offer experts and know-how to assist our customers with almost any issue relating to digitization.

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.

Strategic priorities

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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 specific 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 jointly developing simulation scenarios for self-driving vehicles together with a local partner in order to create the most objective basis possible to evaluate 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.

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.

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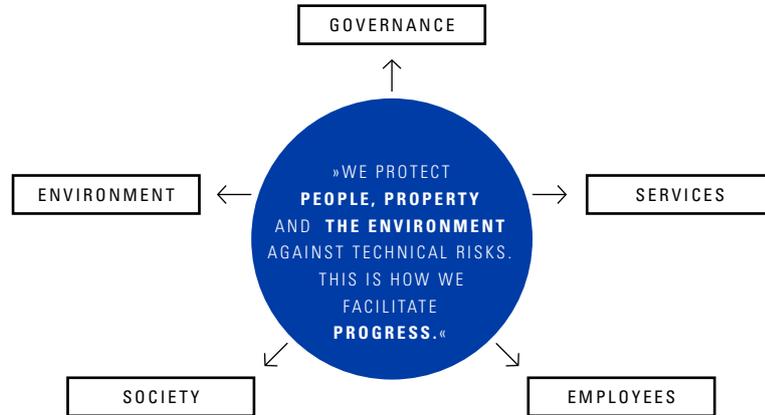
Sustainability as the Group's purpose

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. A comprehensive compliance management within the Group ensures that our employees always meet the high standards that our customers and the public expect from us.

Action areas

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

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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**
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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 longterm 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 INDICATOR	DEFINITION
EBIT	Earnings before interest, before other financial result and before income tax, but after income from participations
EVA	<p>NOPAT – GROUP'S COST OF CAPITAL</p> <p>Net operating profit after tax (NOPAT) = EBIT – income tax (flat rate of 30%), excluding the at equity result from the taxation</p> <p>Capital Employed = non-current operating assets + inventories and receivables – non-interest-bearing liabilities and provisions¹</p> <p>Group's cost of capital = average capital employed × weighted average cost of capital (WACC: 7%)</p>
Free cash flow	<p>Cash flow from operating activities Cash outflow for investments in intangible assets, property, plant and equipment, and investment properties</p>

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).

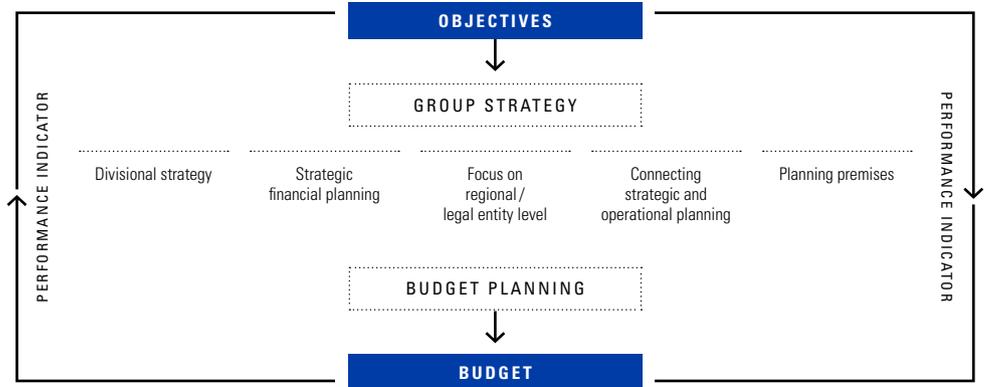
All performance indicators are determined as part of our planning and monitoring processes for the respective levels of the Group (segments, divisions, regions and legal entities) and are made available in standardized format via our internal reporting system.

The starting point for our planning and monitoring processes is the **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 forecasts 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

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.

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.

→ CORPORATE BOARDS
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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

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.

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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 Corporate Compliance Officers.

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 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

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.

→ OPPORTUNITY AND RISK REPORT
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ECONOMIC REPORT

Macroeconomic environment

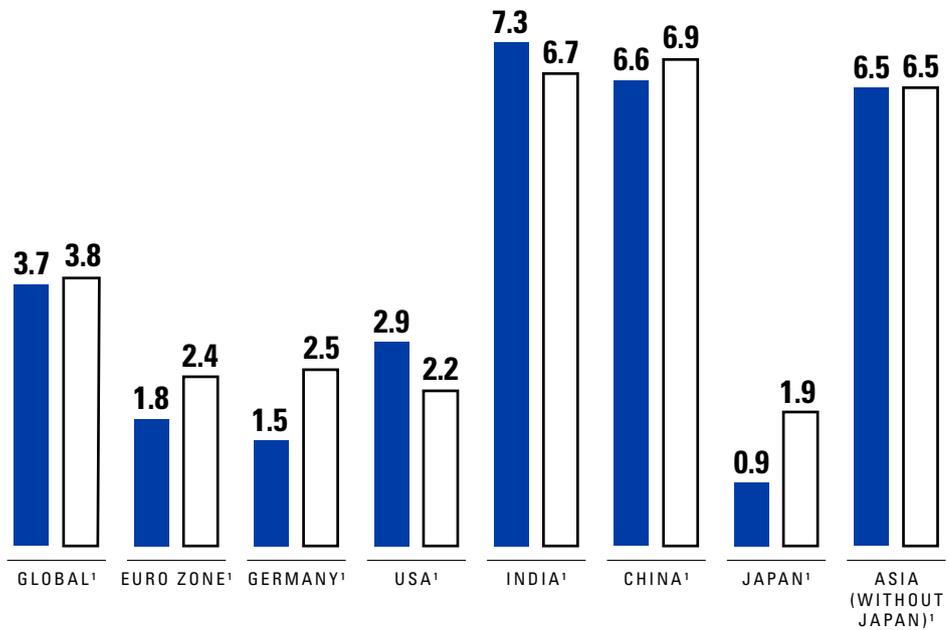
Global economic output rose 3.7% in 2018, but growth was slowing in the course of the year. The slowdown of growth in the developed economies was particularly due to the weakness of international trade in the euro zone and Japan. By contrast, the US economy underwent a steady recovery. The emerging economies 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.

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Economic growth in key markets worldwide

112

IN %



■ 2018 □ 2017

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.

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Business and economic environment

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 testing 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

Taking the new strategy as a basis, 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 CO₂ 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 BREEAM 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.

Amended local conditions in individual markets or expectations regarding the future business development of the local company led to impairment losses being recognized on assets and goodwill. 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 have become the largest mobility testing facility 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 southwest 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 further 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.

DakS 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). Counteracting effects included the disposal of entities during the course of the year and other negative factors such as the strength of the euro, the political uncertainty associated with Brexit, the smoldering trade disputes and most recently the collapse of a retention basin for an iron ore mine in Brazil that happened after the reporting date on January 25, 2019.

DAM COLLAPSE IN BRAZIL

Summary of the situation

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 accident caused extensive casualties and damage to property and the environment. According to media reports approx. 300 people lost their lives. The dam's stability had been inspected by TÜV SÜD Bureau de Projetos e Consultoria Ltda., São Paulo, Brazil, in summer 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 Bureau on the safety of the dam. Lawsuits claiming damages have been filed and threatened in connection with the certificate of stability issued in 2018. We believe that it is probable that further lawsuits will be filed against TÜV SÜD, in particular as the possible bases for these claims do not require there to be any culpability, rather only causality.

Investigation

TÜV SÜD has offered to work closely with both 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. In addition, TÜV SÜD has engaged renowned law firms in Germany and Brazil to investigate the events in question and clarify any potential legal risks that may arise.

Impact on the net assets, financial position and results of operations of the Group and TÜV SÜD AG

Probability-weighted scenarios have been developed on the basis of the current status of the investigations in order to realistically estimate the exposure. The amounts that have been estimated in this manner for the various scenarios stemming from lawsuits and bases of liability (excluding environmental damage) were accounted for in these financial statements as provisions. However, as the aforementioned investigations and TÜV SÜD's internal investigations are still ongoing and the factors of influence to be considered in a legal dispute are multi-faceted, the actual exposure may deviate from these estimates. Owing to the inherent complexity of the case, a lack of precedence from comparable cases and the lack of information, it is currently not possible to determine ranges for liability risks from possible environmental damage. As it is therefore not possible to accurately estimate a provision, the matter constitutes a contingent liability. Further disclosures on the estimates in respect of the financial implications and disclosures on uncertainty regarding the amount or maturity of amounts of the provisions and contingent liabilities have not been made in this regard pursuant to IAS 37.92 so as not to compromise the findings of potential proceedings and the Group's interests.

In addition, provisions of € 33.0 million were recognized in the consolidated financial statements and € 27.4 million in the annual financial statements of TÜV SÜD AG for legal defense and advisory costs, as costs to clarify the matter and defend our own legal position from engaging external third parties are certain or likely to be incurred. Part of the legal defense costs may be covered by an insurance policy.

Should the outcome of the legal proceedings find to the detriment of TÜV SÜD, this may result in substantial damage payments in subsequent years that could have a significant negative impact upon the net assets, financial position and results of operations and reputation of the Group and TÜV SÜD AG.

The ability of the Brazilian subsidiary TÜV SÜD Bureau and its direct shareholder TÜV SÜD SFDK Laboratório de Análise de Produtos EIRELI, São Paulo, Brazil, to continue as a going concern is under threat in the event that these companies are deemed to be liable for the dam collapse in Brazil and no further financial support were to be provided by the shareholders. For further explanations please refer to the remarks in the combined management report in the sections “Compliance and other risks” and “Overall statement on risks faced by the Group”.

Immediately after the accident, we initiated an extensive investigation into the matter with the involvement of external law firms. The investigations have not yet been completed. Moreover, we also engaged an investigative commission consisting of external, internationally-renowned technical experts, to provide an independent expert opinion on technical issues.

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Targets and results

≡ 04

	2017	2018 Outlook	2018
Revenue	€ 2,427.6 million	€ 2.5 billion	€ 2,498.5 million
Development compared to prior period	3.6%	3% – 4%	2.9%
EBIT	€ 201.3 million	up to € 215 million	€ 105.5 million
Development compared to prior period	1.3%	high single- percentage range	–47.6%
EBIT margin	8.3%	high single- percentage range	4.2%
EVA	€ 80.7 million	€ 80 – 86 million	€ 12.9 million
Employees	1.8%	approximately 4%	1.4%
Development compared to prior period			

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.

≡ 04

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 INDUSTRY Segment failed to meet its forecast revenue and EBIT growth target in particular on account of the sale of entities in South Korea and the USA and the provisions recognized for the accident in Brazil; accordingly the EBIT margin did not reach the expected high single-digit percentage range. The CERTIFICATION Segment failed to meet its expectations for revenue and earnings growth on account of the provisions recognized for Brazil.

For the Group as a whole, at € 105.5 million, earnings before interest, before other financial result and before income tax, but after income from participations (EBIT) were outside of the expected corridor. At 4.2%, the EBIT margin was below the expected range and 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. Other income, which was favorably influenced by the sale of companies, had a positive impact. Development was negatively impacted by higher impairment losses compared to the prior year on goodwill, intangible assets and property, plant and equipment along with an increase in other expenses. 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. Excluding the extraordinary effect in Brazil, EBIT development was within the expected corridor.

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) declined 50.3% year-on-year to € 94.6 million, putting it below the target corridor taking into account the incident described above. EBT adjusted for one-off effects was in line with expectations. The adjusted EBT margin stands unchanged at 8.5%.

At € 48.2 million, consolidated earnings after taxes were € 90.6 million below the record high level seen in the prior year of € 138.8 million.

At € 12.9 million, EVA for the Group is below the prior-year level (€ 80.7 million) and outside of the range we expected. This key indicator is calculated from the net operating profit after tax (NOPAT) of € 77.6 million, less the Group's cost of capital, yielded by the product of average capital employed (€ 925.0 million) and WACC of 7.0%. NOPAT was positively influenced by the development of business from the MOBILITY and CERTIFICATION Segments. By contrast, NOPAT was negatively impacted by the provision for future expected technical advisory and legal costs in association with the dam collapse in Brazil. Average capital employed was more or less at the prior-year level (€ 924.8 million). Capital costs, which remained almost unchanged, were not able to compensate for the effect from the lower NOPAT.

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

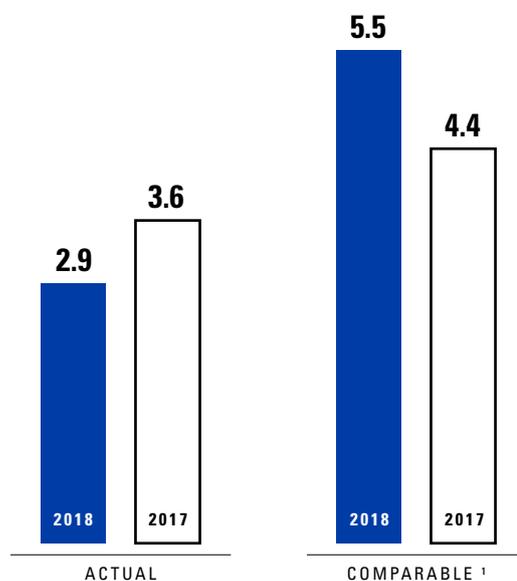
In the fiscal year 2018, TÜV SÜD generated **revenue** of € 2,498.5 million, equivalent to an increase of € 70.9 million or 2.9% compared to the prior year. In the existing services business, we achieved an increase in revenue of € 134.3 million or 5.5%. The growth of our revenue was however impacted 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%.

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Revenue growth comparable

13

IN %

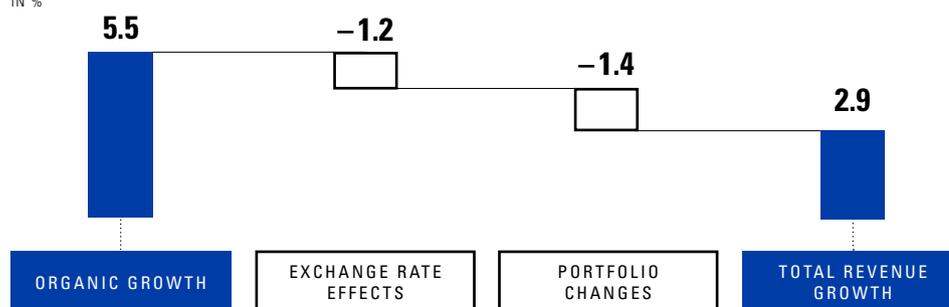


¹ Adjusted for exchange rate and portfolio effects.

Revenue growth 2018

14

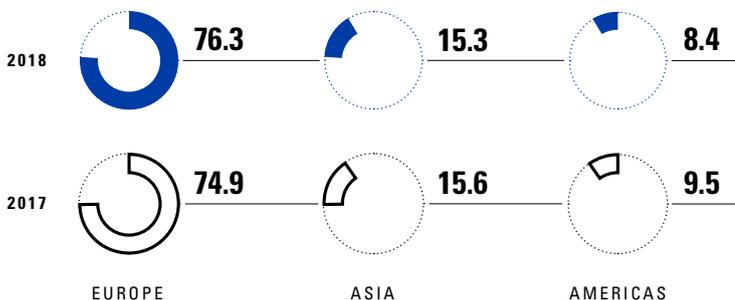
IN %



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. .ii 15

Revenue by region 2017/2018 according to customer location .ii 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. The successful expansion of our vehicle management services and our academy services in Germany, as well as increased demand for laboratory services in China contributed to this increase. The sale of our business for the preparation of vehicles during the year had the opposite effect. 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 bonus 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 payments 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 € 81.6 million in the fiscal year, which was an increase of € 5.4 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 in purchase price allocations. 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 development of the Brazilian domestic market and the subsequent effects in the aftermath of the accident in Brazil were also taken into account.

The planned cooperation with a strategic partner in the fleet management business, the downsizing of the remaining petrochemicals business and the expected negative impact on our Brazilian business activities resulted in an **impairment of goodwill** totaling € 27.1 million (prior year: € 3.8 million).

Other expenses increased by 21.8% to € 558.3 million, thus at a higher 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. We also recognized provisions for costs that TÜV SÜD will incur in the process of handling the consequences of the dam collapse in Brazil. 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 (€ – 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 income and expenses.

Other financial result largely contains gains and losses from a special fund.

Income before taxes came to € 94.6 million. This represents a decrease of 50.3% on the prior year. The income tax expense decreased by € 5.0 million or 9.7% to € 46.4 million. The effective tax rate of 49.0% is above the prior-year rate of 27.0%.

The earnings development in the fiscal year was influenced by **one-off effects** that were negative on a net basis. These totaled € – 116.8 million (prior year: € – 15.4 million). ≡ 05

One-off effects ≡ 05

IN € MILLION	2018	2017
PPA amortization and impairment losses	12.2	9.6
One-off effects, provisions and reversals of impairments	99.6	3.0
Impairment of goodwill	27.1	3.8
Income from deconsolidation	–23.2	0.0
One-off effects in income/loss from participations	1.1	–1.0
With EBIT effect	116.8	15.4
With EBT effect	116.8	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). One-off impairments of intangible assets (such as capitalized customer relationships or software) amounting to € 5.7 million were also recognized in Brazil, the UK, South Africa and Belgium, as well as for property, plant and equipment in the US and Brazil. 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 South Korea and Singapore. The provisions for potential obligations due to various liability risks and for technical advisory and legal costs have also been adjusted. In the prior year, other expenses included a liability for subsequent purchase price installments.

The adjustment in **other income** includes the gains on the sale for 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, the residual activities in the MOBILITY Segment and our engagement in Brazil. 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 € 105.5 million, **EBIT** in the fiscal year 2018 was 47.6% below the prior-year figure of € 201.3 million. The EBIT margin decreased compared to the prior year by 4.1 percentage points to 4.2%. 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 € 116.8 million.

NOPAT decreased by 46.6% to € 77.6 million (prior year: € 145.4 million). The increased operating performance as a basis for the growth of NOPAT was positively impacted by increased income stemming from gains on 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, the provisions for various liability risks including technical advisory and legal costs and the impairment of goodwill.

At € 925.0 million, **average capital employed** remained more or less on the prior-year level (prior year: € 924.8 million). The lower level of non-current assets and the increase in other non-interest-bearing liabilities, in particular current provisions, fully offset the increase in working capital. As of the reporting date, capital employed also showed a slight decline compared with the prior year (€ 1.9 million).

At € 12.9 million, **EVA for the Group** was € 67.8 million lower than the prior year (€ 80.7 million).

At € 94.6 million, **EBT** was below the prior-year level (€ 190.2 million). The adjusted earnings before taxes increased by € 5.8 million to € 211.4 million (prior year: € 205.6 million).

The return on sales, calculated in proportion to earnings before taxes (EBT), stood at 3.8% in the fiscal year (prior year: 7.8%). The positive trend from the constant business development and earnings from the disposal of subsidiaries was exhausted in full by increased other expenses and higher levels of impairment of goodwill. 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** decreased to € 48.2 million in the fiscal year 2018 and is therefore € 90.6 million or 65.3% below 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 always to 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 the company has, 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

IN %

16



In our domestic German market, € 57.4 million or more than half of the total volume of investment went into expanding the mobility testing facility 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 dynamic component testing (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, Minnesota.

We invested € 2.1 million in the acquisition of entities in 2018 (prior year: € 3.2 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

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 correspond to 10.2% of total assets (prior year: 13.4%). Cash and cash equivalents as presented in the consolidated statement of financial position 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.

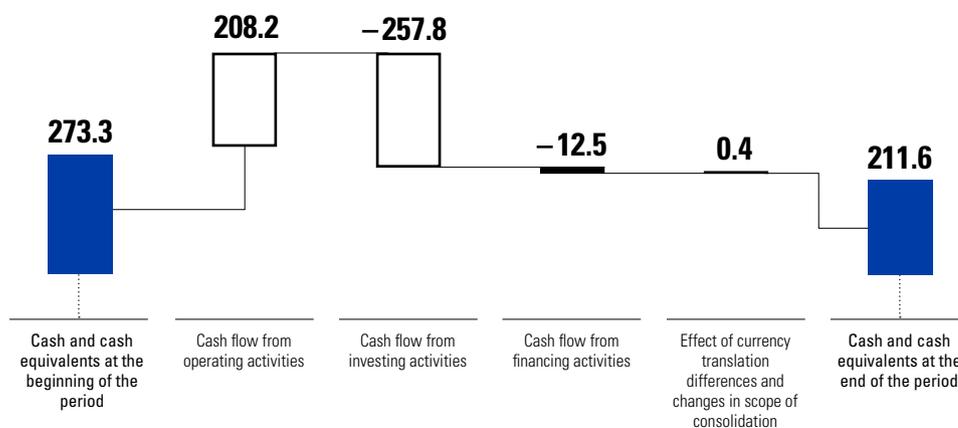
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Liquidity of the TÜV SÜD Group 2018

|| 17

IN € MILLION



The statement of cash flows is based on the Group's net income for the year. This amounted to € 48.2 million in 2018, which is down € 90.6 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 € 113.1 million and therefore are € 32.8 million higher than the prior-year figure of € 80.3 million. In addition to ongoing amortization and depreciation, impairment losses were again recognized for goodwill and intangible assets such as customer relationships and software. Impairments losses were 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 payment. 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 inflow of cash in the fiscal year in comparison to the prior year (€ 52.9 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 showed a higher level of cash tied-up compared to the prior year, in particular due to the provisions recognized in connection with the dam collapse in Brazil. However, this was offset by the decline in trade payables including contract liabilities and other liabilities in the INDUSTRY and MOBILITY Segments. **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 testing 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 Unicon and spending on the acquisition of participations in Germany led to a net outflow. The change in the prior year was mainly influenced by the acquisition of Unicon and the issuing of a loan at the same time.

Excluding the acquired cash and cash equivalents, the acquisition of the operations of the official inspection body for the state of Baden-Württemberg and the payment of the earn-out liability for the Spanish ATISAE group resulted in a cash 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, transactions resulted in an inflow compared to a cash 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 a special fund and various different securities 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 the fiscal year 2018 (prior year: € 169.2 million). This represents a decrease of 37.8% on the prior year. The lower cash flow from operating activities was also impacted by increased investments in intangible assets and property, plant and equipment. At a value of 2.18, the cash conversion rate, which is calculated from the ratio of free cash flow to consolidated net income, is therefore above the prior-year figure of 1.22.

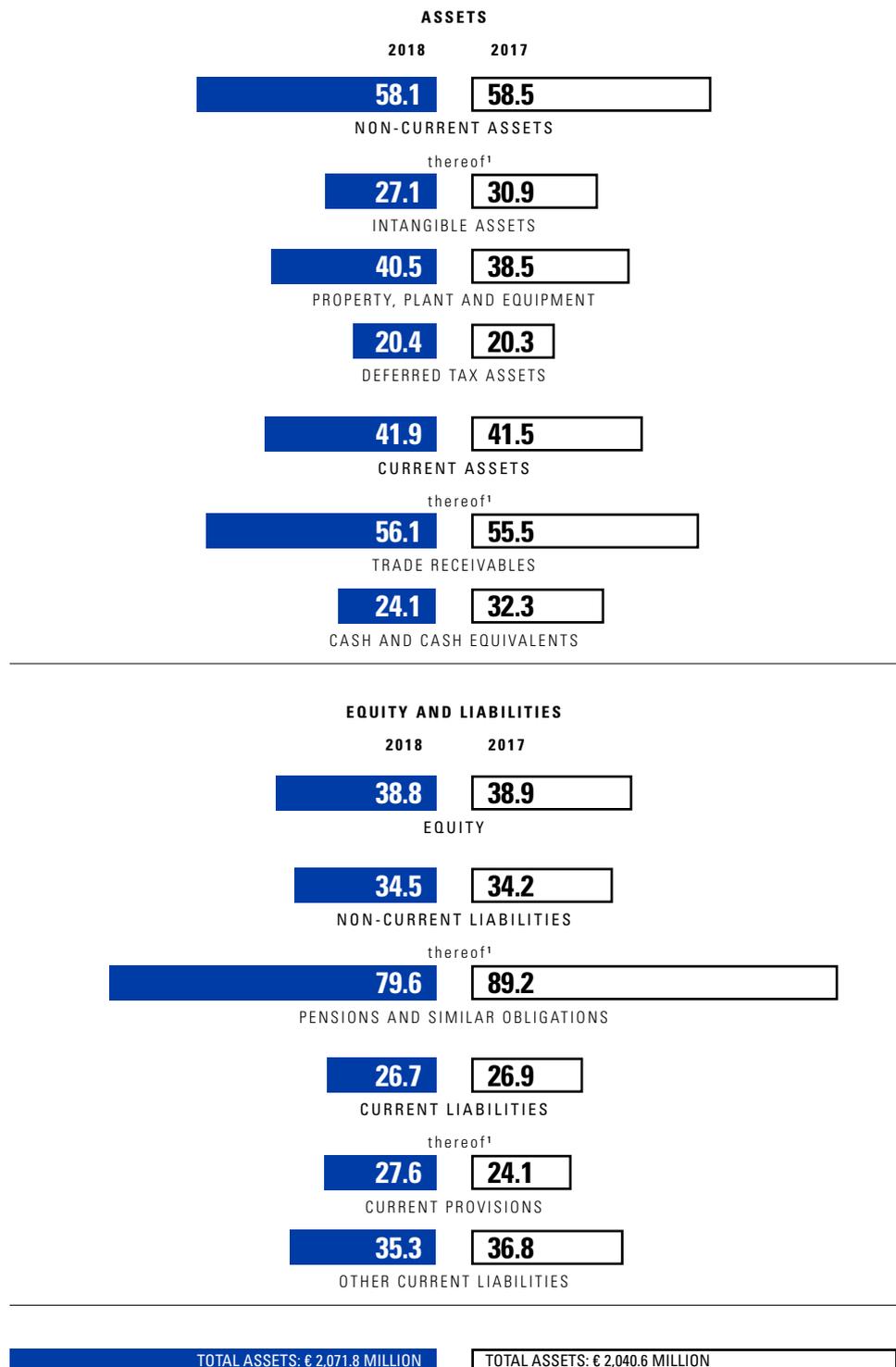
Cash outflow from financing activities increased by € 2.4 million to € 12.5 million. The dividend distribution to TÜV SÜD Gesellschafterausschuss GbR remained unchanged. Payments to non-controlling interests were on a par with the prior year.

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

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 € 31.2 million or 1.5% to € 2,071.8 million in the fiscal year (prior year: € 2,040.6 million). .18

Non-current assets rose by € 9.8 million to € 1,203.5 million. Current assets increased by € 21.4 million to € 868.3 million.

Intangible assets decreased by € 42.8 million or 11.6% to € 325.6 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 activities in Brazil and our petrochemicals business in the US. The reclassification into non-current assets held for sale and disposal groups along with the impairment of the remaining goodwill of our fleet management business strengthened this decline. 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 impairments of intangible assets, in particular software and customer relationships that had been identified in the course of purchase price allocations, reduced the inventories of intangible assets. Impairments amounted to € 2.9 million. Intangible assets belonging to the fleet management business were also reallocated to non-current assets held for sale and disposal groups.

Investments in expanding existing laboratory 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 portfolio 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 ventures of TÜVTURK, albeit 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 the special fund. The item 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.

Trade receivables rose by € 17.5 million or 3.7% in 2018 to € 487.2 million, while revenue growth stood at 2.9%. Trade receivables – excluding 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 increased by € 8.0 million (up 1.7%) as a result of the reintegration of PetroChem in the US, which had been classified 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 (DSO) 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 securities investments in China and South Korea. The position also includes financial derivatives with positive market values.

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

The assets of the fleet management business and Signon AT in Austria, which are both up for sale, 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.

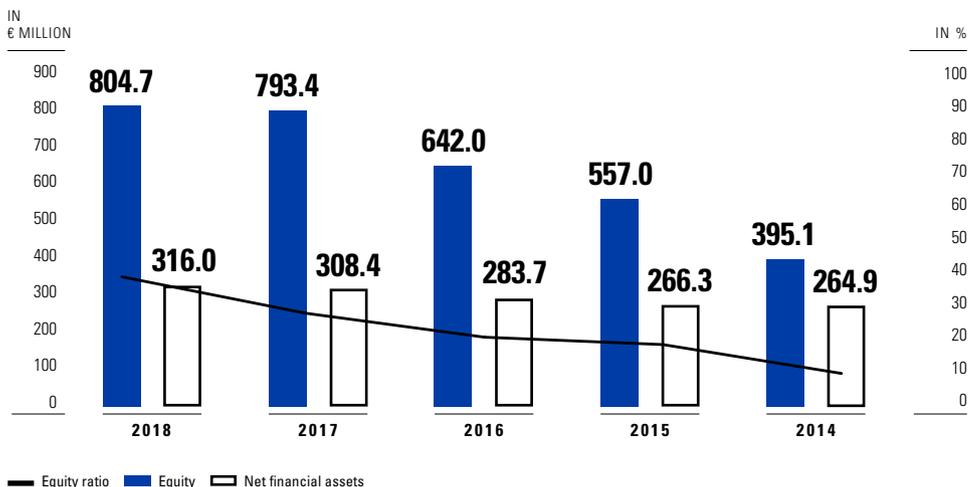
Equity increased by € 11.3 million (up 1.4%) in the fiscal year, and stood at € 804.7 million as of the reporting date. The increase is mainly due to the positive consolidated net income of € 48.2 million (prior year: € 138.8 million). Actuarial losses after taking into account deferred taxes, exchange rate losses and dividend distributions had the opposite effect. The equity ratio decreased by 0.1 percentage points to 38.8%.

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Sound capital basis

in 19



Non-current liabilities rose by € 16.1 million to € 713.8 million. The main change resulted from other non-current provisions and provisions for pensions and similar obligations.

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 gains. 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 in Germany 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%).

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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 provisions rose by € 74.5 million to € 111.3 million. These include provisions for long-services awards and special allowances for long-standing employees. The non-current portion of the provisions in connection with the dam collapse in Brazil was also recognized. It was not yet possible to recognize a possible insurance refund claim relating to this.

At € 7.2 million, **other non-current liabilities** remained roughly at the prior-year level. This position includes a put option from the sale of a share in South Africa, amongst 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 increased by € 3.8 million to € 553.3 million, in particular due to higher current provisions; this was partly offset by lower income tax liabilities.

Current provisions mainly include bonus obligations to employees, severance payments, provisions for legal and advisory costs and 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 implementation 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 and 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 met our expectations. Forecast earnings was not achieved on account of the incident in Brazil.

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 the disposal of 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.

EBIT was negatively impacted in particular by the provisions recognized in connection with the event in Brazil. The EBIT margin declined correspondingly to 4.2% (prior year: 8.3%). Adjusted EBIT developed positively on account of the high levels of adjustments for one-off effects. The adjusted EBIT margin stands unchanged at 8.9%.

The growth of EBIT was positively impacted by the increase in purchased services at a lower rate than revenue and the positive effects on other income from the sale of entities. By contrast, increased personnel and other expenses, higher impairment losses, including goodwill, had a dampening effect on favorable business performance and thus on reaching forecast EBIT. 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 one-off additions to pension assets exclusively from the cash flow from operating activities, and our operating 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.

Comments on TÜV SÜD AG

In addition to the 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) German and 123 international entities (prior year: 136). 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 prices, 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 and write-downs	-8.6	-8.6
Other operating expenses	-150.3	-58.9
Operating result	-108.7	-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)	-117.3	22.4
Profit carryforward	119.5	99.2
Retained earnings	2.2	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 € 91.4 million to € 150.3 million, principally due to provisions for various liability risks and legal and advisory fees associated with the dam collapse in Brazil. This was further strengthened by the utilization of external administrative services.

The financial result fell by € 45.7 million to € 11.3 million, mainly due to a smaller contribution to earnings from the contractual trust agreement (CTA). The result from participations 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 € – 108.7 million was 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 not be claimed in full as operating expenses.

The € 117.3 million net loss for the year is € 139.7 million below the prior year's net income 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	2.2	121.6
Equity	557.7	677.1
Tax provisions	9.9	15.1
Other provisions	101.3	19.8
Provisions	111.2	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 increased by € 81.5 million to € 101.3 million, largely due to provisions for various liability risks and technical advisory and legal costs that are expected for coming years as a result of the accident in Brazil. It was not yet possible to recognize a possible insurance refund claim. This was partly counteracted by 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 inhouse cash transactions and loan liabilities, in particular loan liabilities due to loans extended by TÜV SÜD Asia Pacific Pte. Ltd., Singapore, and TÜV SÜD 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 € 119.4 million to € 557.7 million. The decrease corresponds to the net loss for the year of € 117.3 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 € 2.2 million.

Total assets decreased by € 86.5 million to € 1,314.3 million. The equity ratio decreased from 48.3% to 42.4%.

OVERALL STATEMENT ON TÜV SÜD AG'S SITUATION

The fiscal year 2018 was in line with the expectations of the Board of Management in respect to revenue and liquidity. Earnings were negatively impacted to an extraordinary extent by the provisions recognized for estimated expenses in connection with the dam collapse in Brazil.

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

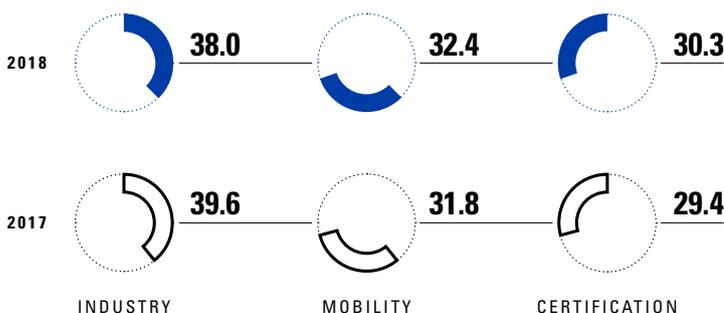
The MOBILITY and CERTIFICATION Segments continued to grow in the fiscal year 2018, with INDUSTRY the only segment not to grow on account of the entities disposed of in the course of the year.

dt 20

Revenue by segment 2017/2018¹

dt 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 growth 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 further revenue increases in Germany, Austria and India.

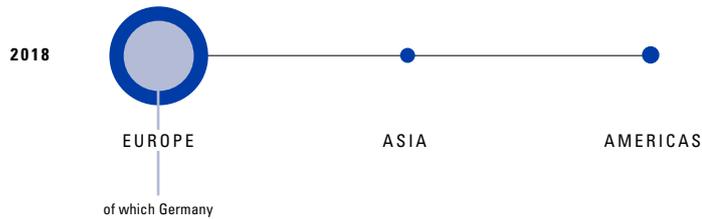
At € 64.6 million, EBIT in the INDUSTRY Segment was below the prior-year figure (€ 78.1 million; down 17.3%) and thus also fell short of our forecast. In addition to effects from the sales of entities; EBIT was also impacted by impairment losses at the subsidiaries in the US, South Africa, Brazil and the UK in order to reflect the local performance of business. In addition, EBIT was reduced by other expenses on account of the provisions for technical advisory and legal costs.

At 6.8% (prior year: 8.1%), the EBIT margin was thus outside of our expected corridor.

Segment assets decreased by € 9.4 million to € 502.6 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 allocations. This effect was not neutralized by the increase in trade receivables within 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 other things 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 terms of volume, we were able to further expand our market share in Germany; price adjustments also supported development. An increase in volume was also achieved in Turkey, although this was entirely offset by currency translation effects. The business with driving tests and damage assessment reports continued to grow. Revenue from services relating to the preparation of vehicles 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 offer exclusively in Germany.

The business model in the MOBILITY Segment is partly 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 development was impacted by increased personnel expenses as a result of collective pay increases as well as increased 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 developments in the fleet management business. Investment totaling € 31.7 million was carried out in 2018, including in testing 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 growth rate.

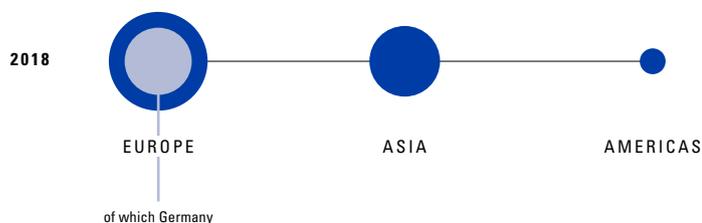
The Product Service Division generated two thirds of the segment’s revenue. It also made the biggest absolute contribution to the increase in the segment’s revenue, with revenue growth of 5.3%. Our consumer goods audits and certifications were increasingly in demand, especially in China and South Asia. 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. In addition, impairments of intangible assets, including goodwill, and property, plant and equipment carried out at a subsidiary had a negative impact upon the development of earnings. EBIT in the CERTIFICATION Segment amounted to € 74.7 million, and did not reach the level we had expected. The generated EBIT margin of 9.9% met our expectations.

Segment assets increased to € 372.2 million. This is equivalent to an increase of € 24.7 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 Segment we report on the corporate functions, where revenue amounted to € 28.0 million in the fiscal year.

EBIT in OTHER amounted to € –104.5 million in the fiscal year after € –22.6 million in the prior year, in particular on account of the provisions recognized in connection with the dam collapse in Brazil. 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 24,000 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: 33% and 29% 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%).

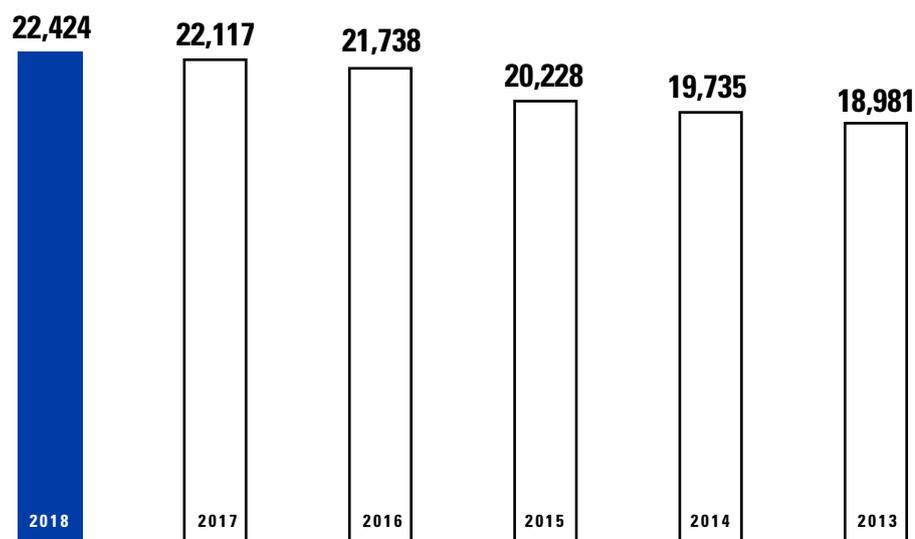
Due to demographic trends and the clear shortage of qualified experts in many markets, the targeted recruitment of employees constitutes a central challenge for TÜV SÜD. That is why, in 2018, the role of recruiter was introduced in Germany. The recruiters actively assist managers with the search for 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%. :it 24

Development of employees

ANNUAL AVERAGE HEAD COUNT :it 24



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.

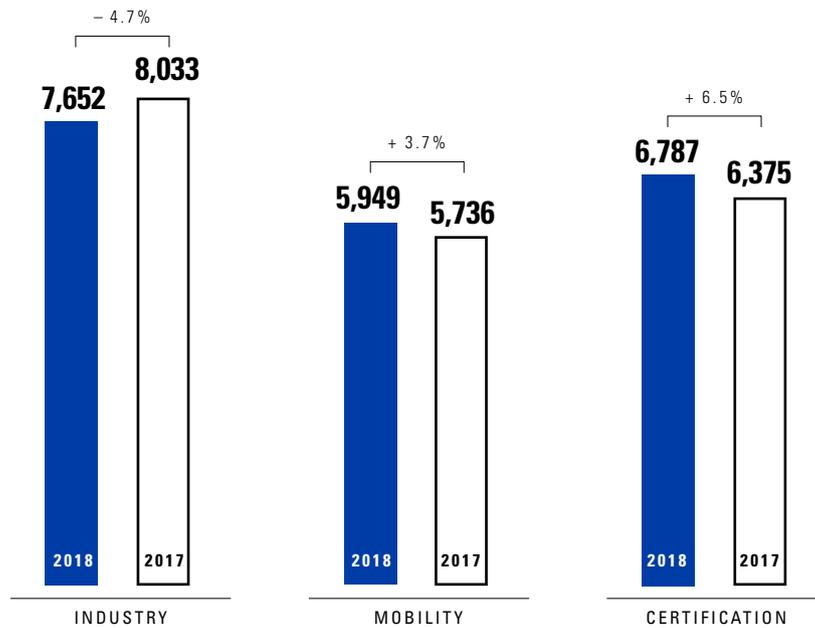
This change takes into account the reduction of the workforce in connection with the sale of entities (338 employees, prior year: 18 employees) in Germany, South Korea and the US.

CHANGES IN HEADCOUNT IN THE SEGMENTS AND REGIONS

Changes in headcount 2017/2018 by segment

|| 25

ANNUAL AVERAGE



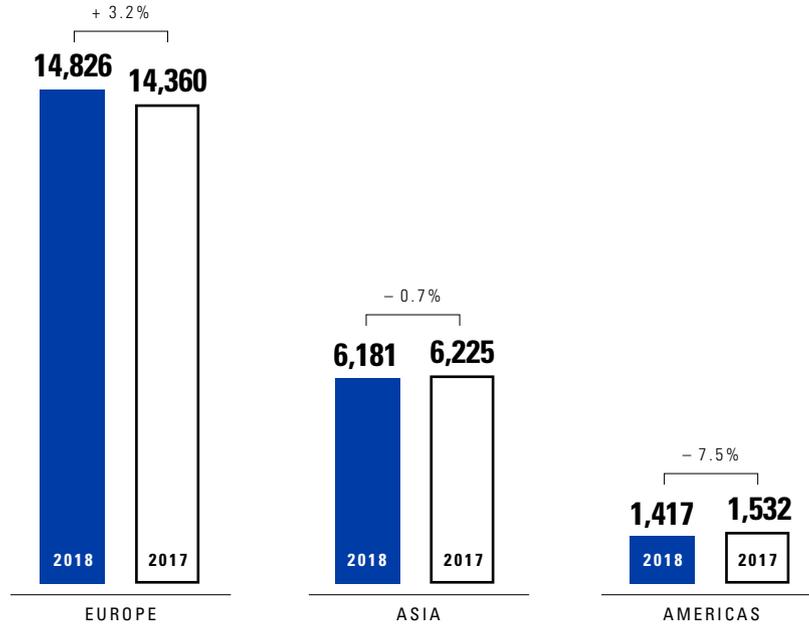
Reduction of personnel in the INDUSTRY Segment stemmed in particular from the sale of Kocen in South Korea and RCI in the US. We also introduced corrective measures in the UK and South Africa in response to the weak order situation in those markets. Reduced headcount continued in the US as part of the 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

in 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.

in 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.

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. ≡ 08

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.

OPPORTUNITY 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 on a standardized basis throughout the Group according to the potential loss amounts 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 committees 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 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 form part of 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 various lawsuits against TÜV SÜD AG and its subsidiaries pending and imminent 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. Please refer to the following explanations.

The largest ten risks affecting net income, excluding Brazil, 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 counteract 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.

In South Africa, the potential loss of a contract 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 ongoing cost-cutting programs implemented 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 net return on assets, 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 obligations 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.

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), São Paulo, Brazil, in summer 2018. This will 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 (NGOs), commercial enterprises as well as private individuals are all conceivable.

If these legal risks materialize, the financial implications for TÜV SÜD Bureau and potentially also TÜV SÜD AG may be substantial and have a significant impact upon our net assets, financial position and results of operations. The risks mainly stem from various possible liability claims and technical advisory and legal costs, and are largely attributable to the INDUSTRY Segment. There may also be risks from loss of reputation. It is currently not possible to conclusively quantify these risks. Further disclosures have not been made in order to not undermine the findings of the investigations and the interests of the TÜV SÜD Group.

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.

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.

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 estimate, there may be further negative effects on current business activities in Brazil and significant negative financial implications for TÜV SÜD, in particular from legal risks.

Should the outcome of the expected legal proceedings associated with the dam collapse in Brazil find to the detriment of TÜV SÜD, this may result in substantial damages or other payments that could have a significant negative impact upon the Group's net assets, financial position and results of operations and its reputation. The ability of the Brazilian subsidiary TÜV SÜD Bureau and its direct shareholder TÜV SÜD SFDK Laboratório de Análise de Produtos Ltda., São Paulo, to continue as a going concern is under threat in the event that these companies are deemed to be liable for the dam collapse and no further financial support were to be provided by the shareholders. Please also refer to our explanations in the notes to the consolidated financial statements under pending and imminent legal proceedings.

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 jeopardize the continuing existence of other TÜV SÜD entities. All organizational preconditions necessary to recognize developing risks at an early stage have been met. TÜV SÜD will carry out no further dam inspections in Brazil.

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 potential for future earnings in 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 being awarded the contracts. We will be able to expand our network of technical service centers if the decision is made to liberalize the market in one 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 obligations 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 in pension obligations, thereby reducing the shortfall in cover. After taxes, this change in the shortfall would have a positive effect on 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.

Please refer to the explanations on group risks in respect of the dam collapse in Brazil.

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 outlook 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 outlook 2019.

Potential consequences from the technical assessment performed in 2018 by our subsidiary TÜV SÜD Bureau 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 implications 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 (IfW) expects stable growth of 3.3% 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. However, the trade dispute with the US, Brexit and political uncertainty in the euro zone and Turkey will impact Germany's export-based economy, 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 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

		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 organic revenue growth of 4% to 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 non-German entities already contribute more than 41% to the Group's revenue (based on customer location), and this share is set to rise even more in the years ahead.

We are focusing on our core areas of expertise, where we want to grow organically, 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. Our remaining activities 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 can 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 technical risk calculation and analysis with international customers.

We expect the planning year to bring constant growth from consulting, 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 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 roadworthiness tests and exhaust gas analyses, damage and valuation reports along with driver's license tests. 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 and valuation reports, the strongest percentage growth (in all regions) will come from homologation and emissions testing. In addition to emissions testing 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 OEMs, retailers and workshops. After adjusting for this sale, revenue growth should be slightly positive and result in an improved EBIT margin. The fleet business is undergoing a period of restructuring. We do not currently expect results to improve without the support of a strategic partner.

Work will continue on the medical-psychological examination business and it will 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, while 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 consumer 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 test facility structures to improve our laboratories' efficiency and make better use of the capacity of our network of state-of-the-art test facilities. 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 the prior year. Our 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 our services and innovations precisely meet our customers' needs and expectations, 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 quality and efficiency, and continuously optimize our cost and process structures. We focus on increasing earnings and profits in a sustainable way. Excluding any exposure that may result from the accident in Brazil, we forecast a low double-digit increase EBT in 2019. This forecast is based on EBT and EBIT for fiscal year 2018 adjusted for the Brazil effect ≡ 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. The EBIT margin is expected to be in the high single-digit percentage range. In connection with the dam collapse in Brazil, EBIT development will be lower on account of additional expenses that are expected in 2019 for which provisions could not be recognized as of December 31, 2018.

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 profit trend in 2019. Subject to the effects of the aforementioned incident which cannot be conclusively 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 high single-digit percentage increase in EBIT. The EBIT margin is also expected to fall within this corridor. The growth of the MOBILITY Segment's profit should be in the mid-single-digit range, 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 sale of part of our fleet management business to a strategic partner to make a positive contribution to 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 and 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 development of EBIT as previously described and an increase in average capital employed that is almost proportionate to revenue, for the forecast year 2019 we anticipate an EVA of between € 85 million and € 95 million, excluding the effects of the incident that are currently not quantifiable and of the first-time application of the new lease accounting pursuant to IFRS 16. The EVA indicator is expected to fall below the forecast corridor on account of the additional expenses expected in 2019 for which provisions were not able to be recognized as of December 31, 2018.

In coming 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.