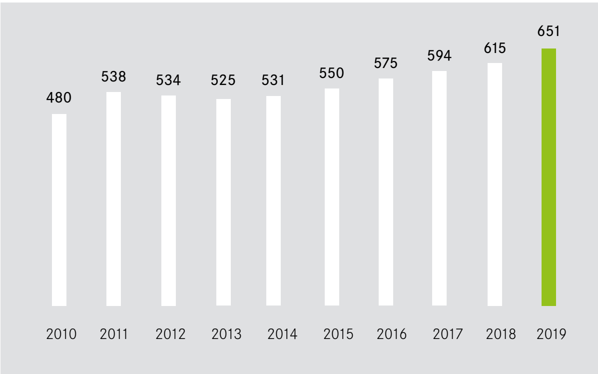
CENTROTEC

CENTROTEC
The European Energy-Saving Company

ANNUAL REPORT 2019

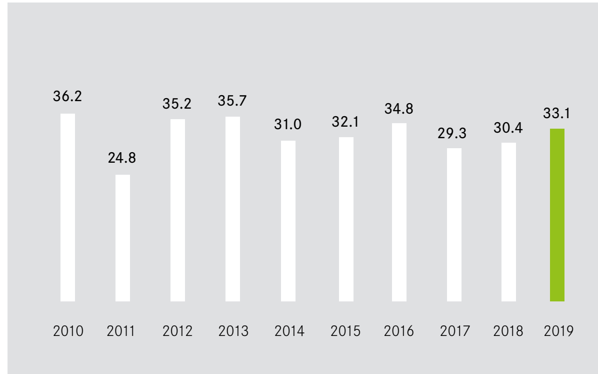
Revenue

[in EUR million]



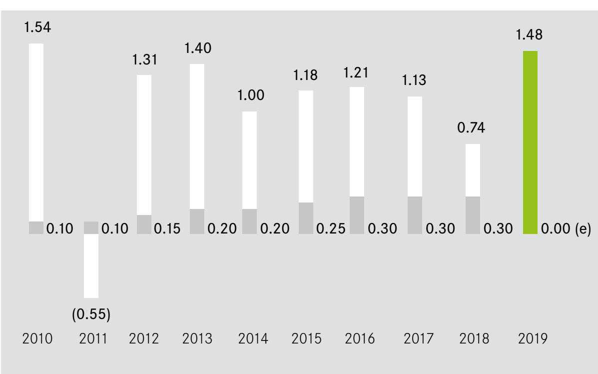
EBIT

[in EUR million]



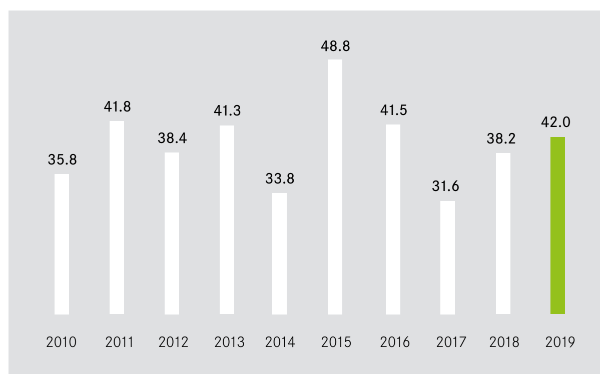
EPS*/Dividend

[in EUR]



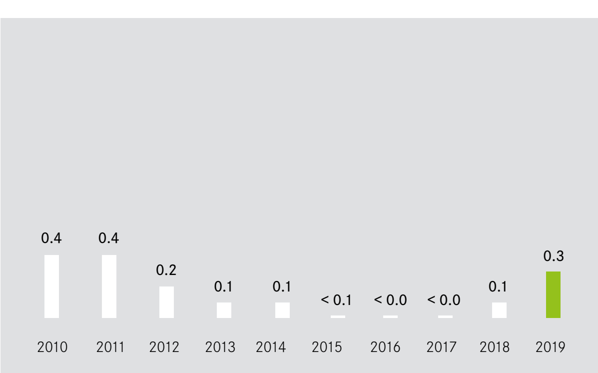
Operative Cash Flow

[in EUR million]



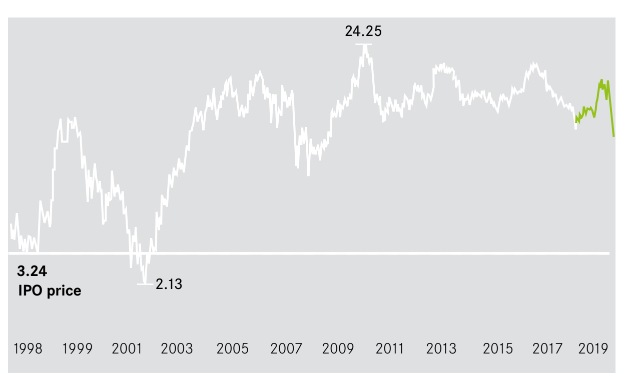
Gearing

[Net interest bearing debt/equity]



Share price

[in EUR]



* Earnings per share, basic

Ten-Year Comparison

	2019 [EUR '000]	Changes [Percent]	2018 [EUR '000]	2017 [EUR '000]
Total revenue	**650,979**	**5.9**	**614,739**	**594,189**
Climate Systems	457,375	5.2	434,945	423,623
Gas Flue Systems	139,591	8.9	128,144	121,093
Medical Technology & Engineering Plastics	54,013	4.6	51,650	49,473
Earnings				
EBITDA	64,342	18.1	54,487	54,057
EBIT	33,115	8.8	30,426	29,321
EBIT yield (in %)	5.1		4.9	4.9
EBT	33,493	74.2	19,222	29,038
EAT	23,433	84.9	12,670	20,847
EPS (in EUR; basic)*	1.48		0.74	1.13
Balance sheet structure as of 12/31				
Balance sheet total	588,070	3.5	568,206	580,472
Shareholders' equity	230,150	(3.9)	239,505	257,481
Equity ratio (%)	39.1		42.2	44.4
Property, plant and equipment	159,146	22.4	129,979	124,017
Intangible assets	48,283	10.5	43,713	39,734
Goodwill	77,882	0.8	77,295	77,285
Net financial position**	(66,904)		(20,978)	13,017
Net working capital**	81,180	15.8	70,121	70,275
Cash flow statement				
Cash flow I (EAT & depreciation/amortisation)	54,660	48.8	36,731	45,583
Cash flow from operating activities	42,023	9.9	38,225	31,634
Cash flow from investing activities***	(46,136)	37.3	(33,610)	(22,153)
Employees as of 12/31				
Total (in FTE)	3,222	8.8	2,962	2,878
Shares				
Number of shares****	15,798		17,078	17,943
Highest quotation*****	17.22		15.88	19.79
Lowest quotation*****	10.46		10.10	14.83
Year-end quotation*****	16.46		11.44	15.47

* lower number of shares by retiring own shares
** Taking account for short-term financial assets
*** Excluding the impact of investments in short-term financial assets
**** Weighted average shares outstanding (basic; in thousand)
***** Quotation in EUR

2016	2015	2014	2013	2012	2011	2010
[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]	[EUR '000]
575,458	**549,791**	**530,549**	**525,431**	**533,781**	**537,841**	**475,650**
416,935	399,348	386,193	384,799	391,838	381,782	331,769
112,980	107,012	102,618	99,241	102,569	116,347	112,835
45,543	43,431	41,738	41,391	39,374	39,712	35,046
59,523	55,602	53,013	55,512	55,214	46,898	54,582
34,818	32,104	30,983	35,673	35,231	24,770	36,158
6.1	5.8	5.8	6.8	6.6	4.6	7.5
31,055	28,937	26,113	31,105	32,095	(404)	34,541
21,584	20,657	17,366	23,953	22,292	(9,401)	25,572
1.21	1.18	1.00	1.40	1.31	(0.55)	1.54
479,695	452,138	425,583	438,677	419,571	425,690	399,561
240,602	225,962	207,908	200,427	174,665	157,453	160,816
50.2	50.0	48.9	45.7	41.6	37.0	40.2
125,606	119,867	112,488	109,289	95,677	95,180	91,946
39,747	41,479	42,765	43,971	45,044	46,765	39,265
77,220	77,166	72,072	71,951	69,991	69,738	61,074
6,568	(1,567)	(15,528)	(21,932)	(27,495)	(60,113)	(71,123)
57,962	51,499	56,328	54,914	55,325	56,030	57,572
46,289	44,155	39,396	43,792	42,275	12,727	43,996
41,457	48,761	33,800	41,332	38,370	41,843	35,840
(28,305)	(32,106)	(23,289)	(31,811)	(4,187)	(28,875)	(22,077)
3,285	3,129	2,955	3,036	2,937	2,906	2,663
17,811	17,667	17,626	17,357	17,289	17,164	16,750
15.60	15.25	20.20	19.79	14.35	24.25	17.50
11.56	12.85	12.91	12.56	10.75	10.61	9.15
15.29	13.21	14.28	18.60	13.47	11.28	16.00

Letter to Shareholders

Dear Shareholders,

CENTROTEC continued the positive development of previous years in the 2019 financial year. Further progress with internationalisation and a solid development in the German home market contributed to an increase in revenue and earnings, and the basis for maintaining this development was strengthened through extensive investment measures. Modernised locations, expanded production capacities, improved development, service and sales structures as well as a rounded product range that is focused very precisely on the target markets reflect the successful efforts to encourage this positive development to continue.

Global economic conditions that were again fundamentally positive in the period under review prepared the way for the CENTROTEC Group to increase revenue by 5.9% to EUR 651.0 million (previous year EUR 614.7 million), with a rise in the operating result (EBIT) of 8.8% to EUR 33.1 million (previous year EUR 30.4 million). The full-year forecast made in this publication at the start of 2019 was comprehensively achieved for both key figures. Furthermore, there was a markedly overproportional rise in earnings per share (EPS) compared with revenue and the operating result to EUR 1.48 (previous year EUR 0.74). This improvement was partly attributable to the much healthier result from investments compared with the previous year. As already in the previous year, a share buyback programme with a volume of EUR 20.5 million was conducted in the period under review. This capital outflow which amounts to more than EUR 45 million for the past two years has driven up the company’s net debt to EUR 66.9 million (previous year EUR 21.0 million). The figure also for the first time includes lease liabilities amounting to approx. EUR 15 million that are accounted for according to IFRS 16 for the first time from this year. Meanwhile above-average investment is in the pipeline for the current financial year for the completion of the production plant in China as well as the comprehensive expansion of the production location in Brilon. In light of this further rise in investing activities and in response to the unprecedented uncertainty in the market and the entire economy due to the coronavirus, the Supervisory Board and Management Board of CENTROTEC have resolved to propose to the Annual General Meeting that the payment of a dividend for the 2019 financial year be dispensed with completely.

After many years of steadily positive overall economic development, the situation currently appears appreciably more critical. The dramatic escalation of the coronavirus pandemic's impact on the global economy in recent weeks could do sustained damage to any positive development trends in 2020. CENTROTEC, too, could be directly affected by potential production stoppages due to an increased number of cases at its plants or interruptions in the supply chain.

At the start of the year CENTROTEC had forecast revenue growth to EUR 670 to 690 million for the 2020 financial year, with an operating result (EBIT) of EUR 34 to 36 million. Since that forecast was made, the rampant sense of uncertainty in Europe due to the coronavirus has also prompted many customers of CENTROTEC to build up stock levels in order to maintain their ability to supply. This is also reflected in a very healthy development in the first few months of the year. However a widespread collapse in sales markets or problems in procurement markets could bring significant disruption as early as the second quarter. Individual markets such as Italy and France have already taken a sharp downturn since the start of March. In light of this, the above forecast is now subject to considerable uncertainty. However as matters stand it is not possible to put a meaningful figure on the financial impact of the crisis.

Despite the difficult economic environment, CENTROTEC will report a high volume of investment in the period in question as it seeks to maintain its long-term course of growth. There are two major individual investment projects in the pipeline: the plant currently under construction in China and the planned expansion of the Brilon production location.

Over the long term, the basic economic environment indicates distinctly bright prospects for the CENTROTEC Group and its companies. The resolve that the German government has demonstrated e.g. through the climate package to actively address climate change as well as the global, cross-industry megatrends towards operating convenience and efficiency mean that CENTROTEC, with its expertise in the areas of heating, climate control and ventilation, is well-placed to operate successfully in the national and international markets for building efficiency thanks to its ideally coordinated system solutions.

With best wishes,

Dr Thomas Kneip
[Management Board member]

Bernhard Pawlik
[Management Board member]

Günther Wühr
[Management Board member]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1 Dr Thomas Kneip
2 Bernhard Pawlik
3 Günther Wühr

The Management Board

Dr Thomas Kneip

Dr Thomas Kneip (b. 1971) has been a Management Board member of CENTROTEC SE since January 2014. Prior to joining the CENTROTEC Group, Kneip – a Business Administration graduate – acquired extensive management experience in the Finance and Strategy areas at Centrosolar and Siemens VDO. He also spent a number of years at McKinsey & Company as Senior Consultant and Project Manager. In addition to his position as Board Member for Strategy, Dr Kneip heads up the Climate Systems division. Since July 2016, he has also held the position of Managing Director of the Wolf Group, which comes under this division.

Bernhard Pawlik

Bernhard Pawlik (b. 1967) has been a Management Board member of CENTROTEC SE since April 2018. Before joining the CENTROTEC Group, the Industrial Engineering graduate gained many years of experience in various international management roles in the automotive supply and photovoltaics industries, including at Autoliv and Centrosolar. He focused strongly on the areas of project management, purchasing, production and quality. Alongside his function as Management Board member for Operations, Pawlik is responsible for the Gas Flue Systems area, in the management of which he has been involved since 2014.

Günther Wühr

Günther Wühr (b. 1960) has been Chief Financial Officer of CENTROTEC since April 2019. He joined the CENTROTEC Group in 2015, since when he has held management positions in the Finance and Controlling areas. A Business Administration graduate, he has many years of experience as an executive officer in the photovoltaics and biogas industries. Prior to that, Wühr held a business management position in the home technology sector for over 10 years. His activities in those roles focused on implementing efficient business processes in enterprises with a strong growth emphasis. From his previous work as an IT consultant in the ERP systems area he is able to offer a sound understanding of IT support for business processes. In addition to the Finance, Controlling and IT functional areas, Wühr represents the Medical Technology & Engineering Plastics segment on the Management Board.

Guido A Krass,

Guido A Krass (born 1957), industrial lawyer and entrepreneur, has been focusing on high-growth mid-cap companies since 1986. As the founder and a major shareholder of CENTROTEC, he is closely involved in strategic and personnel management matters. He is able to draw on a worldwide network of contacts for developing new business ideas and identifying acquisition options.

Report of the Supervisory Board

Dear Shareholders, The Supervisory Board of CENTROTEC SE again performed the tasks resting upon it in accordance with the law, the Articles of Association and the rules of internal procedure with great care in the 2019 financial year, in the course of which it regularly advised the Management Board on the running of the Group and continually monitored its activities.

CENTROTEC fully achieved or slightly exceeded the targets forecast for the 2019 financial year for revenue and earnings. Its even wider international presence along with a healthy position in the German market provide a sound basis for continuing growth in revenue and earnings.

The Annual General Meeting of Shareholders on June 18, 2019 elected Mr Andreas Freiherr von Maltzan as a member of the Supervisory Board. Mr Freiherr von Maltzan had already belonged to the Supervisory Board since July 1, 2018 by court appointment.

With effect from April 1, 2019 the Supervisory Board introduced a stronger functional emphasis for the Management Board and in that connection appointed Mr Günther Wühr as Management Board member. Wühr had already held various functions within the Group since 2015 in the Finance and Controlling areas. Wühr has many years of experience as an executive officer in the photovoltaics and biogas industry. He replaces Dr Traxler, who left the Management Board with effect from March 31, 2019.

The Supervisory Board held a total of four regular meetings in the period under review. The priority topics listed below were discussed at these meetings. All Supervisory Board members attended all meetings.

The Management Board regularly informed the Supervisory Board through detailed, prompt written and oral reports on the current business progress of the companies and the Group, and in particular on the development in its revenue, orders, financial performance and financial position, along with the company's discernible opportunities and risks of future development. The Supervisory Board was involved directly and promptly in all decisions of fundamental importance for the company and discussed important decisions and occurrences at length. Annual financial statements, the Interim Report and quarterly financial communications were discussed with the Board of Management by the Supervisory Board prior to their publication. Decisions of the Management Board requiring approval were examined and discussed thoroughly by the Supervisory Board prior to their approval.

Outside the context of the above meetings, too, the members of the Supervisory Board discussed upcoming projects and matters of material importance with the Management Board and senior management of the company in individual face-to-face meetings and by means of telephone conferences. Written reports were furthermore submitted on specific projects and issues. Through these, the Management Board satisfied the information and reporting requirements laid down by the Supervisory Board in every respect. As the Supervisory Board has only three members, no committees were formed. All matters were discussed by the full board.

In the 2019 financial year there were again no conflicts of interest among Management Board and Supervisory Board members that are to be disclosed to the Supervisory Board without delay and of which the Annual General Meeting is to be informed.

The range of topics discussed at Supervisory Board meetings was very broad, covering fundamental and strategic matters concerning the holding company, the segments and the individual companies. From a Group perspective its further expansion, above all internationally, and the associated construction projects received particular attention. Individual matters of major importance and with far-reaching consequences for the Group were also addressed.
The individual priority topics discussed comprised:

- The strategic direction and business policy of the Group, the segments and the Group companies
- The general business performance
- The content and scope of the financial reports for publication
- Change of corporate form and name to CENTROTEC SE
- Major or strategically highly significant investment decisions, in particular supporting the construction of the manufacturing facility in China
- The risk position, in particular strategic, operating and financial risks as well as risk management
- The financial reporting process and internal control system
- The strategic and operational handling of Group financing and of the investments
- The implementation of the share buyback programme
- The Group's budget and medium-term planning
- Observance and innovations of the Corporate Governance Code and SCR reporting
- Implementation of the decisions to acquire IVT GmbH and IVT-Industrie-Vertrieb Technik GmbH & Co.KG as well as the assets of Klingenburg GmbH
- Evaluation of further possible options in the sphere of mergers & acquisitions projects
- Changes to regulatory and negotiable instruments law
- Remuneration structures of the Management Board and key management employees
- Composition of the Management Board
- The efficiency of the Supervisory Board's own activities

The Supervisory Board and Management Board discussed corporate governance within the company at length in the year under review and, most recently in March 2019, jointly issued a Declaration of Compliance in accordance with Section 161 of the German Stock Corporation Act. The most recent Declaration of Compliance was issued in January 2020 and made permanently available on the company's website. According to Article 3.10. of the German Corporate Governance Code (2017 version), the Management Board simultaneously reports on corporate governance on behalf of the Supervisory Board in the Corporate Governance Report. That report is incorporated into the Annual Report. The key principles of corporate governance are explained by the Management Board in its Corporate Governance Statement pursuant to Section 289f of the German Commercial Code, which can be accessed on the website of the company. Other topics of detailed consultations by the Supervisory Board included issuing the audit mandate to the auditors following their election by the Annual General Meeting, monitoring their independence as well as the services provided by them, and determining their fee. The accounting, annual financial statements, Management Report, Consolidated Financial Statements and Group Management Report at December 31, 2019 have been examined by the auditors PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Kassel, who have issued unqualified audit opinions. The above documents and the proposal by the Management Board on the appropriation of the accumulated profit were made available to each member of the Supervisory Board in a timely manner. These were discussed at length with the auditors at the Supervisory Board meeting on March 23, 2020, when the auditors reported on the principal findings of their audit. The auditors of the accounts furthermore reported on their findings on the internal control and risk management system in respect of the financial reporting process and established that the Management Board has set up a suitable internal system of control and risk management.

The Supervisory Board has considered at length the disclosures made in the Management Report and Group Management Report. Reference is therefore made to the corresponding comments in the Management Report and Group Management Report, which the Supervisory Board has examined and supports.

The Supervisory Board has examined the annual financial statements, Management Report and Consolidated Financial Statements, including Group Management Report, as prepared by the Management Board, together with the dependency report drawn up by the Management Board as a precautionary measure. The Supervisory Board concurs with the findings of the audit of the financial statements. The concluding finding of the examination by the Supervisory Board has revealed no cause for objection. The annual financial statements prepared by the Management Board and the Consolidated Financial Statements at December 31, 2019 were approved by the Supervisory Board. The annual financial statements of CENTROTEC SE are hereby established.

In addition, reporting of disclosures on non-financial aspects has been required since the 2017 reporting year. The management has decided to fulfil that obligation through the publication of a non-financial report outside the framework of the Group Management Report, and to publish it in the Annual Report. The Supervisory Board, which holds responsibility for examining the content of non-financial reporting, has carefully considered the separate Non-Financial Group Report of CENTROTEC prepared by the Management Board at December 31, 2019. On the basis of its own examination, the Supervisory Board raised no objections following explanatory remarks by the Management Board and the auditors. The auditing firm PricewaterhouseCoopers GmbH conducted a limited assurance engagement and issued an unqualified audit opinion.

The Supervisory Board assumes that CENTROTEC SE will be able to extend its position in the worldwide growth market for energy-saving building technology, and serve the interests of the CENTROTEC Group’s stakeholders.

At the same time it must be acknowledged that the global economy faces an unprecedented challenge from the coronavirus pandemic. It is inevitable that CENTROTEC will also be affected. Even if it is not possible to express the impact of the crisis on CENTROTEC's business performance in hard figures, the focus now has to be on protecting the available financial resources so that it can manoeuvre as resolutely as possible through the market upheaval that could lie ahead. In light of this, the Supervisory Board expressly welcomes the proposal of the Management Board on the appropriation of the accumulated profit and approves the decision not to distribute a dividend for 2019.

On behalf of the Supervisory Board I would like to thank the Management Board members as well as the employees of the CENTROTEC Group for their active contribution and efforts in the past financial year.

Best wishes,

Guido A Krass
[Supervisory Board Chairman]

On behalf of the Supervisory Board, Brilon, March 2020

THE WHOLE WORLD OF HEATING SYSTEMS

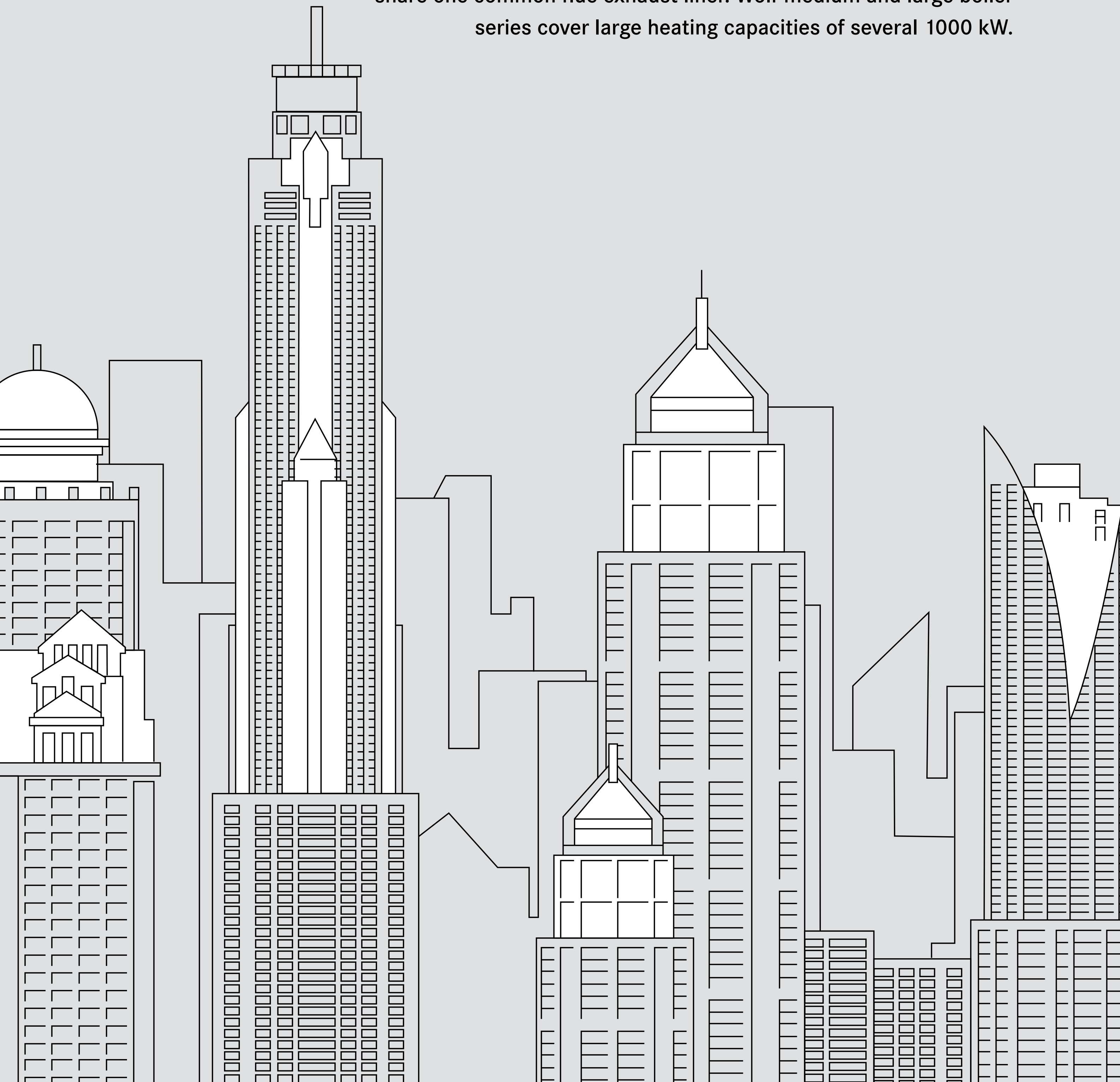
Apartment buildings

Decentralized heat generation through individual gas condensing heating systems with multiple occupancy across floors

Middle and large boiler series for central heat generation

Collective exhaust systems
Heating systems

Centrotherm and Ubbink have developed collective flue systems that enable multiple-floor connections to one common vertical flue exhaust liner. These collective flue systems also include in-cascade installations where several centrally installed heating systems again share one common flue exhaust liner. Wolf medium and large boiler series cover large heating capacities of several 1000 kW.



Core Values

Integrity

For CENTROTEC, integrity means a consistently fair, transparent, honest and incorruptible way of behaving, both for the enterprise and for the individual. For us, that means we have to say what we think, and do what we say!

Social responsibility

CENTROTEC bears social responsibility both for its employees and for its wider corporate environment. It is important for us to regard employees as human beings, not merely as a resource, and to address their individual needs as effectively as possible. In addressing the corporate environment, CENTROTEC operates ethically and responsibly, and furthermore shows independent initiative in promoting living conditions and social cohesion within its direct sphere of influence (good corporate citizenship).

Sustainable action

This means meeting today's needs without endangering the scope of future generations to do likewise. The way energy is used and the consequences of its use are of key importance for a sustainable society. To achieve that goal, CENTROTEC supplies affordable solutions for saving energy and putting renewable energies to a wide range of uses in buildings.
In developing, manufacturing and selling our solutions, we strive for the highest possible standards of resource efficiency and sustainability. For each individual, this action begins with a sense of personal responsibility towards the wider community.

Entrepreneurial action

For every employee, entrepreneurial action means treating the company as if it were his or her own, and demonstrating the responsibility and foresight that that would entail. Thisoffers opportunities for both the company and the individual. CENTROTEC promotes this entrepreneurial spirit by granting its employees and subsidiaries the maximum possible freedom of scope.

Separate Non-Financial Group Report

(pursuant to German CSR Directive Implementation Act)

In the separate Non-Financial Group Report – referred to in the following as “Non-Financial Report” or “NFR” – CENTROTEC SE, hereinafter also CENTROTEC or the CENTROTEC Group, reports outside the framework of the Group Management Report for the 2019 financial year in accordance with the current statutory requirements of the German CSR Directive Implementation Act (hereinafter German CSR-RL-UG) on the reporting of non-financial information. In presenting this non-financial report pursuant to sections 315c in conjunction with 289c to 289e of the German Commercial Code, CENTROTEC fulfils the resulting duty of accountability. The business model of the CENTROTEC Group is described in the Group Management Report from page 34.

The option of taking reporting frameworks for sustainability topics as the basis for the compilation of the NFR was not used because the adoption of a uniform reporting framework appeared excessively cumbersome given the highly non-central, heterogeneous corporate structure, combined with generally locally organised management of the relevant topics.

The auditors PricewaterhouseCoopers GmbH WPG have performed an audit of the Non-Financial Report with limited assurance to auditing standard ISAE 3000 (Revised). Please see the associated audit report on page 124.

Reporting scope and reporting boundaries

For the 2019 reporting year and previously already for the years 2017 and 2018, the Non-Financial Report contains disclosures on all comprehensively consolidated CENTROTEC companies. The exception is one subsidiary only acquired in the period under review, which was consolidated from a financial perspective on a time proportional basis but will only be captured for the Non-Financial Report from the 2020 reporting year. The non-financial data is submitted using the “Tagetik” financial reporting system established within the Group, starting with the data that is recorded for the departments of the individual companies and ultimately consolidated at Group level.

From the 2017 reporting year the Management Board, in consultation with the Supervisory Board, resolved to meet its reporting obligation in the form of a separate Non-Financial Group Report.

References to disclosures outside the Group Management Report constitute further information and do not form part of the Non-Financial Report.

Materiality analysis and selection of report contents

Pursuant to Section 289c (3) of HGB, disclosable non-financial aspects are to be identified according to the double materiality qualifier. Under this approach, those disclosures that are required for understanding the business progress, business result, situation and the impact of activity on these aspects are material.

The decision to continue using the non-financial aspects selected in the previous two years was taken jointly by the Supervisory Board and Management Board at a Supervisory Board meeting held on September 19, 2019. Its decisions were based on the criteria of the aforementioned double materiality qualification and in particular the criteria of industry relevance, own corporate structure plus the core values of the Group. Through a variety of business projects – to some extent in cooperation with those holding responsibility for individual Group companies – the Management Board analysed which non-financial aspects are material for sustainable business development both from an internal perspective and from the perspective of the various external target groups (customers, business partners, employees, shareholders, suppliers as well as the general public). In the course of these, it made assumptions for external target groups concerning the significance and impact on the above sustainability aspects.

The topic of carbon emissions was identified as especially material, with the need to differentiate between product-related and company-related emissions. With regard to the impact of the activities of the CENTROTEC Group, we assess the product-related carbon emissions to be especially material, specifically with regard to the impact at customers, where considerable reductions in carbon emissions can be achieved through the use of efficient systems. This is because the modern systems that CENTROTEC produces and sells often consume lower amounts of energy or ventilate buildings more efficiently than their predecessor models did. However CENTROTEC does not report on a concept for this matter within the meaning of German CSR-RL-UG because it does not follow any central management approach here, and it is not feasible to collect data on emissions at customers with reasonable effort. Nevertheless, at least in the highly relevant area of heat-generating systems the adoption of the Europe-wide energy efficiency label to which CENTROTEC products conform renders the environmental friendliness of the product portfolio suitably transparent. While the company-specific carbon emissions of the CENTROTEC Group are comparatively speaking less relevant in terms of their environmental impact, we do see them as being equally relevant to our business and adopt an active management approach, which we present in the concept description under Environmental matters. Sections of the supply chains of the Group companies are also covered here, because we also include preliminary stages for the commodities used when calculating emissions.

Another area of focus in our non-financial reporting is “employee matters”, because employees are often exposed to high burdens in manufacturing companies, and our employees and their well-being are very important for the further development of the company specifically at a time when there is a growing shortage of specialist labour. Within the materiality analysis, the matter of occupational safety was identified as material in line with German CSR-RL-UG. In addition, the aspect of “combating bribery and corruption” contains an explanation of the relevant CENTROTEC concept, identified as the third material aspect. Above and beyond that, CENTROTEC was not able to identify any further mandatory disclosures as material based on the double materiality qualifier.

To a large extent CENTROTEC covers the topics of “social issues” and the “upholding of human rights” indirectly through the Code of Conduct and accompanying internal and external regulations. In addition CENTROTEC generates the bulk of its revenue in Europe, where the relatively high standards achieved with regard to respect for human rights and social issues mean that from the company’s perspective these aspects are already extensively covered by statutory requirements. For that reason, the aspects of social matters and respect for human rights are not considered separately in view of the assessment under the double materiality qualification.

Risks

Reportable risks are those that are associated with the company’s own business activities, business relationships, products or services, and very probably have or will have a serious negative impact on the material aspects.

The risk management system described in the Group Management Report from page 54 assures the recording and evaluation of corresponding risks in the financial sphere, while simultaneously enabling the inclusion of risks from the non-financial sphere. Starting with the gross recording of the risks, including the measures, a net assessment of the risk exposure is made and risks are managed on the basis of these net values.

CENTROTEC is not aware of any reportable risks that have been taken by CENTROTEC companies or are associated with the business relationships, products and services of the companies and, with a high probability, have or will have a serious negative impact on the reportable aspects.

Environmental matters

CENTROTEC regards the use of resources and the associated carbon footprint as a material non-financial spect for the company and its environment. Out of a commitment to protect the environment through its core values, but also for business reasons, CENTROTEC has set itself the goal of keeping its own consumption of resources and therefore the direct and indirect CO_2 emissions as low as possible, to the extent that is economically justifiable. In keeping with this objective and in a reflection of the Group’s non-central organisation, CENTROTEC places the emphasis on individual measures that can be implemented by the individual companies. The time horizon for target attainment equally depends on the measures selected in each case, and is not laid down Group-wide. The material effects in the sphere of emissions reduction are achieved through the consumption of material and are in the core interests of all Group companies in view of the major business significance of this topic. Examples of other specific measures to reduce carbon emissions within operating processes are the use of internally produced co-generation plants (CHP/ Mainburg, Germany), the targeted buying of electrical energy from renewable sources (Brilon, Germany / Doesburg, Netherlands) and the implementation or partial implementation of the internal guideline on the construction of carbon-neutral buildings (Fulda, Brilon, Germany / Staphorst, Netherlands). These measures are part of a continuous improvement drive that is not enshrined in a Group-wide formal set of rules. Although systematic tracking of target attainment as so far not been practised, the executive management of the individual companies as well as the Group Management Board are informed of the individual measures and their impact.

The carbon emissions figures for the CENTROTEC Group increased by only just over two percent in 2019 compared with the previous year despite a 5.9% rise in revenue. For greater ease of comparing the development in CO_2 emissions, CENTROTEC therefore also reports relative CO_2 emissions. To that end, total emissions are placed in the context of revenue in euros.

The direct business processes and the procurement of electrical energy result in carbon emissions amounting to 12.3 Kt (thousand tonnes) for the year under review of 2019 (previous year 13.8 Kt). This decrease, despite the higher business volume, is attributable to the slightly reduced consumption of electrical energy and the improved power mix from emissions aspects, with a shift away from electrical energy generated from coal and gas, towards wind and water power. This development more than compensates for the slightly increased consumption of primary energy, specifically natural gas, in the CENTROTEC Group.

Carbon emissions from transportation in 2019 rose in proportion to revenue, while there was an overproportional rise in carbon emissions from travel, among other reasons because of the increased level of international activities. The consumption of commodities was by some distance the biggest contributor to carbon emissions caused by CENTROTEC companies. Emissions caused by the consumption of commodities amounting to 106.7 Kt remained broadly at the prior-year level (105.2 Kt) despite the marked rise in revenue. The takeover of a competitor's production facilities increased the aluminium component of the product mix, which outweighed the other carbon emissions saved from commodities consumption.

Overall, CENTROTEC caused 133.2 Kt (previous year 131.1 Kt) of carbon emissions directly and indirectly. Relative to consolidated revenue, specific emissions declined to 0.205 t CO_2 per thousand euros of revenue in the period under review (previous year 0.213 t CO_2 per thousand euros of revenue).

		2019	**2018**
Direct and indirect carbon emissions (from direct business processes, the procurement of electrical energy, transport and use of materials)	Tonnes	**133,204**	131,051
Consolidated revenue	EUR '000	**650,979**	614,739
Carbon emissions to revenue	t CO_2/EUR '000	**0.205**	0.213

Employee matters

In its dealings with people, CENTROTEC attaches considerable importance to sustainable action, as specified in the core values. Its aim here is to provide a safe and healthy place of work in order to protect all employees against harm and promote their health. To achieve this, the CENTROTEC companies have implemented health and safety programmes, rules and regulations at the various locations. CENTROTEC supports its employees and expects them to comply with the health and safety regulations. The same applies to the planning of workplaces, operating equipment and processes as well as to safety and personal behaviour in day-to-day work. Standards and certifications (e.g. EN ISO 9001, EN ISO 14001 and ISO 16949), which are met in various forms at virtually all locations, constitute an additional – albeit not Group-wide uniform – framework for coordinated practices that are designed with the well-being of the workforce in mind. Every CENTROTEC employee and every CENTROTEC manager is responsible for caring for others. The well-being sought for the individual also has a lasting positive impact on the development of all the different areas of CENTROTEC, with the aim that it will ultimately yield economic success.

At a time when the shortage of skilled labour is a growing issue especially in trade and industry, the health and occupational safety of employees is a key argument in endeavouring to hold onto employees or attract new ones. The continuous reduction in work related injuries correspondingly represents a key target especially for the Group’s manufacturing companies.

The total number of reported work related injuries that resulted in temporary incapacity for work climbed to 77 in 2019, up from 42 in the previous year. Relative to the number of working hours, the figure increased to 16.0 work related injuries per million working hours (previous year 8.7). However these figures should be interpreted more as benchmarks because CENTROTEC has previously only given the Group companies in the various countries a general definition of the term “work related injuries”. For that reason, and in view of variations in the national statutory regulations that the Group companies have to observe specifically on this topic, this benchmark has not yet been recorded in an entirely uniform way. A uniform way of determining this benchmark is currently being established. At most Group companies, first-time application of the Group-wide definition in the period under review contributed to this rise e.g. because of this adjustment.

Because of the non-central Group structure, there are a large number of different measures to increase occupational safety at the subsidiaries of the CENTROTEC Group. They are based on consistent compliance with the statutory minimum standards, the customarily higher standards of the heating, climate control and ventilation technology industry as well as the medical technology sector, and in almost every case satisfy the latest certifications in each industry affected. In addition there are further measures that promote occupational safety and employee health, such as traffic training for apprentices at certain locations, financing of health training, participation in smoking cessation courses, the free provision of fruit at the workplace and the creation of ergonomic workplaces tailored to employees. The executive management of the individual companies as well as indirectly, above them, the Group Management Board are regularly informed of the respective measures and their impact.

Total number of work related injuries	**2019**	**2018**
Working hours (h)	**4,806,774**	4,838,390
Reported work related injuries	**77**	42
Work related injuries per 1 million working hours	**16.0**	8.7

Combating corruption and bribery

Derived from the core values, integrity is a material feature of CENTROTEC's entrepreneurial action. For CENTROTEC, integrity means a comprehensively fair, transparent, honest and incorruptible way of behaving, both for the enterprise and by each individual. What this means for CENTROTEC is that its actions are compelling and transparent. This applies to all divisions, departments and companies of the CENTROTEC Group.

By way of a uniform situation analysis of the existing management tools and risk exposure in the CENTROTEC Group, initial surveys were conducted a few years ago to identify structures that are susceptible to bribery and corruption. The areas considered to be at risk, e.g. Purchasing and Sales, were then addressed in a targeted, systematic way. The existing processes, safeguards and methods were categorised and divided into risk areas. For the sphere of "corruption and bribery" in question here, our focus was particularly on risk areas such as money laundering, gifts, entertainment and sponsoring. In response to these surveys, the results were analysed and recommended actions developed.

In the year under review of 2019 the internal Group guidelines on compliance were sent out to new managers of the CENTROTEC Group to raise their awareness of the issue. The focus was on the following documents:

- Code of Conduct
- Guideline on Business Conduct
- Guideline on Gifts and Invitations
- Rules of Internal Procedure for the Group.

The Managing Directors of all the Group's operational companies have undertaken to comply with the corresponding regulations. In addition, a digital whistleblower system was created in 2018 to offer employees scope to report infringements and suspected cases anonymously. The customary reporting channel and a mailroom also continue to be available to receive anonymous reports.

There are plans for the current financial year of 2020 to stage another drive to raise awareness of this issue among all managers.

Other measures include training for employees, especially upon joining the CENTROTEC Group. These mainly take the form of face-to-face training sessions. In subdivisions of the CENTROTEC Group, individual modules are also already available as webinars or using e-learning. Efforts are being made to use the scope for face-to-face and online training on a wider scale.

No incidents or suspected cases in the sphere of corruption, bribery or money laundering came to light in the Group in the year under review of 2019. Where cases that involve compliance breaches are identified or measures such as internal investigations are launched, the Group Management Board is briefed on the situation by the Legal area.

Corporate Governance Report

Appropriate corporate governance has been a central component of CENTROTEC's corporate philosophy for many years. The Supervisory Board and Management Board have considered the German Corporate Governance Code at length in each amended version and incorporated the recommendations into their actions. As a result, CENTROTEC complies in all key respects with the recommendations of the Code. The Declaration of Compliance below indicates and clarifies the departures.

Management and governance structure

In keeping with the German Stock Corporation Act, CENTROTEC has a two-tier management and governance structure that comprises a three-member Management Board (at the reporting date of December 31, 2019) and, as laid down in its Articles of Association, a three-member Supervisory Board. The Management Board and Supervisory Board work together closely in the interests of the company. The Management Board coordinates both the strategic direction and principal transactions with the Supervisory Board.

The Management Board, which currently has three members, is independently responsible for the running of the company and conducts its business. In doing so, it focuses on achieving a lasting increase in the value of the company. It is bound by the law, the provisions of the Articles of Association and the rules of internal procedure for the Management Board, as well as by the resolutions of the Annual General Meeting. The Management Board informs the Supervisory Board regularly and promptly of all relevant topics concerning the strategy and its implementation, the targets, the company's current performance, the risk exposure, and risk management. The Supervisory Board monitors and advises the Management Board. It specifies the duties of the Management Board to report and inform.

The Supervisory Board issues and amends the rules of internal procedure for the Management Board. It in addition appoints and dismisses the members of the Management Board. It may appoint a Management Board Chairman. It regularly monitors the effectiveness of the internal control and risk management system, as well as the auditing of the financial statements. The members of the Supervisory Board are appointed until the Annual General Meeting that gives discharge for the fourth financial year after the start of their term of office. The financial year in which the term of office commences is discounted.

Supervisory Board

Taking account of the company's specific situation, the Supervisory Board has identified specific targets in respect of its composition, such as the appropriate participation of members with international experience and efforts to ensure that women participate adequately. The Supervisory Board is moreover to include an adequate number of independent members. The Supervisory Board will take account of these targets when proposing candidates to the electoral bodies, and in particular the Annual General Meeting.

The Annual General Meeting of Shareholders on June 18, 2019 elected Mr Andreas Freiherr von Maltzan as a member of the Supervisory Board. Mr Freiherr von Maltzan had already sat on the Supervisory Board since July 1, 2018 by court appointment. The curricula vitae of the Supervisory Board members as well as disclosures on material activities alongside their Supervisory Board mandate are published on the company's website. There were no cases of conflicts of interest concerning Management Board or Supervisory Board members, which are to be disclosed to the Supervisory Board without delay.

Shareholders and Annual General Meeting

The shareholders exercise their rights through the Annual General Meeting and make use of their voting rights there. Each share carries one vote. Every shareholder is entitled to take part in the Annual General Meeting. The Annual General Meeting takes decisions concerning in essence the appropriation of profits, discharge of the Management Board and Supervisory Board, the Articles of Association and amendments thereto, key entrepreneurial measures, and measures that change the capital such as the issuance of new shares, the acquisition of treasury stock and the conditional capital. The participants of the Annual General Meeting elect the Supervisory Board members and determine their remuneration.

Remuneration system of the Management Board and Supervisory Board

The Supervisory Board is responsible for determining the remuneration of the Management Board, including the principal contractual features. The remuneration system of the Management Board and Supervisory Board is presented in detail in the remuneration report, which forms part of this report.

Third-party financial loss insurance (D&O cover) has been taken out for the company's Management Board and Supervisory Board members, incorporating an appropriate excess for the Management Board members in accordance with the statutory provisions. An appropriate excess has also been agreed for the members of the Supervisory Board, in agreement with the Corporate Governance Code. The managing directors and supervisory/administrative board members of subsidiaries are included in this D&O cover.

Transparency

CENTROTEC has acted openly and responsibly ever since its establishment, and was therefore already doing so before the company pledged to observe the Corporate Governance Code. The overriding objective of CENTROTEC's corporate communications is to provide prompt, continuous, comprehensive and consistent information to all target groups and to maintain a relationship with its shareholders that is characterised by transparency. In addition to financial data, the financial calendar listing all key dates for CENTROTEC, ad hoc information and press releases, the latest developments regarding the Corporate Governance Code as well as changes in the principal investments and in the overall voting rights pursuant to Sections 26 and 26a of German WpHG are published on the CENTROTEC homepage, following disclosure to the German Financial Supervisory Authority and the stock market.

Article 19 of the Market Abuse Regulation specifies the immediate disclosure obligation for transactions by Management Board or Supervisory Board members or by related parties involving shares or debt instruments of CENTROTEC or related financial instruments if the value of the transactions reaches or exceeds the amount of EUR 5 thousand within one calendar year. CENTROTEC has passed on notices of all such transactions reported to it to BaFin without delay and published them in accordance with the statutory requirements.

Legal transactions with companies in which members of the Supervisory Board and management hold or might hold an interest were also conducted in the financial year. As presented in detail in the Declaration of Compliance, these did not give rise to any conflict of interests.

The mandates held by the Management Board and Supervisory Board members on statutorily constituted supervisory boards or similar regulatory bodies are listed on page 117.

As in previous years, a dependency report was issued by the Management Board as a precautionary measure. We refer to the contents of the dependency report for details.

At December 31, 2019 the current members of the Management Board held no (previous year no) shares. At that date the members of the Supervisory Board held 5,279,976 (previous year 2,400,000) shares.

Financial reporting and auditing of financial statements
The Consolidated Financial Statements are prepared by the Management Board, audited by the independent auditors and approved by the Supervisory Board. The Consolidated Financial Statements and interim reports are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, and published in both German and English.

The continuous, systematic management of entrepreneurial opportunities and risks is part of corporate governance for CENTROTEC. The Management Board reports regularly to the Supervisory Board on the latest developments in material risks within the Group. This process helps to identify risks promptly and to manage them. The Management Board and Supervisory Board therefore regularly monitor the effectiveness of the financial reporting process and the internal control and risk management system.

Compliance
Appropriate corporate governance and compliance has been a central component of CENTROTEC's corporate philosophy for many years. A Group-wide, systematic risk analysis covering all divisions serves as the basis. The continuous, systematic management of entrepreneurial opportunities and risks is part of the corporate culture at CENTROTEC. The Management Board regularly examines the developments and work in the compliance and corporate governance areas. Timely access to important information on early risk detection and the combating of maladministration as well as limiting losses and maladministration by implementing measures and preventive action are the key objectives. Key features of the control and risk management system are indicated in the opportunity and risk report.

As part of its compliance work, CENTROTEC has taken various measures to assure the lawful conduct of employees, the company and the management. The CENTROTEC compliance programme comprises various building blocks that have been implemented in all corporate areas and thus together form the Compliance Management System. Key building blocks are the control and risk management system for financial reporting purposes, compliance in the sphere of capital market law, a competence and conduct guideline for all companies of the Group, as well as guidelines on IT security. Further principles are reflected in a guideline on the handling of gifts and invitations, as well as in the Group-wide Code of Conduct, which specifies the key principles and rules for conduct within the company and vis-à-vis outside parties. The reporting system for compliance incidents also includes a digitalised whistleblower portal for the anonymous reporting of suspected cases.

Further information on corporate governance
Further information on corporate governance can be found in the Corporate Governance Statement on the company's website.

Declaration by the Management Board and Supervisory Board of CENTROTEC SE, Brilon, on the German Corporate Governance Code (Section 161 of German Stock Corporation Act)

The background

On February 26, 2002 the “Government Commission on the German Corporate Governance Code” first presented a code of practice for listed companies. This Code was last updated on February 7, 2017 and published in the Federal Gazette on April 24, 2017.

Pursuant to Section 161 of German AktG, the Management Board and Supervisory Board of a company listed on the stock exchange are obliged to declare once a year whether and to what extent the code has been and is complied with:

Declaration of Compliance

The Management Board and Supervisory Board of CENTROTEC Sustainable AG declare that the recommendations of the “Government Commission on the German Corporate Governance Code” in the version dated February 7, 2017 are and have been complied with since the last Declaration of Compliance, dated March 2019, with the exceptions stated below.

1) Article 4.2.1 of the Code recommends that the Management Board should have a Chairman or CEO. The Management Board duties are performed jointly and with equal rights by the members of the Management Board. We believe that in view of the size of the Management Board and its structure, it is not appropriate or in the interests of the company to appoint a CEO or Chairman.

2) Article 5.3 of the Code recommends the formation of committees on the Supervisory Board. These shall, however, be dependent on the specific circumstances of the company and the number of members of the Supervisory Board. Our Supervisory Board consists of three members, who consider all matters concerning the company jointly. Consequently, we do not regard the creation of committees to be appropriate in our case. We believe that our view is compatible with the Code, but supply this information as a precautionary measure by way of clarification.

3) Under 5.4.1 the Code recommends that the Supervisory Board, when determining the goals for its composition, should also specify a limit to the period for which a member may serve on it. Bearing in mind the number of upervisory Board members and the shareholder structure, we consider the introduction of a limit to the period of service to be inappropriate in our case.

4) Article 5.4.2 of the Code recommends that the Supervisory Board includes an adequate number of members who – in the board’s own opinion – are deemed to be independent. A member is to be regarded as independent if they have no business or personal relations with the company, its corporate bodies, a controlling shareholder or an affiliated company that could constitute a substantial and not merely temporary conflict of interests. In its own opinion, our Supervisory Board includes an adequate number of independent members. Although individual members of the Supervisory Board are shareholders and occasionally have business relations with the company, this does not constitute a conflict of interests.

Brilon, January 13, 2020

On behalf of the Supervisory Board

Dr Thomas Kneip
[Management Board]

Bernhard Pawlik
[Management Board]

Günther Wühr
[Management Board]

Guido A Krass
[Supervisory Board Chairman]

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable accounting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Management Report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Brilon, March 23, 2020

Dr Thomas Kneip
Bernhard Pawlik
Günther Wühr

Section 289f of the German Commercial Code

LINK to CENTROTEC homepage:
http://www.centrotec.de/en/investor-relations.html

Remuneration report

The remuneration report of CENTROTEC SE is based on the requirements of the International Financial Reporting Standards (IFRS) as adopted by the EU, as well as the German Commercial Code (HGB), while also incorporating the recommendations of the German Corporate Governance Code (2017).

Remuneration of the Management Board

The remuneration system for the Management Board including the key contractual elements is agreed by the Supervisory Board and regularly examined. The remuneration of the members of the Management Board comprises a non-performance-related fixed salary, a performance-related and thus variable remuneration component, as well as miscellaneous remuneration. The level of the remuneration of the Management Board members reflects its size, the customary levels of remuneration taking account of its peer group, as well as the economic and financial position of the company. Task areas, personal performance and experience as well as attainment of targets by the Management Board members are moreover taken into account in determining their remuneration. The remuneration system regularly also sets long-term behavioural incentives and focuses on sustainable development of the company, taking organic, profitable growth as the benchmark.

Remuneration granted

CENTROTEC SE has reshuffled its Management Board. With effect from April 1, 2019 Günther Wühr took up office as the new Chief Financial Officer of CENTROTEC SE. This separated the Management Board portfolios much more closely in line with functions. Dr Thomas Kneip takes on the Strategy portfolio, while Bernhard Pawlik is in charge of the Operations portfolio. Dr Kneip's divisional responsibility for the Climate Systems segment and those of Mr Pawlik for the Gas Flue Systems segment remain unchanged. Wühr represents the Medical Technology & Engineering Plastics segment on the Management Board. Dr Christoph Traxler left the Management Board with effect from March 31, 2019.

The non-performance-related Management Board remuneration is paid in the form of a fixed monthly salary. In the 2019 financial year these fixed salaries for all three Management Board members totalled EUR 881 thousand (previous year EUR 863 thousand). There were employer's social contributions of 1.3% on top of these.

The prospect of variable remuneration is offered in the form of a monetary bonus, the granting and level of which are dependent on attainment of certain targets determined at the start of the financial year. This bonus contains both a short-term (one-year variable remuneration) and a long-term (multi-year variable remuneration/LTI) component. The monetary bonuses granted in 2019 totalled EUR 820 thousand (previous year EUR 868 thousand).

No pension benefits were granted in the 2019 financial year.

The non-cash benefit of the use of company cars for the entire Management Board in 2019 is reflected in the fringe benefits and amounted to EUR 50 thousand in the year under review (previous year EUR 41 thousand). The total remuneration upon full attainment of targets is EUR 1,751 thousand (previous year EUR 1,772 thousand). The minimum remuneration corresponds to the fixed salary. The maximum remuneration corresponds to the total remuneration granted as shown in the table, with a possible fluctuation in the variable remuneration between 0 and the granted amount stated, depending target attainment.

The following table shows the Management Board remuneration granted:

Figures in EUR ’000	Dr Thomas Kneip since January 1, 2014		Bernhard Pawlik since April 1, 2018		Günther Wühr since April 1, 2019		Dr Christoph Traxler since April 1, 2014 until March 31, 2019	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Fixed salary	340	330	300	193	156	-	85	340
Fringe benefits	21	19	15	12	11	-	3	10
Total	**361**	**349**	**315**	**205**	**167**	**-**	**88**	**350**
One-year variable remuneration	260	265	320	218	75	-	0	265
Multi-year variable remuneration:								
- LTI scheme 2018 (3-year term)[1]	0	60	0	0	0	-	0	60
- LTI scheme 2019 (3-year term)[1]	60	0	60	0	45	-	0	0
Total	**320**	**325**	**380**	**218**	**120**	**-**	**88**	**325**
Pension benefits	0	0	0	0	0	-	0	0
Total remuneration	**681**	**674**	**695**	**423**	**287**	**-**	**88**	**675**

[1] The figure for 100 % target attainment is shown.

Remuneration received

The following table shows the Management Board remuneration paid. The main difference compared with the above table is the amounts paid out from variable remuneration, the payout of which is either spread over several years (e.g. LTI programme) or takes place in the year following the year of granting (one-year variable remuneration). The amounts are broken down according to the individual plans and terms.

The actual remuneration paid for the members of the Management Board of CENTROTEC SE in the 2019 financial year amounted to EUR 1,609 thousand (previous year EUR 1,354 thousand). Retired members of the Management Board received benefits totalling EUR 59 thousand in the 2019 financial year (previous year EUR 57 thousand). The provisions for pension commitments to former Management Board members came to EUR 1,106 thousand (previous year EUR 1,004 thousand).

The following table shows the Management Board remuneration received:

Figures in EUR '000	Dr Thomas Kneip since January 1, 2014		Bernhard Pawlik since April 1, 2018		Günther Wühr since April 1, 2019		Dr Christoph Traxler since April 1, 2014 until March 31, 2019	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Fixed salary	340	330	300	193	156	-	85	340
Fringe benefits	21	19	15	12	11	-	3	10
Total	**361**	**349**	**315**	**205**	**167**	**-**	**88**	**350**
One-year variable remuneration	234	229	218	0	0	-	174	177
Multi-year variable remuneration:								
- LTI programme 2014		9	0	0	0	-	0	11
- LTI programme 2015	13	12	0	0	0	-	13	12
- LTI programme 2016	13	0	0	0	0		13	0
Total	**260**	**250**	**218**	**0**	**0**	**-**	**200**	**200**
Pension benefits	0	0	0	0	0	-	0	0
Total remuneration	**621**	**599**	**533**	**205**	**167**	**-**	**288**	**550**

At December 31, 2019 neither the Management Board nor the Supervisory Board holds stock options.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is regulated by Article 18 of the Articles of Association of CENTROTEC SE (formerly Article 18 of the Articles of Association of CENTROTEC Sustainable AG) and was last adjusted at the Annual General Meeting on May 20, 2014. As well as reimbursement of their out-of-pocket expenses, the members of the Supervisory Board receive a fixed annual remuneration, a variable performance-related remuneration and also attendance fees. The fixed remuneration amounts to EUR 20 thousand per member of the Supervisory Board for each full year of service. The Chairman receives double and the Deputy Chairman one and a half times the amount that is due to a member of the Supervisory Board. This remuneration of members of the Supervisory Board of CENTROTEC SE consequently amounted to EUR 90 thousand in the past financial year (previous year EUR 90 thousand). In addition other expenses amounting to EUR 5 thousand (previous year EUR 65 thousand) were claimed (for travel). In the previous year the other expenses item was higher in a reflection of the costs for the appointment and introduction of the new Supervisory Board member Andreas von Maltzan. The statutory level of sales tax due on this remuneration is furthermore paid by the company to the extent that it is billed by a Supervisory Board member. No separate remuneration is paid for service on committees, because the three-member Supervisory Board of CENTROTEC SE does not form separate sub-committees in view of its size. By way of variable and performance-related remuneration, each member of the Supervisory Board receives remuneration amounting to 0.1% of the dividend payable for a given financial year. Like the fixed basic remuneration, this dividend-dependent remuneration is double the amount received by an ordinary Supervisory Board member in the case of the Chairman, and one and a half times in the case of the Deputy Chairman. In the 2019 financial year the total amount of this remuneration came to EUR 23 thousand (previous year EUR 22 thousand). The attendance fees granted for each Supervisory Board meeting have the basic amount of EUR 2 thousand. The Supervisory Board Chairman receives double this basic amount, and the Deputy Chairman one and a half times. Attendance fees totalling EUR 36 thousand (previous year EUR 42 thousand) were paid to the Supervisory Board in the year under review.

The remuneration for the individual members of the Supervisory Board for the 2019 financial year was as shown below (individualised disclosures):

Figures in EUR '000	**Basic remuneration**	**Attendance fees**	**Dividend share**	**Other expenses**	**Total**	**Previous year**
Supervisory Board members in office at December 31, 2019						
Guido A Krass	40	16	10	1	67	120
Andreas Freiherr von Maltzan	30	12	8	3	53	36
Mag. Christian C Pochtler	20	8	5	1	34	38
Former Supervisory Board members						
Dr Bernhard Heiss	0	0	0	0	0	25
Total amount	**90**	**36**	**23**	**5**	**154**	**219**

Shares

The market environment

After the losses of the previous year, all relevant stock markets worldwide resumed a pattern of healthy gains in 2019. Most European and North American stock markets were up by between 20% and 40%, and most other stock exchanges also registered double-digit percentage gains. In Germany, the SDAX was the strongest-growing index at over 30%.

Share price performance

2019 was likewise a very positive year on the stock markets for CENTROTEC shares, with a price gain in excess of 40%. Having started the year trading at EUR 11.50, the shares soon touched a year-low of EUR 10.46 in January. Over the subsequent course of the year the trading price remained range-bound between EUR 12 and 13 until mid-September, then put on a growth spurt to the year-high of EUR 17.22 at the end of November. CENTROTEC shares ended the stock market year trading at EUR 16.46.

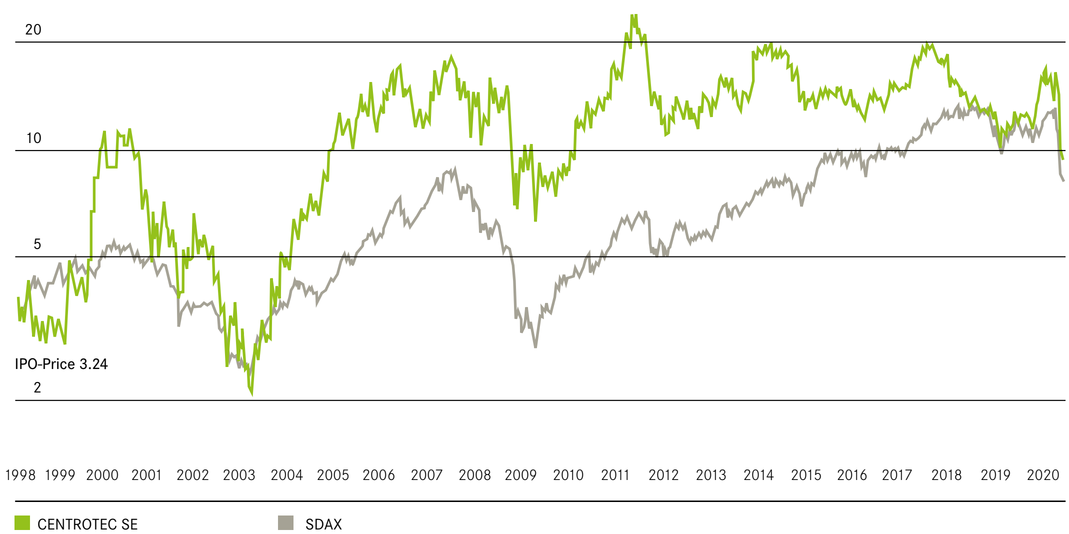
After the end of the period under review, the trading price backtracked to below EUR 14 by the start of February 2020 before CENTROTEC shares then enjoyed a lift to above EUR 17. The general slump on stock markets worldwide at the end of February also affected the trading price of CENTROTEC shares, which then fell below EUR 15, before the share saw a further significant fall in the context of the corona pandemic.

SHARE PRICE 2019

[in EUR]

Share price since IPO

[in EUR]



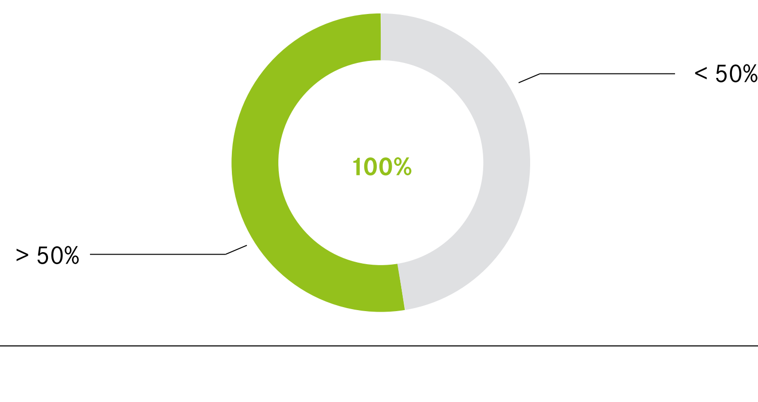
Share statistics

Since the initial public offering in 1998 CENTROTEC has been listed at Deutsche Börse under securities identification number WKN 540 750, the international number ISIN DE0005407506 and the stock exchange code CEV. The shares are listed in the Prime All Share and other subindices of the German Share Index (DAX).

The capital stock of CENTROTEC SE at December 31, 2019 amounted to EUR 16,256,453, divided into 16,256,453 no par value bearer ordinary shares, each representing an arithmetical nominal share of EUR 1 of the capital stock. The number of shares was lower than in the previous year following the retirement of 1,764,470 shares. CENTROTEC also holds 1,625,517 treasury shares as a result of the second share buyback programme conducted in mid-2019. This stock carries neither voting rights at the Annual General Meeting nor dividend rights. These shares, too, were retired after the balance sheet date on March 5, 2020. All the remaining 14,630,936 shares carry full voting and dividend rights.

Shareholder structure

[in %]



In view of the increased investment activity and against the background of the unprecedented uncertainty of the market due to the Corona virus, the Supervisory Board and Management Board of CENTROTEC have decided to propose to the Annual General Meeting that the dividend for the financial year 2019 be completely waived.

All prices quoted from XETRA trading	2015	2016	2017	2018	2019
Total shares at Dec 31, ’000 (units)	17,733	17,892	18,021	18,021	16,256
Capital stock at Dec 31, EUR	17,733	17,892	18,021	18,021	16,256
Market capitalisation at Dec 31, EUR million	234.3	273.6	279	206.2	267.6
Year-end price, EUR	13.21	15.29	15.47	11.44	16.46
Year-low, EUR	12.85	11.56	14.83	10.10	10.46
Year-high, EUR	15.25	15.60	19.79	15.88	17.22
Daily trading volume average in ’000 (units)	28.3	14.0	23.8	20.8	19.0
Earnings per share, EUR	1.18	1.21	1.13	0.74	1.48
Dividend per share	0.25	0.30	0.30	0.30	0.00 (e)
Price-to-earnings ratio at Dec 31	11.2	12.6	13.7	15.5	11.1

Since the IPO in 1998 the family of Supervisory Board Chairman Guido A Krass has remained the principal shareholder of CENTROTEC with a holding of more than 50% to the best of the company's knowledge. Over and above that, the company has no indication that there are other shareholders with interests that run into double figures. Two investor notices were received in 2019 stating that their holdings had fallen below the reporting thresholds pursuant to Section 26 (1) of German Securities Trading Act. The thresholds in question were 3% and 5%. Detailed information on this topic is available on the website of CENTROTEC (www.centrotec.de). Information on changes in the voting rights held is also provided in the Notes, under "Other disclosures". All shares outstanding are not subject to any restrictions with regard to transferability and voting rights.

In the year under review of 2019 a combined total of 4.7 million CENTROTEC shares were traded on all German stock exchanges combined, and therefore fewer than in the previous year (5.4 million shares). The trading volume came to EUR 65 million, a decline from EUR 73 million in the previous year. The average daily trading volume was consequently 19,000 shares or EUR 260 thousand (previous year 20,800 shares or EUR 290 thousand). The proportion of the total German trading volume of CENTROTEC shares processed via XETRA declined markedly to 82% (previous year 95%) as a result of the sharply increased volume traded at other stock exchanges, especially at the end of the period under review.

Investor relations

CENTROTEC maintains open, prompt and reliable communications with interested financial market participants in an effort to do justice to the confidence that investors show in the company. The transparency guidelines required by law, such as the German Securities Trading Act, the German Stock Corporation Act, the Market Abuse Regulation (MAR), the additional post-admission obligations of Deutsche Börse and the national and international accounting standards including IFRS (International Financial Reporting Standard) and the German Commercial Code, as well as the rules of the German Corporate Governance Code, represent a minimum standard that has become steadily more demanding in recent years.

CENTROTEC again maintained direct contact with various financial market participants in 2019 through a large number of telephone conferences and at individual roadshows, an investors' day at the company's key industry exhibition ISH and also at the two General Meetings. A large number of one-to-one and group talks were moreover held at the German Equity Forum in Frankfurt am Main. Finally, the Investor Relations area posted the latest information on the homepage of the Group website, and was available throughout to handle enquiries by phone, correspondence or electronic means.

CENTROTEC's performance is monitored by analysts from the following financial institutions:

Coverage

Hauck & Aufhäuser	M.M.Warburg
HSBC	Montega

The core statements from their analyses are posted regularly on the CENTROTEC Group homepage soon after their publication.

SYSTEM PROVIDER FOR RENEWABLE ENERGIES

Residential buildings

1

Wolf split heat pump in combination with an integrated ventilation system by Brink

2

Wolf heat pump range

Condensing heating technology
Heat pumps

The highly efficient Wolf heat pumps open up the potential of renewable energies for future-oriented building heating technology for new residential buildings. Condensing systems for oil and gas in combination with solar thermal are ideal for the energy renovation of the existing building stock. They make optimum use of these fossil fuels and thus conserve scant resources. Both alternatives in combination with a ventilation system with heat recovery up to 95% ensure a permanently high indoor air quality with the highest energy efficiency.

Group Management Report

Business and underlying situation

Overview

The CENTROTEC Group – hereinafter also referred to as CENTROTEC – is Europe's only listed full-service supplier of heating and climate control technology for buildings. The product range encompasses mainly system solutions for the areas of heating, ventilation and climate control technology, as well as solar thermal, heat pump technology and co-generation. It supplies and optimises solutions both for the new-build sector and also for the steadily growing renovation market.

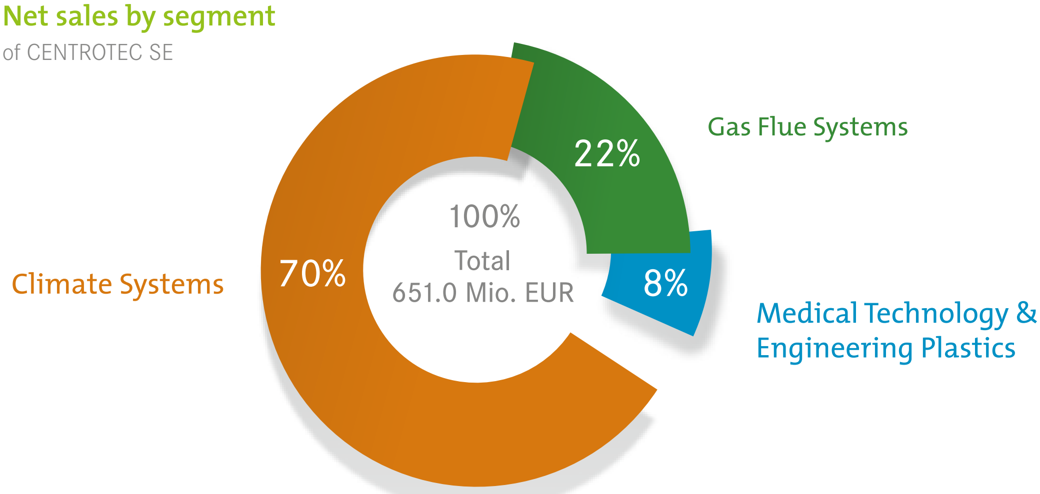
CENTROTEC enjoys a presence in over 50 different countries through subsidiaries and sales partners. Its fourteen production plants are located predominantly in Europe. At December 31, 2019 the Group employed over 3,300 employees at locations in Europe, North America and Asia. Between them, they generated total revenue of EUR 651 million in 2019, with the German market contributing 52% of this amount.

Group structure

The business operations of the CENTROTEC Group are divided into three segments. The largest segment in revenue terms, Climate Systems, along with the Gas Flue Systems segment, constitutes the core business area with its energy-saving, sustainable heating and climate control technology for buildings. There is considerable overlap between the customer groups and application scenarios served, but the products differ. Climate Systems focuses on active equipment and complete systems, while the companies in the Gas Flue Systems segment concentrate on appropriate complementary products. The third segment Medical Technology & Engineering Plastics, which is the smallest by revenue, develops, produces and sells medical technology solutions and engineering plastics.

CENTROTEC SE with its registered office in Brilon acts as the listed holding company for all subsidiaries and supports them in the strategic, financial and administrative areas. All operating activities in the product markets are handled via the subsidiaries. The major companies for core business are Wolf GmbH and Brink Climate

Net sales by segment
of CENTROTEC SE



Systems B.V. (Climate Systems segment) as well as Ubbink B.V. and Centrotherm Systemtechnik GmbH (Gas Flue Systems segment). These companies have their own subsidiaries in Germany and internationally. Möller Medical GmbH is the largest company in the Medical Technology & Engineering Plastics segment.

The conversion of CENTROTEC Sustainable AG from a stock corporation under German law into a European stock corporation under the name of “CENTROTEC SE”, while preserving its legal identity, was started in the 2019 financial year. The Management Board drew up a conversion plan to that end on October 2, 2019. The Extraordinary General Meeting on December 10, 2019 voted in favour of this conversion plan. The conversion of the legal form from a German stock corporation into an SE was completed on January 30, 2020 with its entry on the Commercial Register.

The conversion into an SE expresses CENTROTEC's self-image as a globally active enterprise. The supranational legal form promotes an open and international corporate culture, and supports the successful expansion of international business activities by the CENTROTEC companies.

Business activities

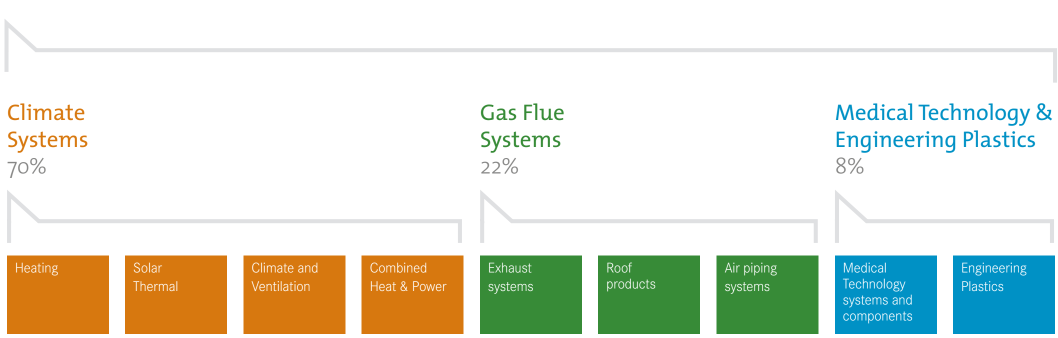
Business areas

The companies brought together under the umbrella of the **Climate Systems** segment create a comfortable and healthy interior climate in all kinds of buildings. To that end, they develop, produce and sell a comprehensive portfolio of heating, climate control and ventilation systems. The heating systems made by Wolf GmbH and its subsidiaries focus mainly on modern condensing boilers for gas and oil-fired heating systems, as well as various systems that use renewable energies and co-generation. In addition, the company offers an extensive range of solutions for climate control and ventilation in both residential and non-residential buildings. The Dutch company Brink Climate Systems B.V. has specialised in air heating systems, but especially the growing market segment of home ventilation systems with heat recovery. The major production locations of this segment are situated in Germany, the Netherlands, Croatia and North Macedonia. Sales activities in the core markets are handled by Group-owned sales and service offices, and increasingly focus on products purpose-designed for

Business fields

of CENTROTEC SE

[% of Group sales]



these markets. In many other countries, there are also agreements with sales partners, some of which act as CENTROTEC's exclusive local representatives. The sales channels vary according to product type and sales market. In the case of heating systems, orders are processed mainly via wholesalers. The existing good, direct links with the trade are nevertheless crucial to market success. Meanwhile planners and plant engineers are usually the key contacts in the climate control area.

The **Gas Flue Systems** segment specialises mainly in the areas of gas flue systems for condensing boilers and air piping systems for home ventilation with heat recovery, through the companies Ubbink B.V. and Centrotherm Systemtechnik GmbH. The passive systems developed and manufactured by this segment often serve as complementary components to the active systems made by the Climate Systems segment. The main production locations of this segment are in Germany and the Netherlands. Components are also produced at the locations in the USA and China. There is moreover a pan-European and increasingly worldwide network of local sales subsidiaries. Depending on product group, sales are channelled either via the wholesale trade or directly to other manufacturers of heating and ventilation systems. The roof products area is moreover becoming increasingly important for the segment. This segment also includes the holding company, the production plant that is currently under construction in China as well as a company established in 2018 that handles the development of new business models.

The **Medical Technology & Engineering Plastics** segment manufactures medical technology solutions and engineering plastics at locations in Germany and Denmark, for sale internationally.

Management and governance

The management and governance structure of CENTROTEC and the Group is based on the requirements of the Corporate Governance Code and the German Stock Corporation Act. The Supervisory Board is elected and overseen by the Annual General Meeting, and advises the Management Board on the operational management of the entire Group. Since 2018, the Management Board has comprised three equal-ranking members. Targets are drawn up for the individual companies at annual budget negotiations, with the involvement of the Management Board. These then serve as the basis for defining individual targets for Management Board members, managing directors and executive staff, and for establishing their variable pay components.

CENTROTEC's corporate philosophy is fundamentally based on granting considerable entrepreneurial freedom to the individual operating units as well as to employees and executive staff. This approach enables the operating subsidiaries to act in a swift, innovative and market-led way, which enhances their appeal as employers. However in recent years the Group has also been actively promoting the use of synergies between the individual companies; this remains a focus of its strategy, while not signalling a departure from the fundamentally non-central corporate philosophy.

The Group-wide planning and budgeting system, along with the risk management system which was steadily refined in recent years, serves as the basis for the operational management of the Group. This is accomplished with the help of operational management indicators that are considered on a weekly, monthly or quarterly basis as target/actual and year-on-year comparisons. The revenue and the operating result (EBIT) are of particular help here, especially for the management of the segments. Other indicators that shed light on liquidity, net working capital and the financial situation are also used (please refer also to the relevant tables in the economic report below). These indicators are explained and evaluated in regular discussions held at various levels. They allow departures from the targets and changes in the general parameters to be identified early on so that appropriate corrective action can be taken. Furthermore, the ongoing programmes to improve efficiency and cut costs play a fundamental part in setting up the organisation and processes to address the challenges presented by target markets that are changing ever more rapidly.

Corporate Governance Statement pursuant to Section 289f of German Commercial Code and Section 315d of German Commercial Code

The Corporate Governance Statement to be submitted pursuant to Section 289f of the German Commercial Code (HGB) and the Corporate Governance Report published by the company annually can be found on the website of the CENTROTEC Group, under Investor Relations.

Pursuant to Section 317 (2) sixth sentence of HGB, the disclosures pursuant to Section 289f of HGB do not fall within the scope of the review by the company's auditors.

Remuneration report

The remuneration report summarises the principles that are applied in determining the overall remuneration of the members of the Management Board of CENTROTEC SE, and explains the structure and level of the Management Board members' remuneration. It furthermore describes the principles for and level of the Supervisory Board members' remuneration. The remuneration report is a component of the Group Management Report. It can be found on pages 24 to 27 of this Annual Report.

People at CENTROTEC

The people who work for the CENTROTEC Group are a major success factor in the ongoing development of the individual companies and the Group. Keeping its employees motivated and continuing to encourage them is central to the corporate philosophy. This approach is substantiated by the Group guidelines, which advocate social responsibility, entrepreneurial action and sustainable action coupled with absolute integrity. These fundamental principles are put into practice in the individual entities in a variety of ways which reflect the existence of diverse corporate cultures at the companies that have been brought into the Group through past acquisitions. To accompany the fundamentally high level of freedom given to the operating units and individual employees, there is a Group-wide system of targets which, specifically at management level, forms an important part of the performance-based management, pay and incentives system of the Group and its member companies.

An apprentices quota of 4% as well as the growing number of individually tailored working hours models and other company-specific arrangements are evidence of how the companies of the CENTROTEC Group focus strongly on personnel development and employee loyalty. In addition, the IT base for giving the Group and its individual companies an even stronger future position in that regard was established in the period under review.

At the end of the 2019 financial year the comprehensively consolidated companies of the CENTROTEC Group had a total of 3,339 employees (previous year 3,081 employees). Of this total, 156 persons were employed as temporary workers, as in the previous year. Expressed as full-time equivalents (FTE) the figure was 3,222 (including 126 FTE temporary workers; previous year 2,962 FTE, including 130 FTE temporary workers). As an average for the year, the CENTROTEC Group employed 3,264 (including 161 FTE temporary workers; previous year 3,067 FTE, including 182 FTE temporary workers) people. This corresponded to 3,155 full-time equivalents (including 143 FTE temporary workers; previous year 2,962 FTE, including 169 FTE temporary workers).

The personnel expenses of the CENTROTEC Group rose by 6.4 % to EUR 185.1 million in 2019 overall (previous year EUR 174.0 million). Including the costs of temporary workers, the personnel expenses ratio remained unchanged from the previous year at 29.5%.

Research and development

CENTROTEC treats research and development (R&D) as a high priority. In keeping with the corporate philosophy, this area is organised non-centrally and is therefore based at the individual production locations. As a result of the growing convergence of the individual systems into complex all-in solutions, cooperation is becoming increasingly common in this area, too, including to some extent across the segments.

The non-central structure allows changing customer requirements or new regulatory controls to be optimally reflected at the product development stage. The various development projects are taken forward in close consultation with the Sales area and address the requirements of the individual national companies. Alongside gradually improving energy efficiency, a priority of R&D work is to increase convenience of installation and operation as well as to use digital solutions in the growing convergence of subsystems into overarching systems across the areas of heating, ventilation and climate control for buildings.

The dominant trend in the Central European new-build market towards the use of environment-friendly heat pumps for heat generation has substantially influenced the direction of development activities in the Climate Systems segment. Technical solutions based on efficient inverter technologies and climate-friendly refrigerants were developed for this purpose and made available for products that will appear in the future.

The CHA line of high-efficiency heat pumps introduced into the market in 2019 with climate-friendly refrigerants will meet the very demanding efficiency criteria of the guidelines on the funding of measures for the use of renewable energies in the German heating market. The CHA line thus attracts financial support of up to 45% of the purchase and installation costs in modernisation projects and up to 35% for new builds.

Another priority is to bring the product range in line with the Chinese market. To that end, necessary technical adjustments were made to various product series and the integral control system was prepared for digital communication in the Chinese data environment.

In the climate control technology product area, the product range was energy-optimised to satisfy tougher European legislation and expanded with the aim of achieving greater integration of control engineering system components.

As well as this heat pump series, the significant product developments brought to technical completion or market readiness in 2019 included the following:

- New generation of gas condensing boilers in the performance range of 38-55 kW
- New generation of compact air handling units for air volumes of up to 3,300 m^3/h
- Ventilation solutions for residential buildings with extended air volumes
- Innovative ventilation concept with heat recovery for renovations

In the **Gas Flue Systems** segment, the product portfolio was expanded in the area of building services engineering solutions in the year under review and products specifically for roof applications were made market-ready. This reflects the strategic goal of reducing dependence on business with gas flue ducting systems. In addition, the solutions for air piping and gas flue ducting were steadily aligned with the requirements of major European suppliers whose custom was recently secured, and similar adjustments were also made for the non-European market.

In the **Medical Technology & Engineering Plastics** segment, the expertise available in the Engineering Plastics area was exploited to develop functional plastics for a variety of applications. The focus here was on thermal and slip characteristics, but also on mechanical stability and conductivity. In the Medical Technology area, activities in 2019 focused on bringing out new versions of the established liposuction unit. The main product in this area, including its control console, had undergone a full redevelopment in the previous year and various components were added in 2019. There were further significant development activities in the liquid handling and HPLC hardware areas.

The CENTROTEC Group employed a total of 173 people/FTE in the research and development area at the end of 2019 (previous year 158 employees/FTE). Expenditure on this area, including that recognised as an asset, came to EUR 19.0 million (previous year EUR 17.9 million).

Sustainability

With regard to sustainability, we refer here to the separate Non-Financial Group Report, which is published in the Annual Report of CENTROTEC from page 13.

SYSTEM PROVIDER FOR AIR CONDITIONING AND POWER SUPPLY

Commercial buildings

1

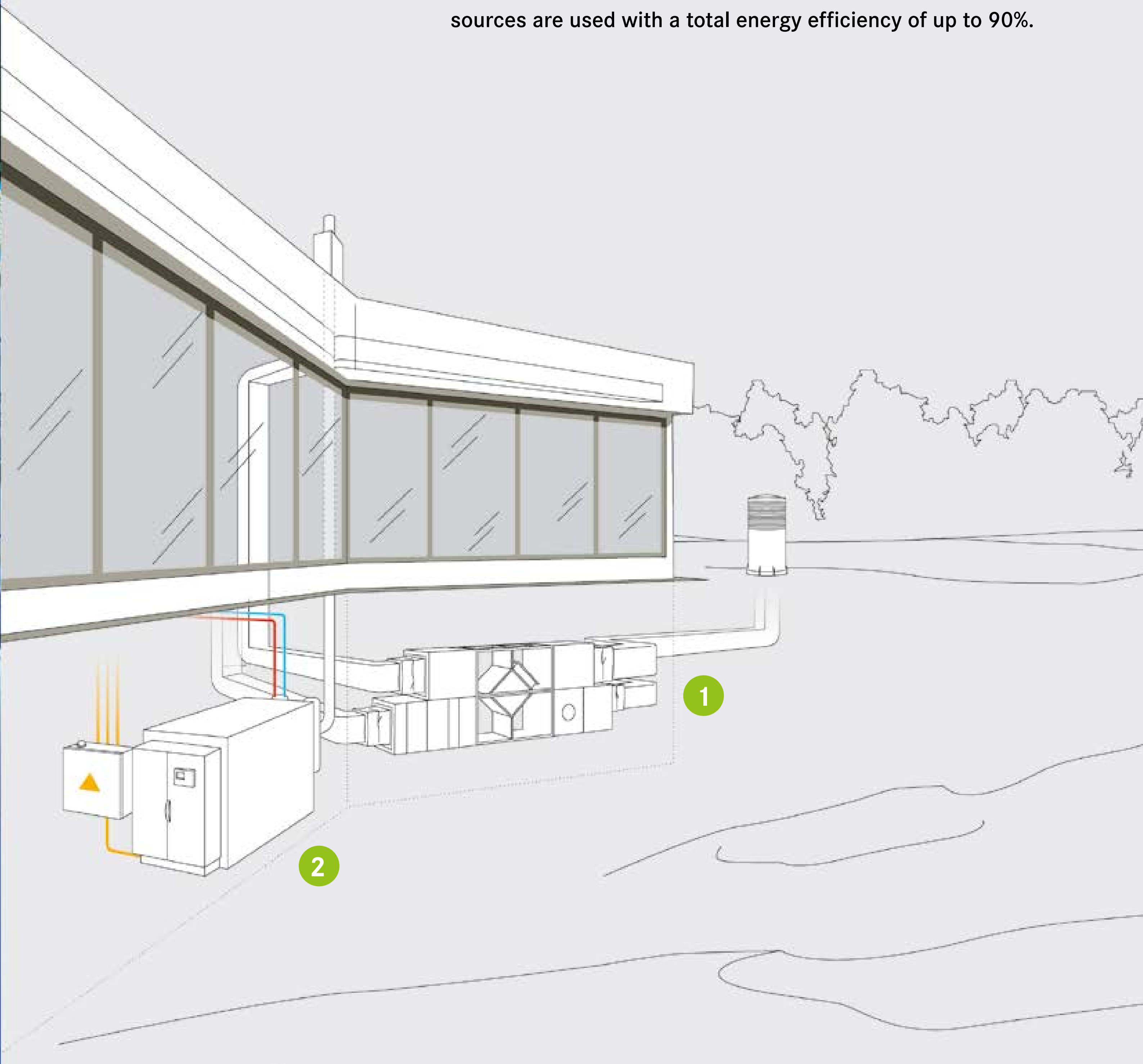
Wolf large air conditioning unit

2

Wolf Combined Heat and Power unit

Large air conditioning units CHP plants

Highly efficient climate control solutions from Wolf create a healthy indoor climate. Through heat recovery, they contribute significantly to energy savings and reduce heating and cooling energy requirements and CO_2 emissions. Combined Heat and Power (CHP) units from Wolf form the basis for an energy-efficient and decentralized generation of electricity and heat by means of CHP units at the point of consumption. Energy sources are used with a total energy efficiency of up to 90%.



Economic report

Overview

The CENTROTEC Group achieved revenue growth of 5.9% in the 2019 financial year, taking the total to EUR 651.0 million (previous year EUR 614.7 million). The acquisition of IVT, which was completed in the second half of the year, added EUR 2.5 million to this growth. Organic revenue growth was thus 5.5%. On this basis, the operating result (EBIT) enjoyed an overproportional rise of 8.8% to EUR 33.1 million (previous year EUR 30.4 million). Organic revenue growth for the Group came to 8.6%. This meant the revenue target announced at the start of the year was slightly exceeded; meanwhile the operating result (EBIT), as announced in the course of the year, came in at the upper end of the forecast range. The healthy result from investments had a substantially positive impact on net earnings, which came to EUR 23.4 million (previous year EUR 12.7 million). Among other things the share buyback programme conducted in the second half of the year reduced the net financial position to EUR -66.9 million (previous year EUR -21.0 million). The equity ratio fell to 39.1% (previous year 42.2%). The operating cash flow for 2019 of EUR 42.0 million was 9.9% up on the prior-year figure (EUR 38.2 million).

Business performance

The industry-specific seasonal pattern to the core business of the CENTROTEC Group – with a marked rise in revenue in the second half of the year – was fundamentally in evidence again in 2019; however the climate package launched by the German government at the end of the third quarter as well as the public debate that it started about the planned funding measures prompted distinct consumer reluctance in the German heating market in the final months of the period under review.

Economic environment

The markets in which the CENTROTEC Group conducts its core business are influenced mainly by construction activity, energy prices and regulatory requirements on the energy efficiency of buildings. From a Group perspective the development of the renovation market is of greater significance than that of the new-build market.

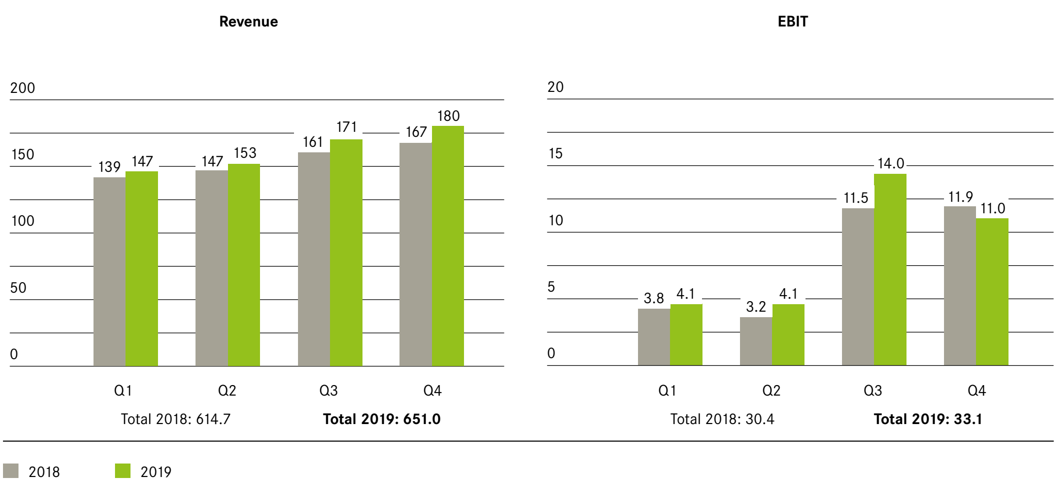
Construction activity in the European markets that are most relevant to CENTROTEC again developed positively in 2019, as in previous years. The 2.3% (previous year 3.2%) real growth in construction volume expected by the European industry federation EUROCONSTRUCT for 2019 also suggests a similarly positive development in Germany.

Energy-related modernisation of buildings as a share of this activity more or less tracks the movement in energy prices. That is true of private, but especially commercial, customers.

Following the slight price rises for crude oil in 2017/2018, its price dipped again from mid-2019 but ended the year back above the average of USD 62 per barrel for the year under review (previous year USD 70). Heating oil prices in the German market showed a similar pattern. Although the gas price development has been fundamentally decoupled from the oil price for a number of years, it usually exhibits similar characteristics with something of a time lag. The long-term decline in end customer prices for natural gas had come to a halt in 2018. Natural gas prices for private and commercial end users continued the slight upward trend in the year under review of 2019.

Quarterly Revenue and EBIT Development 2018 - 2019

[in million EUR]

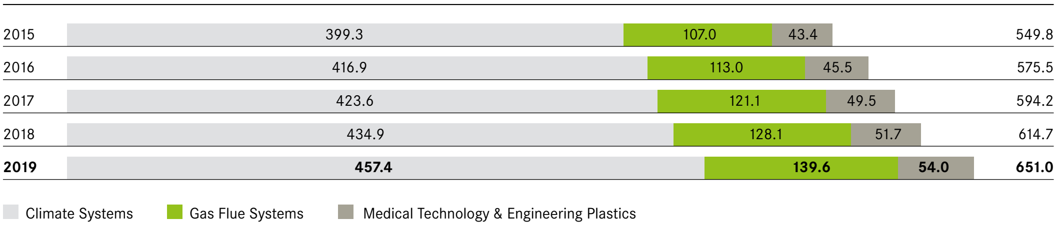


The market for heating technology in the European countries that are especially of importance for CENTROTEC showed a mixed but overall positive development in 2019. The flat French and British markets and much weaker Italian market contrasted with volume growth in the Spanish, Dutch and German markets. Market growth in Germany of around 2% was slightly below the prior-year figure of 3% and was supported by the renewed strength of new construction activity. Solar thermal business and the oil sector reported lower figures, whereas the area of heat pumps and gas condensing technology again showed strong growth. These trends can fundamentally be observed in almost all European markets, with slight variations. The German market for combined heat and power technology was slightly above the previous year's level in the period under review, on the back of the previous year’s decline due to regulatory changes. The markets for climate control and ventilation technology again developed positively in Europe in all countries except the United Kingdom and Turkey in the period under review, with growth of more than 3%.

The activities of the companies in the Medical Technology & Engineering Plastics segment take place in predominantly highly fragmented markets for which no comprehensive market information is available. It should be noted that the market for engineering plastics is an early-cyclical market. Conversely the market for medical technology exhibits a stable long-term growth trend that is being supported by demographic change.

Revenue by Segment

[in EUR million]



Financial performance

Revenue

The CENTROTEC Group generated revenue of EUR 651.0 million in 2019 (previous year EUR 614.7 million). The share of revenue earned outside Germany remained unchanged from the previous year at 48%. Germany remains by far the most important sales market, ahead of the Netherlands (11%) and France (8%). Other important sales markets for CENTROTEC are Austria, Spain, Italy, Belgium, the USA and China, each of which brings in more than two percent of consolidated revenue. The highest growth rates in the relevant national markets in the 2019 financial year were in China, the USA and Italy, but Eastern European countries with the exception of Russia also achieved above-average growth rates.

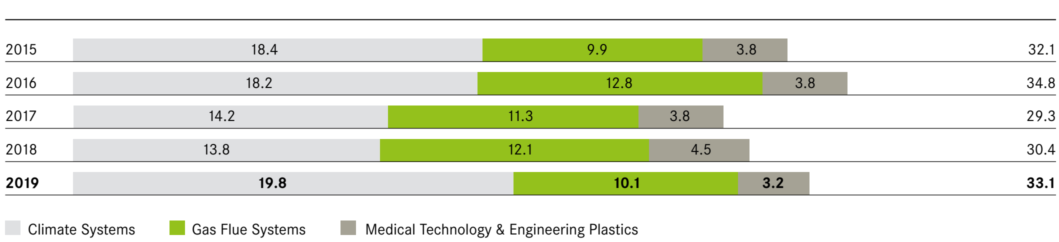
- The **Climate Systems** segment increased its revenue by 5.2% in 2019 to EUR 457.4 million (previous year EUR 434.9 million). Beyond registering their highest growth in absolute terms in the German heating market, the companies of the largest corporate segment posted their highest rates of growth in China and Eastern European countries except Russia. The development in markets that are very important for the Group, such as France and the Netherlands, was likewise fundamentally positive in 2019. The consumer restraint among German heating customers triggered by the climate package announced in September was noticeable in the fourth quarter, but was absorbed by the positive pattern of the first three quarters and the steadily positive development in climate control and ventilation business. In addition, the takeover of the production facilities of a competitor in the heat exchangers area had a positive impact in the Climate Systems, and the combined heat and power technology area that had experienced an abrupt setback in the previous year due to regulatory matters was able to stabilise at a low level.

- The **Gas Flue Systems** segment increased its revenue for the 2019 financial year by 8.9% to EUR 139.6 million (previous year EUR 128.1 million). A subsidiary in the roof products area that was included in consolidation from the second half of the year also contributed EUR 2.5 million to this rise in revenue. Organic growth in the period under review consequently came to 7.0%. The acquisition boosted the already high growth rates for the segment's companies in the German market in 2019. There were also high growth rates in North America and various smaller national markets. The air distribution systems for home ventilation systems achieved the highest growth rates in the segment.

- In the 2019 financial year the **Medical Technology & Engineering Plastics** segment achieved further revenue growth (4.6%) and generated revenue of EUR 54.0 million (previous year EUR 51.7 million). Growth came mainly from the Medical Technology area of the segment. The Engineering Plastics area performed weakly

Ebit by segment

[in EUR million]



due to cyclical factors, especially in the German market. Viewed by revenue region, Italy and the USA brought in the highest growth, while the home market Germany experienced a slight fall in revenue due to the weak performance of engineering plastics business.

Earnings

The CENTROTEC Group increased earnings before interest, taxes, depreciation and amortisation (EBITDA) in 2019 by 18.1% to EUR 64.3 million (previous year EUR 54.5 million). It should be noted that the recognised lease expenses were reduced by EUR approx. 5.5 million as a result of the new accounting standard IFRS 16 applicable from 2019. EBIT (earnings before interest and taxes) rose more steeply than revenue by 8.8% to EUR 33.1 million (previous year EUR 30.4 million). The substantial rise in depreciation and amortisation of EUR 7.2 million to EUR 31.2 million is attributable in the main (EUR 5.6 million) to the changes from the accounting standard IFRS 16, and to a lesser extent to the high investment volume of previous years. The EBIT margin consequently rose to 5.1% (previous year 4.9%) and ranged between 4.3% and 6.8% depending on segment (previous year 3.2% to 9.5%).

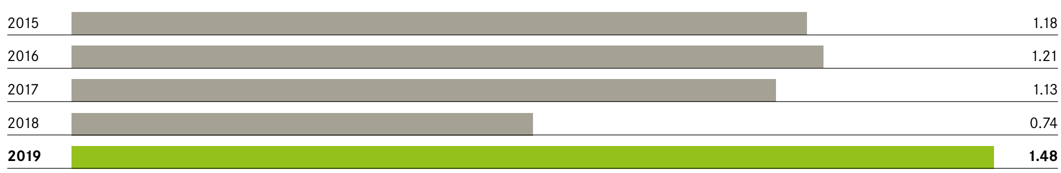
- EBIT for the **Climate Systems** segment rose by 43.4% in 2019 to EUR 19.8 million (previous year EUR 13.8 million). This increase reflects the success of efforts to improve margins in the commercial ventilation area, as well as the economies of scale that the substantially increased revenue volume has brought. In addition the Dutch subsidiary Brink again made a significant profit contribution despite in-year depreciation of a development project. With the heat exchangers area having also made its first substantial contribution to the result for the segment, and the area of combined heat and power technology showing a marked improvement on the very weak previous year, the EBIT margin improved to 4.3% (previous year 3.2%).

- In the **Gas Flue Systems** segment, EBIT fell by 16.8% to EUR 10.1 million (previous year EUR 12.1 million) due to the holding company that is consolidated within this segment, the work in progress on constructing the Chinese production plant and various Group-wide business development activities. Operating business for the segment repeated the healthy prior-year result in 2019.

- The **Medical Technology & Engineering Plastics** segment achieved EBIT of EUR 3.2 million in the 2019 financial year. The fall of 28.1% compared with the prior-year figure (EUR 4.5 million) is mainly attributable to the cyclically-related weaker development in the German segment area of Engineering Plastics as a supplier to the mechanical engineering sector, along with increased personnel and IT expenses in the segment's various companies.

In 2019 the net interest of the CENTROTEC Group deteriorated slightly to EUR -4.8 million (previous year EUR -4.2 million). Thanks to the positive contribution of current investments in the amount of EUR 5.1 million (previous year EUR -7.0 million), the financial result improved to EUR 0.4 million, up from EUR -11.2 million in the previous year. As a result, earnings before tax (EBT) rose by 74.2% to EUR 33.5 million (previous year EUR 19.2 million). There was an even steeper increase in earnings after tax (EAT) because the positive effects from current investments have a lower tax impact than the other result. EAT went up 84.9% to EUR 23.4 million (previous year EUR 12.7 million). The effective tax rate of 30.0% was consequently lower than the prior-year level (34.1%), which had been elevated by the opposite effect from the current investments. As a result of the share buyback programme conducted in 2019, the number of dividend-bearing shares declined to 14,630,936 at December 31, 2019. Basic earnings per share (EPS) thus doubled from the prior-year figure of EUR 0.74 to EUR 1.48 for 2019.

EPS*
[in EUR]



* Earnings per share; reduced number of shares from 2018

Net worth and financial position

Principles and aims of financial management

Financial management within the CENTROTEC Group is designed to secure the company's long-term future. It seeks to uphold the interests and entitlements of the employees, owners, other lenders and other stakeholders. In addition, the aim is to assure a capital and risk structure that supports the pursuit of the corporate objective of sustainable, profitable growth. This means ensuring that not only are there adequate liquid funds available to the Group companies to finance organic growth, but also that the company enjoys access to adequate financial resources whenever it wishes to seize suitable opportunities for external growth. Financing has until now taken place predominantly at the level of the subsidiaries: in keeping with CENTROTEC's corporate philosophy, whenever it has raised borrowed capital it has given preference to ring-fenced structures for the assets and companies to be financed. In 2017, the favourable financing situation was moreover used to secure long-term financing on attractive terms for the Group, at the level of the holding company, by means of a promissory note loan for EUR 90 million. This promissory note loan provides for a right to terminate in the event of a change of control. As a whole, the company has adequate financial resources at its disposal for operational and external growth.

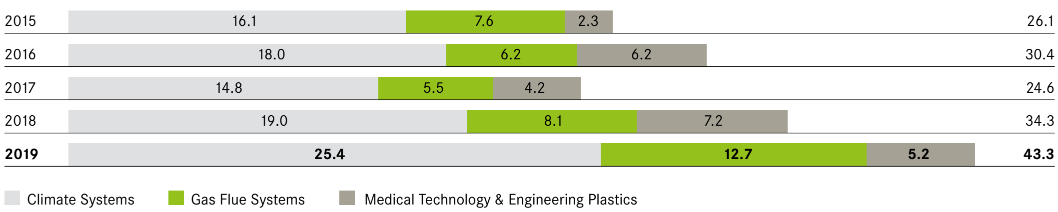
The CENTROTEC holding company is financed by charging for the services it provides, and also by dividends from subsidiaries as well as by external financing.

Acquisitions and divestments

In the 2019 financial year Ubbink B.V. and its subsidiary company Ubbink DE, which are part of CENTROTEC, acquired 100% of the shares of IVT GmbH and IVT-Industrie-Vertrieb Technik GmbH & Co.KG, which are each domiciled in Holzwickede, Germany. IVT is a business with a high-quality product range for the roofing trade and has already been a long-standing partner of the CENTROTEC subsidiary Ubbink. In addition, selected production facilities of a competitor in the field of plastic and aluminium heat exchangers were acquired by Holmak B.V. by way of an asset deal and deployed at the production locations in the Netherlands and North Macedonia.

Investment

[in EUR million (without acquisitions and IFRS 16)]



Investment

The objective of the companies of the CENTROTEC Group is to use investment so that its modern, highly efficient development, production, logistics, sales and administrative units are able to access further growth opportunities and actively realise these.

To that end, the companies of the CENTROTEC Group invested a total of EUR 43.3 million in property, plant and equipment and intangible assets in the 2019 financial year, an increase of EUR 9.1 million or 26.4% on the previous year (EUR 34.3 million). The investment volume consequently exceeded the volume of depreciation and amortisation by EUR 12.1 million. The investment volume increased significantly in the two core segments Gas Flue Systems and Climate Systems. As in previous years, the main investment priorities were new buildings and building extensions, followed by the modernisation of the production and IT infrastructure. Investment in product development and in the acquisition of production facilities are other drivers of this development.

The investment volume in the largest segment **Climate Systems** came to EUR 25.4 million in the year under review of 2019, an increase of 33.7 % on the prior-year figure of EUR 19.0 million. The focus was on acquisitions of land and the construction of production buildings in Croatia and Germany as well as the acquisition of a competitor's production facilities for the manufacture of heat exchangers. There was also investment in expanding and modernising the production infrastructure, specifically at the Dutch location, and in the development of new products. In the Climate Systems segment there were four individual investment projects with a total value of more than one million euros in the period under review.

In the **Gas Flue Systems** segment, the investment volume came to EUR 12.7 million in 2019. That is 56.5% more than in the previous year (EUR 8.1 million). Because the holding company is treated as part of the Gas Flue Systems segment and includes the Chinese production plant that soon will be used across the entire Group, the China investment is the biggest single investment in the segment and the entire Group. Then there are final costs for the construction work on expanding the Dutch production location, which was partially completed in the previous year. Also, a number of extensive IT projects were taken forward in this segment, some of them through the holding company. Overall there were two individual investment projects in the Gas Flue Systems segment that exceeded the threshold of one million euros.

Key financial figures

[EUR million]	2019	2018
Balance sheet total	588.1	568.2
Non-current assets (of which goodwill)	296.3 77.9	261.3 77.3
Shareholders' equity	230.2	239.5
Equity ratio (percent)	39.1	42.2
Net financial position (percent)*	(66.9)	(21.0)
Net Working Capital**	81.2	70.1

* Cash and cash equivalents + current investments – current and non-current borrowings
** Current assets – cash and cash equivalents – current investments – current, non-interest-bearing borrowed capital

The investment volume of EUR 5.2 million in 2019 in the **Medical Technology & Engineering Plastics** segment was 26.8% below the very high prior-year figure of EUR 7.2 million. The investment priorities were in the sphere of production infrastructure and product developments. There were no single investments with a volume of more than one million euros in this segment in the period under review.

Balance sheet structure

At the balance sheet date of December 31, 2019 the CENTROTEC Group's balance sheet total was EUR 588.1 million. This meant the balance sheet was stretched by 3.5% compared with the end of the 2018 financial year (EUR 568.2 million).

The biggest change on the assets side of the CENTROTEC balance sheet was the rise in property, plant and equipment from EUR 130.0 million to EUR 159.1 million at the balance sheet date. This increase, which is fundamentally driven by the increased investment to modernise and expand production capacities, also reflects the effects from the change from accounting standard IFRS 16 in the amount of EUR approx. 15 million. At the same time intangible assets rose by EUR 4.6 million to EUR 48.3 million as a result of capitalised software and development services rendered. On the other hand the level of current other financial assets declined by EUR 18.6 million to EUR 83.2 million as a result of disposals despite positive price trends in financial investments. Growth and reporting-date effects likewise led to rises in inventories (EUR 86.4 million/up EUR 7.7 million) and trade receivables (EUR 72.4 million/up EUR 7.1 million). The biggest changes on the equity and liabilities side at the balance sheet date of December 31, 2019 were the EUR 12.8 million rise in non-current borrowings to EUR 158.7 million, the pension provisions increased by EUR 10.3 million to EUR 55.9 million and the EUR 9.4 million decline in equity to EUR 230.2 million (equity ratio 39.1%/previous year 42.2%). The share buyback programme with a volume of EUR 20.5 million conducted in the period under review was a major factor in this development.

Financing

At December 31, 2019 the borrowings of the CENTROTEC Group amounted to EUR 185.1 million, above the prior-year figure of EUR 168.9 million including as a result of the share buyback programme conducted in the period under review. Taking into account cash and cash equivalents as well as attributable current investments, the net financial position came to EUR -66.9 million (previous year EUR -21.0 million).

The remaining changes within the financial structure of the CENTROTEC Group can be regarded as not material. The reported financial debt was made up as follows at the balance sheet date:

FINANCIAL KEY FIGURES
BORROWINGS MATURITIES SCHEDULE AS OF 31/12/2019
[in EUR '000]

	Total outstanding amount	Of which maturity than 1 year	Of which maturity 1 to 5 years	Of which maturity over 5 years	Interest rate spread
Real estate loans	50,929	3,685	13,988	33,256	1.4 – 5.4%
Real estate loans	102,207	2,712	8,211	91,284	0.7 – 6.5%
General credit facilities	14,330	14,330	0	0	0.6 – 6.5%
Borrowings excluding leases	**167,466**	**20,727**	**22,199**	**124,540**	
Finance leases	17,662	5,718	9,994	1,950	1.5 – 3.5%
Total	**185,128**	**26,445**	**32,193**	**126,490**	

The overwhelming portion of financial debt is denominated in euros. In contrast to the predominantly variable interest rates for general credit facilities, other financial debt is for the most part either at a fixed rate or is hedged long-term through interest rate swaps.

There are leases e.g. for fixtures and office equipment and for cars. Up to and including 2018, these assets were not recognised within fixed assets due to the contractual agreements in place. Since the year under review of 2019 they have been recognised in accordance with the changed accounting standards of IFRS 16. A consequence of this was that property, plant and equipment and lease liabilities each rose by around EUR 15 million at December 31, 2019.

Liquidity position
At the end of the 2019 financial year the cash flow statement showed that CENTROTEC had financial resources, defined as cash and cash equivalents less the general credit facilities drawn, amounting to EUR 24.7 million (previous year EUR 33.6 million).

Cash flow from operating activities in the 2019 financial year totalled EUR 42.0 million and was therefore 9.9% up on the prior-year figure of EUR 38.2 million. The increased net income for the period before taxes and income (EBIT) coupled with the higher depreciation and amortisation more than compensated for the effects of the increased net working capital and the higher income tax payments. Cash flow from investing activities of EUR 21.9 million was further into negative territory than was the case in the previous year (EUR 14.2 million) because of the year-on-year higher investment volume. Cash flow from financing activities was again negative overall at EUR -29.0 million mainly because of the share buyback programme amounting to EUR 20.5 million conducted in 2019.

At December 31, 2019 CENTROTEC had cash and cash equivalents plus attributable current investments of EUR 118.2 million (previous year EUR 148.0 million). Together with the unutilised credit lines (EUR 42.2 million/ previous year EUR 37.6 million) the Group therefore had access to adequate cash and cash equivalents to actively shape its own future.

General statement on the economic development of the Group

The strategy of focusing on international growth, without neglecting the German home market, again proved to be successful in 2019. On that basis CENTROTEC achieved the forecast for revenue and earnings (EBIT) made at the start of the year.

The CENTROTEC Group will seek to maintain its growth, with further rising profit margins in the short to medium term. The basis for achieving these organic growth targets has become significantly broader in recent years. It rests on fundamentally high profitability as well as solid financial metrics and ample scope for financing.

Takeover-relevant disclosures pursuant to Sections 315a and 289a of German Commercial Code

Provisions on the appointment and dismissal of the members of the Management Board and on changes to the Articles of Association

The Management Board of the company is appointed and dismissed by the Supervisory Board, which is also responsible for nominating a member of the Management Board as Management Board Chairman. The Annual General Meeting resolves amendments to the Articles of Association. The resolutions of the Annual General Meeting require a simple majority of votes cast and, if a majority of shares is required, a simple majority of shares, unless a greater majority or further requirements are stated in law. For a resolution on the amendment of the Articles of Association, the simple majority of votes cast suffices, provided half of the capital stock is represented in the passing of the resolution and mandatory statutory provisions do not stipulate otherwise.

No other disclosures pursuant to Section 315a of German Commercial Code are required.

Authorisation of the Management Board to issue or buy back shares

Share buyback
Pursuant to the resolution of the Annual General Meeting of May 18, 2019 the company is authorised until May 17, 2024 to acquire treasury stock which, together with existing treasury stock, represents up to ten percent of the capital stock at the time of the authorisation taking effect. The price for the acquisition of these shares may not be more than 10% higher or more than 10% lower than the closing price in XETRA trading on the Frankfurt Stock Exchange (or in a successor system) for shares of the same class and features on the three trading days preceding the acquisition. The Management Board is authorised to offer all or some of the shares thus acquired to third parties in (part) payment of the acquisition of companies or investments in companies, excluding the shareholders' right of subscription. The Management Board is furthermore authorised to retire the company's treasury stock without the need for a further resolution to be adopted by the Annual General Meeting. Retirement may be restricted to part of the purchased shares.

On August 27, 2019 the company published a voluntary public share buyback offer for up to 1,625,645 no par value shares of the company at an offer price of EUR 12.60 per no par value share. Through this share buyback offer, the company acquired 1,625,517 treasury shares.

At December 31, 2019 the company thus held 1,625,517 treasury shares, for which it does not enjoy voting rights or dividend rights.

The capital stock has decreased by EUR 1,764,470 compared with December 31, 2018 and was exactly EUR 16,256,453 at December 31, 2019.

Authorised capital
By the resolution of the Annual General Meeting of May 31, 2017, the Management Board is authorised, with the consent of the Supervisory Board, to increase the capital stock by up to a total of EUR 3,000,000 (Authorised Capital 2017) up until May 30, 2022 for cash or non-cash contributions through the issuance of new no par value bearer shares on one or more occasions. The Management Board was also authorised, with the consent of the Supervisory Board, to specify the details of the share issue and, in defined conditions, to exclude the subscription right (a) for residual amounts, (b) for capital increases for cash if the issuing price of the new shares does not significantly undercut the market price of the shares of the same class and features already listed at the time when the issuing price is finally fixed by the Management Board, in keeping with Section 186 (3), fourth sentence of the German Stock Corporation Act, (c) for capital increases for contributions in kind for the granting of shares for the purpose of acquiring (including indirectly) businesses, business units or participations in businesses or assets of other businesses, (d) for issuance to employees of the company or of domestic and international affiliated companies (Section 202 (4) of the German Stock Corporation Act) and (e) to run a scrip dividend.

Conditional capital
The company had no conditional capital at the reporting date (December 31, 2019).

In the past, CENTROTEC used share-based payment transactions counterbalanced by equity instruments. The last options were issued in the 2012 financial year. The exercise deadlines had expired on January 23, 2018. Therefore no exercising of stock options occurred in the 2019 financial year. The options not exercised have lapsed.

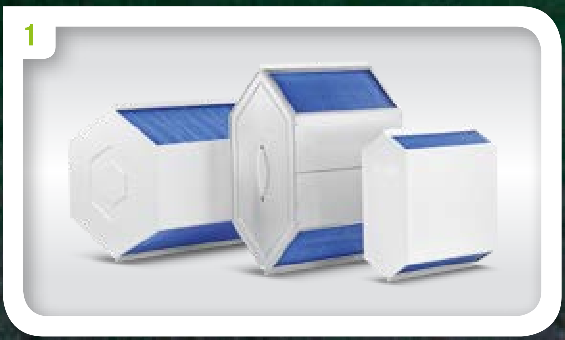
Other disclosures

The composition of the issued capital as well as direct and indirect participations in the capital can be found on page 91 in the Notes to the Consolidated Financial Statements.

SYSTEM COMPONENT PROVIDER

Residential and commercial buildings

1



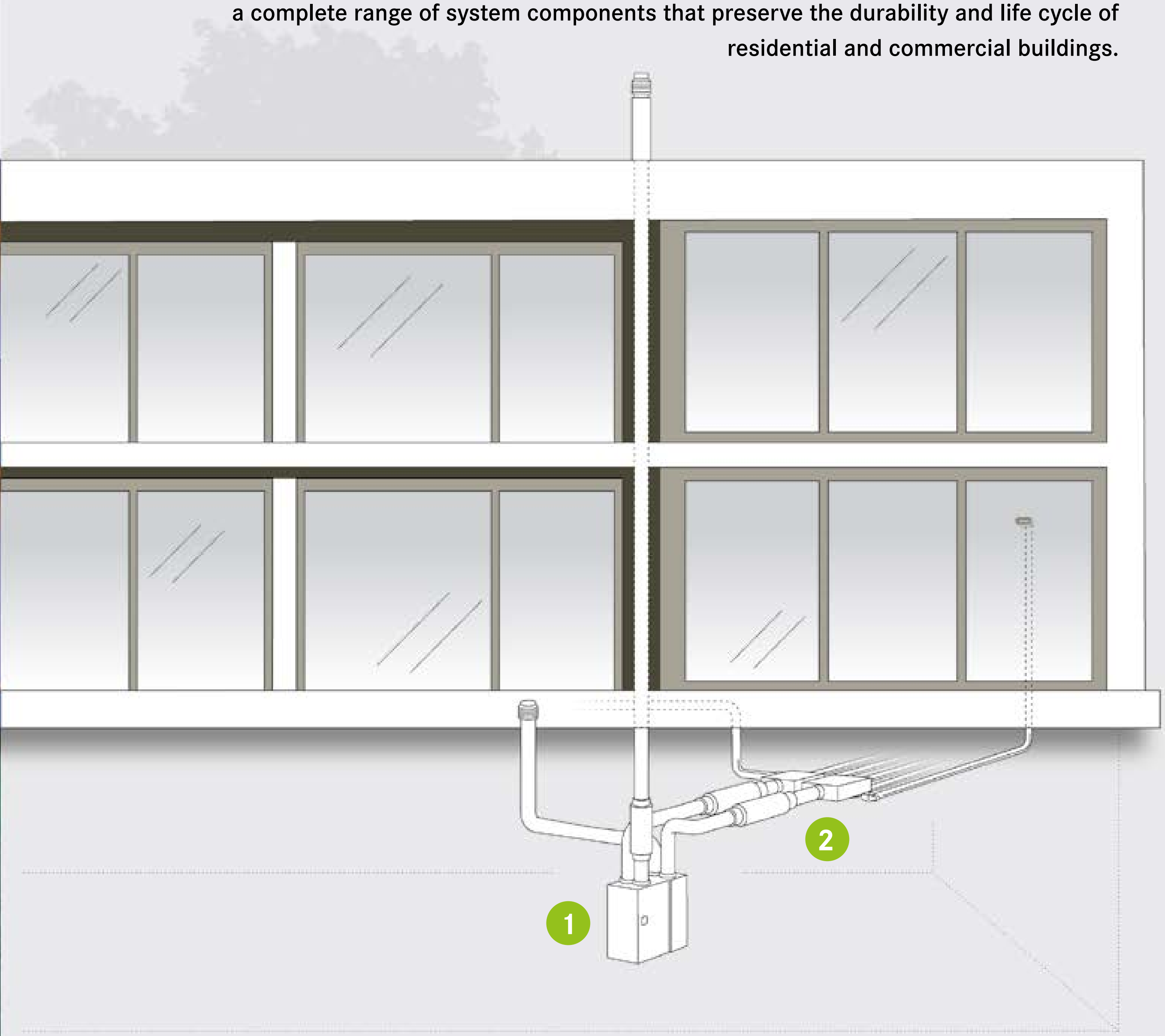
Air-to-air heat exchanger

2

Residential ventilation components

Key components for system integrators

CENTROTEC is a system supplier and also offers key components for other system integrators. These include heat exchangers from Holmak for building ventilation with heat recovery up to 95%. For heating systems, Ubbink and Centrotherm offer flue and ventilation ductwork systems and components that are preferred by leading heating and ventilation manufacturers. Additionally, the Ubbink Centrotherm Group offers a complete range of system components that preserve the durability and life cycle of residential and commercial buildings.



Risk report

Disclosures on the internal control and risk management system for financial reporting, pursuant to Section 289 (4) of German Commercial Code and Section 315 (4) of German Commercial Code

The internal control and risk management system for financial reporting by the CENTROTEC Group aims to identify potential internal sources of error and to limit or eliminate the risks arising from them. In addition to optimising internal processes and procedures, it above all encompasses financial reporting by the CENTROTEC Group. One core function of financial reporting is to steer the Group as a whole. Target and deviation analyses are conducted on the basis of the budget and mid-range planning approved by the supervisory bodies of the Group and subsidiaries. Regular forecasts are made to monitor the changing framework for ongoing business operations.

CENTROTEC's financial statements are based on a Group-wide reporting system. This constitutes the basis for a standardised data reporting process throughout the Group. The operating companies' accounting functions are organised non-centrally but are harmonised by means of a Group-wide accounting manual that regulates how IFRS accounting standards as adopted in the EU are to be applied in Group-wide financial reporting, and on the basis of a Group-wide, uniform, digital reporting system.

The information obtained within a narrow time frame from this comprehensive reporting system provides the basis for active, prompt Group steering. The holding of regular Management Board and Supervisory Board meetings and the close support provided for managing directors by the Management Board guarantee that the information obtained in reporting is suitably evaluated and leads to appropriate remedial measures, as necessary. Together with the provisions in the Articles of Association and the individual rules of internal procedure for the Supervisory Board, Management Board and managing directors, this portfolio of reporting and analytical measures creates a coherently functioning overall system. The system's efficiency and effectiveness are examined by the Management Board and Supervisory Board at regular intervals, and the system is then revised or widened as necessary.

The Group's Legal department helps to draft or cross-checks all materially significant contracts of Group companies. The auditors of the individual companies, sub-groups and Consolidated Financial Statements examine the internal system of control for financial reporting and the risk early warning system to the extent that is necessary based on the audit standards and chosen audit strategy, and they report on their findings to the Supervisory Board. Suggested improvements are taken up by the Management Board and executive management in order to continually develop and improve the system.

To monitor and control the various risk areas, CENTROTEC implements a Group-wide risk management system. To increase efficiency and comply with the changing regulations, the uniform, recognised, professional risk management tool created in 2016 by an external provider in accordance with the requirements of Section 317 (4) of the German Commercial Code along with auditing standard IDW PS 340 and implemented Group-wide was correspondingly updated continuously in line with the requirements of the CENTROTEC Group. The aim of the risk management system and the central task of risk reporting is to identify and evaluate material, existential risks within and outside the Group companies, and to define or initiate appropriate risk management measures so that the executive management of each company has a sound basis for its management decisions. Risk management is run by a risk committee. It manages the Group-wide non-central network in which each individual company is represented by at least one risk manager. Taking account of the existing guidelines, a quarterly report was issued presenting the risk type, likelihood and potential impact of identified risks, along with risk management measures. The reporting cycle was changed to half-yearly reporting from the second half of 2019.

The risks are evaluated primarily in quantitative terms, taking account of their respective probability of occurrence and loss level according to a gross and net assessment, based on the change in earnings (EBIT) compared with the budget figure. The net assessment already takes risk-reducing measures into account and is the basis for risk reporting. However provisions already formed are not considered as risk-reducing factors; they are instead specifically listed separately. Blanket risks such as natural disasters or risks normally encountered in the course of business, such as the fundamental possibility of bad debts, are not taken into account unless there is specific evidence of an increased probability of occurrence of these events. Furthermore, qualitative evaluation of non-quantifiable risks can be performed by determining the level of control and severity.

Within the context of this risk report, Group-level risks are classified as “very low” if their net risk expectation value is between EUR 100 and 300 thousand, as “low” if the effect is up to one million euros, as “moderate” if the effect is below two million euros, as “high” if it is up to five million euros, and as “very high” if it is over five million euros, Different threshold amounts are defined at individual company level, in line with the size of the respective companies.

Operating business is moreover closely monitored by the Management Board. With this as the basis, an early response within the risk management system is initiated and various escalation hierarchies are involved, right up to the Management Board and Supervisory Board, depending on the value of the risk, in order to avoid or hedge risks. The risk management system serves as the basis for the following description of the risk areas and exposure of the Group.

Risk areas

Risks from the economic environment and the industry

The business performance of CENTROTEC is fundamentally dependent on the **wider economic environment** and on general cyclical developments, especially in Europe. Germany remains by far the most significant individual market from the Group perspective. This high dependence continues to represent a high risk in the event of a deterioration in the economic situation in Germany. This risk is addressed by concerted efforts to internationalise.

CENTROTEC fundamentally operates in the industry environment of building investment. Falling building investment can fundamentally adversely affect the sales performance of the Group. CENTROTEC addresses the sales risk that is fundamentally assessed as high for example by focusing on particularly energy-efficient solutions for heating and climate control of buildings: such solutions are becoming ever more relevant in light of the increasingly tough national regulatory requirements regarding the energy efficiency of buildings, as well as the high probability of medium and long-term rises in energy prices. Although the probability of falling building investment has risen because of the record level of European and specifically German construction activity reached in recent years, building investment would still be at a very high level even after a moderate downturn.

Statutory framework conditions and public funding programmes nevertheless continue to have a clear influence. For instance a scaling-back of subsidies if the general conditions remain otherwise unchanged could lead to falling revenue or slower revenue growth. In the past there have been a large number of changes made at various points throughout the year, often causing considerable uncertainty among end customers. Specifically in the area of subsidies, certain countries could moreover be prompted to freeze subsidies or suspend state measures designed to promote construction activity and protect the climate if they encounter financial constraints. This risk is currently classified as high despite the relatively stable economic development throughout Europe. Protracted negotiations about possible improvements to the terms of such subsidies could temporarily prompt an investment backlog.

Finally, the development in the **prices of fossil fuels** has a major influence on readiness to invest in efficient heating, ventilation and climate technology and the use of renewable energies. The fact that gas and oil prices remain low reduces the pressure to invest in modernising existing heating systems, many of which specifically in Germany are obsolete and inefficient. Notwithstanding such short-term economic benefits, the increased use of fossil fuels will seriously aggravate the problem of climate change. Nevertheless, the comparatively low current price level still offers more potential for a rise, e.g. in the form of carbon taxes, than for a decline in energy prices, and therefore in the long term more opportunities than risks from the company's perspective. All in all, the risk presented by the development in energy prices is assessed as moderate.

In addition, in the long term there is the possibility that still-dominant fossil fuels such as gas and oil could be banished from the heating market by regulatory means. CENTROTEC addresses this risk, which still lies well into the future and will initially probably be limited to the new-build market, by practising active strategic planning and suitably adjusting the product portfolio.

Corporate strategy risks

Alongside organic growth, another fundamental dimension of CENTROTEC's strategy is **growth through acquisitions**. One key challenge here is to adapt the internal organisation and processes swiftly to the new, larger entity each time and to integrate the acquired or newly established, frequently foreign businesses into the corporate structure. If ties between new entities and the existing Group are too weak, a loss of transparency and control can ensue. Forcing the corporate culture onto new entities can cause employees to cease identifying with products and companies, ultimately leading to a weakening of the market position and thus of market value. CENTROTEC therefore strives for a balance between control and entrepreneurial freedom at its Group companies. The dovetailing of acquired or newly established entities with the Group is promoted by an overarching integration management approach and continually monitored until the entity is finally fully integrated into the Group-wide mechanisms of control and steering. The structure of the Group as a whole is continually scrutinised for potential for improvements that are implemented by reorganisation projects in the individual segments, in order to establish a workable basis for the continuing sustained development of the Group. The overall corporate strategy risks arising from acquisitions continue to be rated as low.

Growing **internationalisation** furthermore entails wide-ranging risks which are cumulatively of increased significance for CENTROTEC, arising e.g. from changing political and legal frameworks, exchange rate fluctuations, the development of special products for international markets, transport and processing risks, and cultural differences. For its further expansion, in the future CENTROTEC will fundamentally also rely on strong local partners with extensive market-end and logistics expertise and knowledge of their local context. Markets that are the focus of the internationalisation strategy are accessed with the help of Group-owned subsidiaries, and increasingly also through local manufacturing units. By monitoring and examining the risk positions on an ongoing basis in the course of risk management and business operations, the market opportunities and risks that arise are kept under control, and this risk that is classified as growing but moderate is clearly limited.

Risks from operating business

Procurement risks

The production and delivery capability of the CENTROTEC companies depends to a great extent on reliable supplies of raw materials and consumables. As well as all the opportunities they present, increasingly international procurement channels can also represent a risk, as can currently be observed from the as-yet unforeseeable impact of the coronavirus that has spread from China. The risk resulting from the area of procurement is rated as high and is contained through close technical cooperation with important suppliers and, as far as possible, by maintaining at least two sources of supplies in each case. However the hitherto healthy level of business activity across the industry has resulted in longer lead times and also in isolated supply bottlenecks, for example for electronic components, which could fundamentally likewise affect the CENTROTEC companies.

A possible further rise in procurement prices constitutes another potential risk at the procurement end that could become relevant from a Group perspective. Depending on the segment and product area, the recurrence of this problem as a result of market developments is controlled by methods such as protecting long-term supplier relations and corresponding price agreements, and by continuously observing the market and optimising procurement sources. Price developments in the commodity and supply markets are actively monitored. At the same time potential for compensating for price increases is being identified through the Group-wide profitability improvement programmes and suitable improvements are being implemented. Because impending further procurement price increases for raw materials are already factored into the budget, CENTROTEC currently rates the additional risk of rising procurement prices as moderate. In addition, there is fundamentally the risk that service companies especially in the IT or staffing areas could fail to meet their contractual obligations or could terminate existing contracts. This specific risk is assessed as low overall; the effects would be limited to the individual company concerned and are therefore slight for the Group as a whole. Nevertheless, we see a rising tendency in these potential risks, not least as a result of the spread of the “software as a service” approach. Mid to long-term, the risks resulting from the entire procurement process are a significant risk group for the CENTROTEC Group.

Technical and quality risks

Risks may arise from product defects and quality problems. These are addressed for example through internal guidelines at the individual companies and certification to international quality standards such as ISO 9001, ISO 14001 and ISO TS 16949. The individual Group companies always take the most rigorous quality standards in their specific sectors as the benchmark. To safeguard product quality and minimise the associated risks, quality-critical components of CENTROTEC products are subjected to comprehensive quality checks both during the entire production process and in the end products. The methods and systems used to this end are examined and regularly updated in line with current standards. The effect is to significantly reduce the overall impact of this continuing risk, which is fundamentally present in all corporate divisions. Furthermore, appropriate provisions in the amount of the anticipated warranty risks are created. There nevertheless remains a moderate risk because the companies of the Group extensively use modern, high-efficiency technologies in their products so product defects and quality risks cannot be excluded altogether.

The risk of accidents and plant breakdowns is countered by providing suitable training for customers and employees, and implementing accident prevention regulations and task instructions.

The biggest single risk to this area is the possible failure of production plant. This risk is addressed by preventive maintenance and ongoing monitoring of the operating parameters. Plant itself, along with the possibility of a business interruption, is insured for potential forms of loss in line with its value. Together, the technical and quality risks in the 2019 financial year are assessed as moderate.

Innovation risks

The development of innovative products fundamentally involves the risk that the desired outcome may not be achieved despite the expending of considerable resources. For example, regulatory or subsidy-related changes can adversely affect the prospects of development projects succeeding. To minimise this fundamental development risk, there is an intensive dialogue and peer review of product development activities between the individual Group companies, along with intensive market analysis. The internationally growing sales and service organisations are also increasingly called upon to contribute their market knowledge. This helps to identify off-target developments swiftly and limit their potential effects by making adjustments to decisions promptly. All capital investments and development projects are in addition evaluated intensively and promptly in the context of Group-wide development activities, looking at the overall portfolio and the individual opportunities and risks involved. Against a backdrop of a steadily accelerating pace of development, increased product complexity and the specific requirements of international sales markets, there nevertheless remains a moderate innovation risk.

Sales risks

At the sales end, there is the potential risk of losing important customer relationships, in particular with key accounts. Dependence on individual customers is fundamentally reduced by focusing predominantly on products for end users, despite sales via wholesalers. For example CENTROTEC's biggest customer accounted for less than four percent of consolidated revenue, with all other customers well below that figure. At the level of the individual Group companies, this threshold is nevertheless exceeded to some extent. The loss of contact with a wholesale or key account fundamentally always has a palpable impact on revenue and earnings for both the Group itself and the Group companies. This risk of dependence, which is rated as low from a Group perspective, is countered by active management of customer relations and by diversifying the sales channels in the various markets. To that end the sales channels in the individual segments and countries have recently undergone steady expansion and will continue to be examined for scope for expansion in line with the strategy. Revenue dependence on individual customers has furthermore fallen along with the growth already realised, and will continue to decline hand in hand with the future international growth that is being targeted.

There is a further moderate risk in the sales sphere from the growing pressure on the prices of CENTROTEC products, in particular from existing or, in individual instances, new competitors. CENTROTEC believes it enjoys a strong position in its various segments thanks to its rigorous focus on customer requirements and the market position it has already achieved. The product portfolio is moreover regularly scrutinised for potential to innovate and for scope to improve customer centricity, as a means of safeguarding and extending its competitive position. Furthermore, the growth being targeted internationally is designed to gradually reduce the diseconomies of scale compared with large competitors. None the less, as a whole the disparate sales risks outlined represent a significant risk group with a comparatively high risk expectation value from a Group perspective.

Human resources risks

There is fundamentally the potential risk of losing managers and employees in key positions. CENTROTEC addresses this risk that is real, but where its impact has so far been considered low from a Group perspective, by broadening the human resources base as part of developing the Group organisation as a whole. The further development and regular training of employees in their individual specialist areas are supported, and employees are encouraged to show independent initiative in developing and implementing new approaches and methods. In addition, the topic of human resources development is increasingly coming into focus within the business strategy of a growing number of Group companies. This will also be supported by the planned introduction of Group-wide human resources management software in the first half of 2020. CENTROTEC will then be better placed to address an area that will continue to grow in importance, and offer its employees enhanced long-term development prospects. The aim in all this is to further reduce fluctuation in key positions and upskill employees more effectively. These are important measures for guarding against a generally observed risk of shortages of specialists; this risk is already being specifically addressed in practice through training measures for young people that are tailored to the needs of the individual Group companies.

In addition, specifically at times of high capacity utilisation in the general economy there is the risk of excessive cost increases in the human resources area as a result of high wage and salary rises. This regularly recurring risk is countered by active personnel costs management and trust-based partnership between the workforce and the management in a spirit of mutuality. The consequences of potentially high pay settlements are also cushioned by planned revenue increases and the ongoing optimisation of processes throughout the Group, but may fundamentally put pressure on earnings.

Information technology risks

In the domain of information technology, it is fundamentally impossible to exclude the possibility that problems will arise with existing systems or future extensions to existing systems, such as introductions of new software releases, or that system failures will hamper business operations. The customary precautions and security measures in the IT sector are adopted to limit these risks. The appropriateness of the security measures in information technology is regularly checked. The systems and processes in use are adapted to changing requirements if necessary. In addition, a cautious migration approach is taken for the integration of new business units to avoid major risks to business operations, for instance as a result of incompatibility between systems or inadequate reflection of specific business features. Furthermore, the number of ERP systems used throughout the Group is progressively being reduced to avoid possible errors or incompatibility and further optimise systems maintenance. The operating units are increasingly integrated at systems level in line with their business requirements.

It is also to be noted that the risks from cybercrime are growing in significance. Within the context of its IT strategy, CENTROTEC strives to balance the use of modern IT solutions with retaining full control over the central business data needed for business operations in order to, for the CENTROTEC Group with its largely independent IT systems, limit this risk that it still considers to be low.

Finally, the demands of digitalisation are increasing at all value creation stages. The number of IT solutions used in the Group above and beyond classic ERP systems is steadily growing. In implementing these solutions, a balance must regularly be sought between the objectives of unrestricted system stability on the one hand and the swiftest possible implementation on the other.

In summary, the risks from the sphere of information technology are classified as moderate from a Group perspective despite the growing dependence on information technology systems.

Financial risks

Financial risks for CENTROTEC result largely from the partial use of borrowed capital for financing its growth and potential acquisitions. The opportunities successfully taken in the past to generate high, steadily rising earnings in this way go hand in hand with the potential risk of earnings falling or even not being achieved, with the corresponding financial consequences. For financing its operating subsidiaries, CENTROTEC limits the risk it bears by generally restricting this to the entities or corporate divisions in question (ring-fenced financing) and conducts comprehensive profit and earnings controlling on the current and future profitability of all corporate entities as well as on compliance with the relevant financial ratios at both individual company and Group level. Deviations are thus rapidly identified. Any corrective action required is then implemented promptly and thoroughly. For financing, the interest rate risks for the partly variable-rate loans are hedged to some extent by means of interest rate derivatives with banks. The remaining risks in this area are to be rated as low.

In addition, a promissory note loan was placed to lock long-term into attractive interest rates. Furthermore, in the past CENTROTEC has always paid back borrowings according to schedule in order to minimise the resulting financial burdens and maintain sufficient financial leeway.

Adjustments to financing are made as required within the individual financing groups, in line with the needs arising from those financing groups' business operations and the funding requirements. The share buyback programmes of the past two years have prompted the Group's net gearing to rise again somewhat, with the result that the financial risks remain relevant from a Group perspective not least because of the promissory note loan. For more detailed information on the financial situation of the CENTROTEC Group, we refer to the Notes to the Consolidated Financial Statements.

Until now, the focus of business has been on core European countries, specifically in Western Europe. The overwhelming proportion of revenue is generated in the eurozone. This emphasis gives rise to merely limited exposure to risks from **changes in foreign exchange rates**. Business outside the eurozone and in other countries outside Europe will also become increasingly important. The aim here is to build on the pattern of recent years in further broadening the sales basis and thus to reduce dependence on the German market. However this development leads to increased risks from transactions in foreign currencies. In the past, the hitherto low risks to the Group from possible exchange rate movements were hedged selectively within the Group by means of appropriate instruments. As well as the risks of a devaluation of foreign currencies, there is also the risk of a devaluation of the euro. This nevertheless goes hand in hand with increased opportunities for exports to countries outside the eurozone. On the other hand an appreciation in the value of the euro could adversely affect the sales prospects of the Group's products, which are made predominantly in the eurozone. In that respect the goal is to limit this risk further by spreading sales markets more widely through internationalisation.

Possible financial risks from debt defaults are minimised for example by means of payment in advance, credit insurance, flat-rate export guarantees (Hermes export credit guarantees), credit processing, ongoing receivables management, general creditworthiness checks as well as through existing del credere liability, so as to limit their possible consequences for the Group. However there remains a low risk from possible debt defaults. The current investments within other financial investments represent a balance sheet item that is fundamentally exposed to fluctuations in the financial market. This risk, rated as moderate, therefore goes hand in hand with a greater opportunity for the expectation value.

The risk from the fiscal area, which results substantially from the growing requirements to document transfer prices and occurs in several countries, is rated as low from a Group perspective. The risks arisen from the measurement of inventories are rated as low from a Group perspective.

In summary, the risks from the financial sphere are estimated as moderate.

Miscellaneous risks

The supply and sale of products, plant and services may expose the CENTROTEC Group and its individual companies to legal risks which stem, for example, from the possibility of deliveries not being as per agreement, from product liability claims, product defects, quality problems, breaches of intellectual property or from the failure to comply with fiscal regulations. Despite comprehensive quality management activities and the corresponding regularly optimised organisational structures, such risks cannot be ruled out altogether but their level is normal for an industrial enterprise. To guard against this exposure, lump-sum warranty provisions are created to the customary extent for our business operations and corresponding product liability insurance cover is taken out, based on figures from experience of failures and corresponding warranties for potential customer claims, as well as to reflect potential accountability. All customer complaints are moreover systematically checked and processed, then investigated with a view to identifying scope for internal optimisation. To the extent that specific warranty risks are identified, additional one-off provisions in the amount of the expected risk are created.

In addition, further insurance policies were taken out to minimise the general risks from business operations in order to reduce the possible impact of such risks that are a fundamental part of business operations to a low level. Such insurance policies mainly comprise business interruption, business liability, legal protection, business and property, credit sale, loss of earnings and serial losses insurance, as well as D&O cover for Management Board members, managing directors and non-executive directors. There is in addition special property insurance cover (damage by the elements) for warehouses.

There are currently no cases of litigation pending that lead the Group to expect high financial obligations beyond the levels already reflected in the provisions created.

Special risk: coronavirus pandemic

In the weeks prior to this report's completion the global spread of the coronavirus as well as efforts by individual countries to limit its spread prompted an unprecedented level of uncertainty on financial, commodity and goods markets worldwide. This crisis creates individual risks for CENTROTEC that are to be rated overall as very high, and essentially apply to the business environment, procurement, sales and human resources areas:

- The travel and contact bans imposed in many countries, as well as business shutdowns, will have a lastingly negative impact on economic development. This could also lead to a marked fall in the propensity to invest in modernising building services, and across the construction industry in general.
- The sealing-off of borders between individual countries could cause lasting disruption to the goods supply and the flow of essential materials. While supplier relationships with Asia often envisage ample buffer stocks in view of the longer transport route and manufacturing activity in China is extensively resuming, breaks in supply chains between European countries can lead to production stoppages within a matter of days.
- This development could equally severely limit access to sales markets outside the domestic market.

- Currently all individuals who have been in contact with persons infected with the SARS-CoV-2 virus are ordered to self-quarantine at home for 14 days. If employees of the company were to be affected, this could lead to substantial downtimes in entire departments and production areas, which could temporarily limit operating activity.

At the time of preparing this report it is not possible to estimate reliably to what extent any one or all of these risks will materialize. Although the risks generated by the coronavirus rate as very high overall for CENTROTEC, from the company's perspective they do not pose an existential threat thanks to the stable financial and liquidity position.

Directors' assessment of the risk situation

While the sales market situation should show a fundamentally positive development in the long term, the increased number of uncertainties that stem from mainly political but also economic crises – triggered by the coronavirus – represent a risk to overall economic development for the industry, and therefore also for CENTROTEC, that is difficult to quantify. For as long as energy prices remain low, they too weigh on the sales market. The current uncertainty surrounding the duration and extent of the strain imposed by the coronavirus epidemic on its own activities in China and on the supply chain, as well as the possible impact on the global economy, are a quite unprecedented challenge for CENTROTEC and also its customers and suppliers. However thanks to its good liquidity and financial position, CENTROTEC considers itself well-placed to handle these challenges. It remains the Group strategy to achieve further organic and possibly also acquisition-led international expansion by investing in innovations as well as in the sales and service organisations, in order to improve competitiveness. This also involves being well equipped to respond to potential risks that may arise, or to deteriorating market conditions. Operationally, too, the Group has achieved a comparatively flexible costs structure at its main production establishments by engaging temporary workers, buying in other staffing services and adopting working hours models, giving it scope to adjust its production capacities to temporary cyclical and seasonal fluctuations. Considered in this light, the management regards the opportunities and risks profile as balanced, with no individual risks to the company as a going concern in the 2020 financial year.

Report on expected developments

Direction of the Group

CENTROTEC will continue to focus on the area of heating and climate control technology for buildings. It will place the spotlight on continuing to optimise the already comprehensive product portfolio to facilitate access to international markets, and on expanding the sales and service structures. Cost effectiveness for consumers and fitters, evidenced by ease of installation, operation and maintenance, along with operating efficiency, are top priorities in the development of new products. In future, these megatrends that are likewise in evidence in other sectors in the industry will necessitate the efficient interaction of component systems. The requisite expertise already resides within the Group and is being systematically expanded through research and development work, increased collaboration between the Group companies and also by drawing on external knowledge and through acquisitions. In addition, in the Group's core market it develops appropriate product solutions to meet growing demand for renovation as well as for the energy-efficient modernisation of building stock.

Internationalisation is major priority in CENTROTEC's strategy. This is all the more important because it will educe dependence on the German home market, especially in the Climate Systems segment. CENTROTEC's targeted internationalisation should moreover put it in a position to profit from the higher economic dynamism of many international markets. This objective will also be at the heart of the Group's strategy in the coming year. In addition, it will place particular emphasis on further stabilising and growing German heating business, especially in the growth segments of heat pumps, home ventilation and solar thermal. Finally, optimising and professionalising internal processes as well as exploiting digital solutions at all value creation stages will be priority topics for the management of the Group.

The CENTROTEC companies' largest production locations are situated in Germany and the Netherlands. In those locations CENTROTEC is in a position to manufacture the range and quality of products that customers expect, at reasonable cost. There are also logistical advantages. None the less, as part of its internationalisation strategy the Group has resolved to seize further economic opportunities to set up local production plants to help it access internationally relevant markets, and to achieve a broader production base by adopting appropriate structures. Initial steps in this direction in the Gas Flue Systems segment have previously included the activities in the USA and China, and in Climate Systems the expansion of heat exchanger production in North Macedonia. The creation of a modern production facility for the products of the two core segments Climate Systems and Gas Flue Systems in Jiaxing, China, will spur on this development.

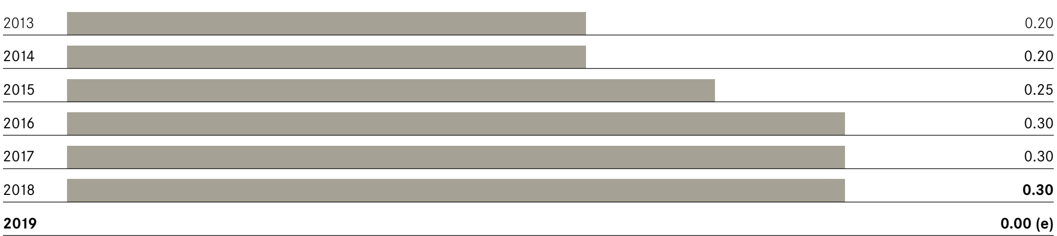
Expected economic environment

The fundamentally positive development of the markets on which CENTROTEC focuses continued in 2019, though with reduced momentum. Long-term, the market for heating and climate control technology in the building sector should exhibit above-average growth thanks to extensive efforts in many parts of the world to cut carbon emissions, coupled with rising energy prices.

The dramatic escalation of the coronavirus pandemic's impact on the global economy in recent weeks could nevertheless do sustained damage to any positive development trends in 2020. Other negatives are the continuing high number of international conflicts that stem from US trade policy, the specific effects of Brexit now that it has taken place, and developments in the Arab/Gulf region, which equally pose a growing threat to the global economy. CENTROTEC monitors these trends carefully and, if in doubt, adopts a conservative market strategy in the countries that are directly affected.

Setting aside these risks for the global economy that are difficult to assess, the industry-specific environment appears comparatively benign. The plans to reduce energy consumption implemented or announced in the German government's climate package together with the declared climate protection targets could give the market in Europe a stimulus in the medium term because in Germany alone over 60% of the installed 20.5 million heating systems rank as inefficient and technically obsolete. A trend towards reducing dependence on fossil fuels and thus reducing carbon emissions can fundamentally be identified in almost all countries. Because the climate control/ventilation and heating sector has a key role to play in achieving the climate protection targets, the prospects for its further development are brighter than average in the long term. At the same time the structural shift from oil and gas heating systems to renewable heating technologies such as heat pumps or, long-term, to hydrogen-based systems constitutes a quite considerable risk for CENTROTEC.

Dividend distributed for financial year
[in EUR]



The development in prices for fossil fuels has a major influence on readiness to invest in efficient heating, ventilation and climate technology and the use of renewable energies because higher energy prices significantly drive the propensity to invest. The current relatively low price of fossil energy sources therefore presents the industry with more opportunities than risks. Also, more and more people in an increasing number of countries are coming to realise that economic development needs to be uncoupled from the consumption of fossil energy sources from both an ecological and an economic viewpoint. The prospective medium and long-term resurgence in energy prices, the dependence of entire national economies on producer countries often plagued by instability and the growing environmental consequences are key reasons for this fundamental rethink. The regulations that have been introduced in Germany and in a similar form in many other European countries e.g. on carbon pricing and similar measures serve to confirm this trend.

Anticipated financial performance and financial position

At the start of the year CENTROTEC had already forecast revenue growth to EUR 670 to 690 million for the 2020 financial year, along with an operating result (EBIT) of EUR 34 to 36 million. The growth required to achieve this was expected to come both from building on its healthy market position in the domestic German market for heating and climate control technology, and also from continuing disproportionately high international growth. In addition, the company IVT in the Gas Flue Systems segment that has only been included in consolidation since July 2019 will contribute to the business development for a first full year. Since that forecast was made, the sense of uncertainty that has become rife in Europe because of the coronavirus has also prompted many customers of CENTROTEC to build up stock levels in order to maintain their ability to supply. This is also reflected in a very healthy development in the first few months of the year. However a possible collapse in sales markets or problems in procurement markets could bring significant disruption as early as the second quarter. In light of this, the above forecast is now subject to considerable uncertainty.

Notwithstanding the imminent market uncertainty, CENTROTEC will continue to invest in digitalising its products and processes, in innovative and new business models and in expanding international business activities in order to protect future growth. In anticipation of the completion of the production location in China in 2020 to serve the entire Group, the expansion of the Gas Flue Systems location in Brilon and further measures at the Dutch location of the Gas Flue Systems segment as well as at Wolf's main location, the investment volume will be above the prior-year figure.

In light of the increased investing activities and in response to the unprecedented market uncertainty due to the coronavirus, the Supervisory Board and Management Board of CENTROTEC have resolved to propose to the Annual General Meeting that the payment of a dividend for the 2019 financial year be dispensed with completely.

Opportunities report

The market position achieved in the previous principal sales markets continues to offer good prospects for profiting from global growth in the market for building efficiency and for steadily increasing the Group's revenue and earnings.

- Positive economic environment:
  The continuing fundamentally positive overall economic situation of the relevant markets in Germany and internationally, as well as the more rigorous building efficiency requirements that are already having an impact in many countries, offer a sustainable basis for a positive development in the business performance. This trend may be accelerated by even tighter statutory requirements governing the energy efficiency of buildings and the availability of improved financial incentives such as are currently being implemented in the German home market, as well as by a future rebound in energy prices.

- Capitalising on market position:
  CENTROTEC has a unique combination of competitive Group companies operating in the field of energy-efficient solutions for commercial and private buildings. By integrating its expertise in the adjacent areas of heating, climate control and ventilation, it is able to develop and offer coordinated system solutions that reflect the requirements of each target market. The significance of such integrated system solutions will rise steadily in the medium term, especially in light of the increasingly interconnected nature of building services engineering.

- Sound financial position:
  Despite the two share buyback programmes conducted in 2018 and 2019, CENTROTEC continues to enjoy a solid financial position that provides adequate leeway for further organic and external growth. The solid equity ratio as well as the consistently high cash flow provide a broad basis on which to continue exploiting the growth prospects including in markets not yet in our focus, and to improve the position in already well-established markets.

General statement on the expected development of the Group

In the medium to long term there are positive prospects for the industry-specific economic environment because the markets for heating and climate control solutions benefit from the global megatrends of energy efficiency and climate protection, and should grow more strongly than the economy as a whole. The trend towards greater comfort and growing health awareness, specifically as reflected in how living space is used, offers the CENTROTEC Group a generally good basis for further sustained growth. In light of this, CENTROTEC will again invest further in the development of new business models, sales channels and sales markets in 2020 and beyond.

At the start of the year CENTROTEC had expected full-year revenue of EUR 670 to 690 million for 2020, with an operating result (EBIT) of EUR 34 to 36 million. In the few weeks since that forecast was made, the coronavirus pandemic has presented the global economy with a quite unprecedented challenge that also harbours risks to the business activities of CENTROTEC. To what extent these will be reflected in CENTROTEC's revenue and earnings cannot currently be foreseen. The forecast that is currently still valid therefore comes with a high level of uncertainty.

Rendering of accounts

Some of the disclosures provided in the Management Report, including statements on anticipated revenues, earnings and capital expenditures, as well as potential changes in the framework conditions of markets and of the financial position, contain forward-looking statements. These have been formulated on the basis of expectations and estimates by the Management Board with regard to future occurrences that could affect the Group. Such future-related statements are intrinsically open to risks, uncertainties, exceptions and other factors that could result in the actual revenues and earnings of CENTROTEC significantly departing from or falling short of those explicitly indicated or implicitly assumed or described in these statements.

In the rendering of the accounts, the potential for leeway in measurements in the Consolidated Financial Statements was analysed, assessed and handled in such a way as to present figures that the Management Board believes are as fair and reliable as possible. Open, timely and continual communication with the capital market moreover forms part of CENTROTEC's philosophy, which the rendering of accounts satisfies.

Financial Statements

2019

Assets in EUR thousand	[Notes]	31/12/2019	31/12/2018
Non-current assets			
Goodwill	0, 1	77,882	77,295
Intangible assets	2	48,283	43,713
Property, plant and equipment	3	159,146	129,979
Financial investments accounted for using the equity method	4	67	64
Loans and investments	4, 15	697	822
Other financial assets	5, 15	21	9
Other assets	5	36	30
Deferred tax assets	6	10,156	9,355
		296,288	**261,267**
Current assets			
Inventories	7	86,379	78,661
Trade Receivables	8, 15	72,357	65,224
Income tax receivable		2,694	2,695
Cash and cash equivalents	9, 15	39,068	49,761
Other financial assets	5, 15	83,248	101,892
Other assets	5	8,036	8,706
		291,782	**306,939**
Assets		**588,070**	**568,206**

Equity and Liabilities in EUR thousand	[Notes]	31/12/2019	31/12/2018
Shareholders' equity	10		
Share Capital		16,257	18,021
Capital reserves		40,659	40,659
Treasury stock		(20,482)	(25,408)
Retained earnings and profit carryforward		170,283	193,563
Profit attributable to shareholders of CENTROTEC SE		23,433	12,670
		230,150	**239,505**
Non-controlling interests		0	0
		230,150	**239,505**
Non-current liabilities			
Pension provisions	11	55.927	45.634
Other provisions	12	12.828	12.690
Financial liabilities	13, 15	158.683	145.875
Other financial liabilities	14, 15	1.543	853
Other liabilities	14	13	19
Deferred tax liabilities	6	10.103	11.709
		239.097	**216.780**
Current liabilities			
Other provisions	12	4,052	4,318
Income tax payable		3,599	3,324
Financial liabilities	13, 15	26,445	23,063
Trade liabilities	15	32,256	32,453
Other financial liabilities	14, 15	20,938	17,463
Other liabilities	14	31,533	31,300
		118,823	**111,921**
Equity and Liabilities		**588,070**	**568,206**

Consolidated Statement of Financial Position

Consolidated Income Statement

in TEUR	[Notes]	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Revenues	16	**650,979**	**614,739**
Cost of purchased materials and services	17	(314,893)	(303,278)
Changes in inventories of finished goods and work in progress	17	3,520	3,975
Production for own fixed assets capitalised		5,460	5,041
Other income	18	9,379	10,173
Personnel expenses	19	(185,117)	(174,042)
Other expenses	20	(104,986)	(102,121)
EBITDA		**64,342**	**54,487**
Depreciation and amortisation	2, 3	(31,227)	(24,061)
Operating income (EBIT)		**33,115**	**30,426**
Interest income	21	203	214
Interest expense	21	(4,968)	(4,405)
Other financial income	22	5,143	(7,013)
Result before income taxes (EBT)		**33,493**	**19,222**
Income taxes	23	(10,060)	(6,552)
Net income (EAT)		**23,433**	**12,670**
Attributable to:			
Non-controlling interests	24	0	0
Shareholders of CENTROTEC SE		23,433	12,670
EPS (Earnings per share in EUR)			
Earnings per share (basic)	25	1.48	0.74
Earnings per share (diluted)	25	1.48	0.74
Weighted average shares outstanding (in thousand units; basic)	10, 25	15,798	17,078
Weighted average shares outstanding (in thousand units; diluted)	10, 25	15,798	17,078

Consolidated Statement of Comprehensive Income

in EUR thousand	[Notes]	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Net income (EAT)		**23,433**	**12,670**
Items that may be reclassified subsequently to profit or loss			
Exchange Rate differences on translation		(29)	(245)
Derivative financial instruments		(598)	(291)
Income tax relating to components of other comprehensive income	6	173	135
Other comprehensive income for items that may be reclassified subsequently to profit or loss		**(454)**	**(401)**
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	11	(9,854)	1,040
Income tax relating to components of other comprehensive income	6	2,879	(304)
Other comprehensive income for items that will not be reclassified to profit or loss		**(6,975)**	**736**
Other comprehensive income		**(7,429)**	**335**
Total comprehensive income		**16,004**	**13,005**
Attributable to:			
Non-controlling interests		0	0
Shareholders of CENTROTEC SE		16,004	13,005

Consolidated Statement of Cash Flows

in EUR thousand	[Notes]	01/01/2019 31/12/2019	01/01/2018 31/12/2018
Net income before interest and taxes (EBIT)		33,115	30,426
Depreciation and amortisation	2, 3	31,227	24,061
Gain/loss on disposal of fixed assets		33	36
Other non-cash items		(484)	(761)
Increase/decrease in provisions		(708)	(2.175)
Increase/decrease in inventories, trade receivables and other assets that cannot be allocated to investing or financing activities		(12,374)	(7,700)
Increase/decrease in trade payables and other liabilities that cannot be allocated to investing or financing activities		3,484	4,876
Interest received		328	94
Interest paid		(3,555)	(3,483)
Income tax paid		(9,043)	(7,149)
Cash flow from operating activities	27	**42,023**	**38,225**
Acquisition of shares in participations less net of cash acquired		(3,478)	(247)
Purchase of property, plant and equipment/intangible assets/investments/finanical assets/loans receivable	2, 3, 4	(42,919)	(33,595)
Proceeds from disposal of property, plant and equipment/intangilbe assets/loans receivable		261	232
Investments in short-term financial assets		24,193	19,435
Cash flow from investing activities	27	**(21,943)**	**(14,175)**
Purchase of treasury stock	10	(20,482)	(25,408)
Proceeds from financial liabilities		8,768	2,609
Repayment of financial liabilities		(12,457)	(7,056)
Dividend payment		(4,877)	(5,406)
Cash flow from financing activities	27	**(29,048)**	**(35,261)**
Change in financial resources		**(8,968)**	**(11,211)**
Foreign currency exchange gain/loss		132	(112)
Financial resources at the beginning of the financial year*		33,574	44,897
Financial resources at the end of the financial year*	27	24,738	33,574

* Cash and cash equivalents deducted of credits current account

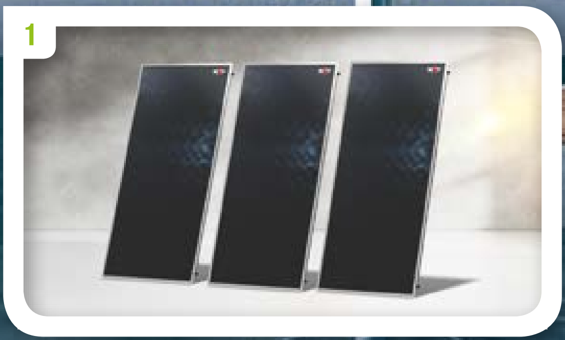
Consolidated Statement of Changes in Equity

in EUR thousand	Share capital	Capital reserve	Treasury stock	Income tax relating to components of other comprehensive income	Exchange rate differences on translation	Derivative Finanz-instrumente
January 1,2019	**18,021**	**40,659**	**(25,408)**	**272**	**(153)**	**(621)**
Transfer to revenue reserves						
Retirement of own shares	(1,764)		25,408			
Dividend payment						
Net income (EAT)						
Other comprehensive income, net of tax				173	(29)	(598)
Total comprehensive income				**173**	**(29)**	**(598)**
Other changes			(20,482)			
December 31, 2019	**16,257**	**40,659**	**(20,482)**	**445**	**(182)**	**(1,219)**
January 1, 2018	**18,021**	**40,659**	**0**	**137**	**92**	**(330)**
Transfer to revenue reserves						
Retirement of own shares						
Dividend payment						
Net income (EAT)						
Other comprehensive income, net of tax				135	(245)	(291)
Total comprehensive income				**135**	**(245)**	**(291)**
Other changes			(25,408)			
December 31, 2018	**18,021**	**40,659**	**(25,408)**	**272**	**(153)**	**(621)**

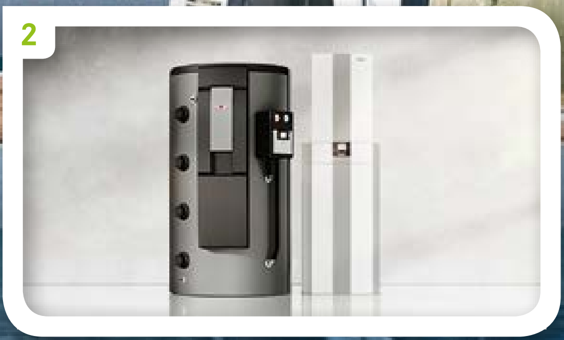
Available-for-sale financial assets	Retained earnings and profit/loss carryforward	Sum other retained earnings and profit/loss carryforward	Profit attributable to shareholders of CENTROTEC SE	Total capital to shareholders of CENTROTEC SE	Non-controlling interests	Consolidated equity
0	**194,065**	**193,563**	**12,670**	**239,505**	**0**	**239,505**
	12,670	12,670	(12,670)	0		0
	(23,644)	(23,644)		0		0
	(4,877)	(4,877)		(4,877)		(4,877)
			23,433	23,433		23,433
	(6,975)	(7,429)		(7,429)		(7,429)
	(6,975)	**(7,429)**	**23,433**	**16,004**		**16,004**
		0		(20,482)		(20,482)
0	**171,239**	**170,283**	**23,433**	**230,150**	**0**	**230,150**
166	**179,090**	**179,155**	**20,205**	**258,040**	**(559)**	**257,481**
	20,205	20,205	(20,205)	0		0
				0		0
	(5,406)	(5,406)		(5,406)		(5,406)
			12,670	12,670		12,670
	736	335		335		335
	736	**335**	**12,670**	**13,005**		**13,005**
(166)	(560)	(726)		(26,134)	559	(25,575)
0	**194,065**	**193,563**	**12,670**	**239,505**	**0**	**239,505**

INNOVATION – THE HEART OF MODERN ENERGY SAVING SYSTEMS

Residential and commercial buildings



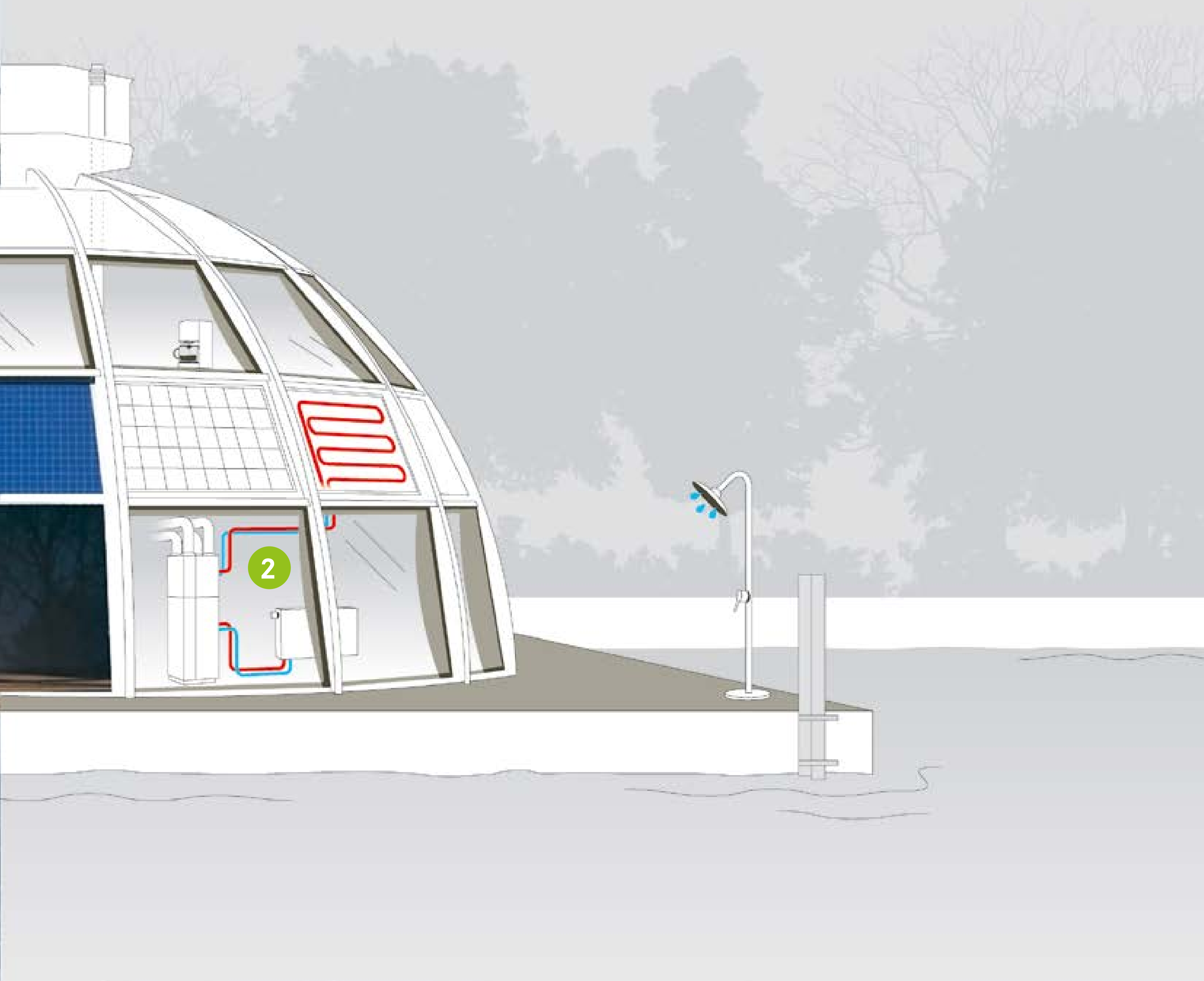
Wolf solar collectors



Wolf stratified storage tank and condensing boiler

Solar collectors
Heat storage

Innovative solar thermal systems from Wolf with highly effective solar collectors, well-insulated heat storage and intelligent control form the heart of a modern heating system. With the power of the sun and without harmful emissions, up to 60% of the annual energy requirements for hot water can be covered.



Consolidated Segment Reporting

Segment Structure in EUR thousand ***Income Statement*** [Notes 26]	Climate Systems **01/01/2019 31/12/2019**	 01/01/2018 31/12/2018
Revenue from third parties	457,375	434,945
Revenue from other segments	1,960	1,367
Cost of purchased materials and services	(220,020)	(213,005)
Changes in inventories of finished goods and work in progress	3,039	2,231
Personnel expenses	(144,891)	(139,123)
Other expenses and income	(57,882)	(57,800)
EBITDA	**39,581**	**28,615**
Depreciation and amortisation	(19,755)	(14,794)
Segment result (EBIT)	**19,826**	**13,821**
Interest income	184	183
Interest expense	(2,478)	(2,110)
Other financial income	613	(716)
EBT	**18,145**	**11,178**
Balance sheet key figures		
Assets*	318,003	295,079
Financial investments accounted for using the equity method	0	0
Loans and investmens	687	812
Net Working Capital	46,095	39,350
Investments		
Total investments in property, plant, equipment and intangible assets**	25,355	18,971

Regional Structure in EUR thousand	European euro countries **2019**	 2018
Revenue from third parties	546,491	518,492
thereof Germany	330,865	314,785
Assets*	521,146	520,614
thereof Germany	269,624	246,666
Total investments in property, plant, equipment and intangible assets**	32,750	30,920

* Excl. financial investments accounted for using the equity method, loans and investments, entitlement to income tax rebates as well as deferred tax

** The additions from IFRS 16 leases and the purchase of companies are not taken into account in the investments.

Gas Flue Systems		Medical Technology & Engineering Plastics		Consolidation		Total	
01/01/2019 31/12/2019	01/01/2018 31/12/2018	**01/01/2019 31/12/2019**	01/01/2018 31/12/2018	**01/01/2019 31/12/2019**	01/01/2018 31/12/2018	**01/01/2019 31/12/2019**	01/01/2018 31/12/2018
139,591	128,144	54,013	51,650	0	0	650,979	614,739
7,791	7,941	10	82	(9,761)	(9,390)	0	0
(69,050)	(65,009)	(35,568)	(34,663)	9,745	9,399	(314,893)	(303,278)
40	248	441	1,496	0	0	3,520	3,975
(35,992)	(31,306)	(4,234)	(3,613)	0	0	(185,117)	(174,042)
(24,340)	(21,850)	(7,925)	(7,257)	0	0	(90,147)	(86,907)
18,040	**18,168**	**6,737**	**7,695**	**(16)**	**9**	**64,342**	**54,487**
(7,954)	(6,052)	(3,518)	(3,215)	0	0	(31,227)	(24,061)
10,086	**12,116**	**3,219**	**4,480**	**(16)**	**9**	**33,115**	**30,426**
261	300	17	14	(259)	(283)	203	214
(2,130)	(2,024)	(619)	(554)	259	283	(4,968)	(4,405)
5,150	(6,908)	(132)	0	(488)	611	5,143	(7,013)
13,367	**3,484**	**2,485**	**3,940**	**(504)**	**620**	**33,493**	**19,222**
195,765	203,733	60,548	55,814	140	644	574.,456	555,270
0	0	67	64	0	0	67	64
0	0	10	10	0	0	697	822
14,923	11,404	20,724	18,726	(562)	641	81,180	70,121
12,739	8,141	5,246	7,165	0	0	43,340	34,277

European non-euro countries		Rest of world		Consolidation		Total	
2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
69,855	64,986	34,633	31,261	0	0	650,979	614,739
						330,865	314,785
34,527	23,135	20,168	12,941	(1,385)	(1,420)	574,456	555,270
						269,624	246,666
6,331	3,110	4,259	247	0	0	43,340	34,277

A_Basic data for the Group

The CENTROTEC Group – hereinafter also referred to as CENTROTEC – is an international group with subsidiaries in Europe, Asia and the USA with annual revenue of EUR 651 million (previous year EUR 615 million). The focus of CENTROTEC's activities is the development, production and sale of the following product areas:

- Heating systems, in particular condensing-boiler technology for gas and oil as the energy source, together with solar thermal systems
- Heat pumps
- Gas flue and air piping systems made predominantly from plastic components
- Construction materials for airtight and watertight, sustainable building, specifically roof products
- Ventilation systems with and without heat recovery
- Climate control systems
- Combined heat and power units, in particular fuelled by natural gas, sewage gas and biogas
- Medical technology components and equipment, as well as
- Plastic semi-finished and prefabricated products.

In addition to the existing businesses, the CENTROTEC Group defines its business purpose as creating and acquiring new business areas and companies in which energy-saving products are developed and sold, and/or the expertise of which lies in the domain of medical technology products, innovative plastic-based products or gas flue and ventilation systems.

CENTROTEC SE has been listed on the Frankfurt Stock Exchange as a public limited liability company since December 8, 1998. Many of the companies included in the Consolidated Financial Statements nevertheless go back further. The Group parent, CENTROTEC SE, Brilon, Germany, is listed in the Prime Standard under the codes CEV, WKN 540750 and ISIN DE0005407506. On January 30, 2020 the conversion of the legal form of CENTROTEC from a German stock corporation "AG" into a European stock corporation "SE" (Societas Europaea) was registered. CENTROTEC SE is entered on the Commercial Register of the Local Court of Arnsberg, Germany, under the number HRB 13184. The Group parent's registered offices are located at Am Patbergschen Dorn 9, 59929 Brilon, Germany. CENTROTEC SE is not part of a superordinate group, and is the ultimate parent company of the Group presented in these Notes and Consolidated Financial Statements. Further financial and corporate information on CENTROTEC is available from the above address, or on the homepage www.centrotec.de.

The financial year of CENTROTEC corresponds to the calendar year. The income statement therefore covers the period from January 1 to December 31, 2019 and has been prepared using the nature of expenditure method. The Consolidated Financial Statements are prepared based on a historical cost approach, with the exception that certain financial instruments are accounted for at market value and the pension obligations are accounted for using the projected unit credit method. The Consolidated Financial Statements have been prepared in euros. Unless otherwise indicated, the amounts quoted here are in thousand euros (EUR thousand). For mathematical reasons, there may be rounding differences of +/- one unit.

B_ Standards applied

The Consolidated Financial Statements at December 31, 2019 have been prepared in accordance with the "International Financial Reporting Standards" (IFRS) and their interpretations by the International Accounting Standards Board (IFRIC) issued by the International Accounting Standards Board (IASB), as adopted within the European Union (EU), taking account of Section 315e (1) of German Commercial Code. All IFRS standards the adoption of which is mandatory for the financial year from January 1, 2019 have been adopted.

CENTROTEC SE, as the parent company of the CENTROTEC Group, is required to prepare annual financial statements in accordance with the requirements of German Commercial Code.

Accounting standards adopted for the first time

The following new standards and interpretations or amendments to existing standards and interpretations were to be adopted for the financial year from January 1, 2019:

IFRS 16	Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases in its financial statements. The standard provides a single lessee accounting model. This model requires lessees to recognise rights of use to assets and liabilities for all leases on the balance sheet. For accounting purposes the lessor continues to distinguish between finance and operating leases. The amendments to IFRS 16 for operating leases of the CENTROTEC Group mainly concern leases for passenger cars, fixtures and office equipment as well as rental agreements.

CENTROTEC exercises certain options and does not use any rights of use/ lease liabilities for current leases (less than 1 year), leases with underlying assets of low value (less than EUR 5,000) and software. The simplified transitional rule is moreover implemented, i.e. the prior-year comparative figures are not adjusted. All rights of use are measured at the date of first adoption in the amount of the lease liability. A consequence of this is that the balance sheet total has risen by around EUR 15 million at December 31, 2019. Since January 1, 2019 rental expense has no longer been recognised in the income statement, and is now reflected in the form of depreciation and amortisation (approx. EUR 5.5 million) and interest expense (EUR 0.3 million). The weighted average incremental borrowing rate of interest at the date of first adoption of the standard is 2.27%. The discounted lease liabilities from operating leases at December 31, 2018 amounted to EUR 12,030 thousand and are thus EUR 376 thousand lower than the lease liabilities of EUR 12,406 thousand recognised at January 1, 2019. The difference stems from current lease liabilities recognised by the straight-line method as expense, low-value leases recognised by the straight-line method as expense and adjustments to reflect differing estimates of extension and renewal options.

Other new and amended standards and interpretations had no material effect for CENTROTEC.

Accounting standards applicable from the 2020 financial year or later

A large number of new or amended standards and interpretations are only to be adopted from the 2020 financial year or later and were not adopted in these Consolidated Financial Statements. None of these standards has a material effect on the net worth, financial position and financial performance.

C__Consolidation methods

The balance sheet date of the companies included in the Consolidated Financial Statements is December 31, 2019. The annual financial statements of the domestic and foreign subsidiaries prepared in accordance with local law are prepared according to uniform Group recognition and measurement principles.

Unless indicated to the contrary, the consolidation methods applied in these accounts have remained unchanged from the previous year.

a_Subsidiaries

Subsidiaries are included in the Consolidated Financial Statements insofar as controlling influence is exercised by the Group. Controlling influence is exercised if the Group is exposed to fluctuating returns from its involvement in the affiliated company or has entitlements to these and has the capacity to influence these returns by way of its power of disposal over the affiliated company. The date of first or last inclusion in the Consolidated Financial Statements within the context of full consolidation is fundamentally based on the date on which controlling influence is achieved or lost.

Business combinations are reported according to the purchase method. For this purpose, all assets and liabilities as well as contingent liabilities of the acquired company in existence at the time of acquisition are measured at fair value, irrespective of the existence of minority interests. For each corporate acquisition, CENTROTEC decides on a case by case basis whether the non-controlling interests in the acquired enterprise are measured at fair value or based on the proportion of net assets held in the acquired enterprise. The transaction costs directly attributable to the acquisition are offset immediately through profit or loss. The difference in amount between the cost of acquisition and the pro rata net equity is initially allocated to the assets, liabilities and contingent liabilities where its fair value differs from the carrying amount at the time of first-time consolidation. The deferred tax effects resulting from a business combination are likewise taken into account. Any remaining balance in the cost of acquisition over the fair value measurement of the net assets acquired is reported as goodwill. This is then tested for impairment at least once a year and, if necessary, written down to the recoverable amount. Shares in the equity of subsidiaries that are not attributable to the Group parent are reported within equity as a non-controlling interest. Where the cost of acquisition falls below the fair value measurement of the net assets acquired, the remaining difference is recognised in the income statement.

Where acquisitions occur over a period of time, the interests already held are measured at fair value at the date of acquisition. The difference between the carrying amount and the fair value is recognised in the Consolidated Income Statement.

Conditional purchase price components are included in the determination of the purchase price at their fair value at the time of the acquisition based on their probability of occurrence. The conditional purchase price components may be both equity instruments and financial liabilities. Depending on category, changes in the fair value are taken into account upon subsequent measurement.

Intra-Group transactions, balances, revenues, expenses and earnings, gains, losses as well as accounts receivable and payable between consolidated companies are eliminated. For consolidation measures with an effect on income, the effects on income taxes are accounted for and deferred taxes are recognised. Any intercompany profits from trade are eliminated on a pro rata basis if the companies concerned had not left the Group as at the balance sheet date. In each case the data of the company managing the inventory has been taken as the basis here.

b_Associated companies

Investments in associated companies are included in the Consolidated Financial Statements by the equity method if the ownership interest is between 20% and 50% or if the Group exercises considerable influence, but no control, by another means. Under the equity method, shares in associated companies are measured initially at cost. The carrying amount is increased or decreased to recognise the investor’s profit share of the investee’s earnings for the period after the date of acquisition. The share also includes goodwill arisen at the date of acquisition. At each balance sheet date the investment is then tested for impairment and, if impairment is established, written down to the recoverable amount.

Unrealised gains from business transactions between the Group and its associated companies are eliminated in proportion to the company’s ownership interest; unrealised losses are likewise eliminated proportionally, unless the value of the transferred asset has been diminished. Where the Group’s share of the loss of an associated company exceeds the carrying amount of its investment, the Group does not record any further losses, unless it has assumed liabilities on behalf of the associated company or made payments for obligations of the associated company.

c_Miscellaneous investments

Investments over which the CENTROTEC Group exercises no control or no significant influence and where its ownership interest is generally not in excess of 20 % are recognised as available-for-sale financial assets. Moreover, certain economically insignificant investments are likewise classified as financial assets available for sale.

D_Foreign currency translation

The Consolidated Financial Statements are prepared in euros (EUR), as this is the functional currency of CENTROTEC SE.

As part of the consolidation process, the financial statements of foreign Group companies are translated into EUR where they have been prepared in a different currency. Assets and liabilities are translated at closing rates, and expense and income items are translated at average exchange rates for the period under review. Any currency translation differences from this translation into the Group reporting currency are recognised within equity with no effect on income. In the event of the disposal of business operations, translation differences hitherto recognised income-neutrally within equity are recognised through profit or loss. Where necessary, equity is translated at historical rates. Goodwill having arisen from business combinations as well as adjustments of valuations to fair values are attributed to the respective units, reassessed in their currency and, if necessary, translated at the exchange rates valid at the reporting date. None of the companies included in the Consolidated Financial Statements is based in a hyperinflationary economy.

The following table shows the exchange rates used for these accounts:

Foreign currency translation in EUR

ISO code	Rate at reporting date 31/12/2019	31/12/2018	Average rate 2019	2018
CHF	1.0854	1.1269	1.1124	1.1550
CNY	7.8205	7.8751	7.7355	7.8081
DKK	7.4715	7.4673	7.4661	7.4532
GBP	0.8508	0.8945	0.8778	0.8847
HKD	8.7473	8.9675	8.7715	9.2559
HRK	7.4395	7.4125	7.4180	7.4182
PLN	4.2568	4.3014	4.2976	4.2615
RUB	69.9563	79.7153	72.4553	74.0416
USD	1.1234	1.1450	1.1195	1.1810

E_Accounting policies

a_Goodwill

Goodwill is the excess of the cost of an investment over the market value of the acquiree's assets (on a time proportion basis) less liabilities and contingent liabilities at the time of acquisition. For the purpose of testing for impairment, goodwill must be allocated to a cash generating unit or group of cash generating units where it is assumed that they will benefit from the merger. Every unit or group of units to which goodwill is allocated must reflect the lowest level within the company at which goodwill is monitored for internal management purposes, and may not be larger than an operating segment.

Goodwill is assessed for impairment (value in use) once a year by means of an impairment test, irrespective of whether or not there is evidence of impairment. If necessary, an impairment loss is applied. Goodwill is recognised at cost, less accumulated impairment. If the reasons for a reduction for impairment applied to an asset on the basis of an impairment test have wholly or partly ceased to apply in a subsequent period, that impairment is not reversed accordingly.

b_Intangible assets

Intangible assets are capitalised at acquisition cost and depreciated by the straight-line method in accordance with their anticipated useful lives. Software developments and other development work are capitalised at cost and likewise amortised in accordance with their respective anticipated useful lives, provided the following criteria are met:

- Completion of the intangible asset is technically feasible to the extent that it can be used or sold.
- The management intends to complete the intangible asset and use or sell it.
- The capability exists to use or sell the intangible asset.
- It can be demonstrated that the intangible asset will probably yield future economic benefits.
- Adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs that do not meet the above criteria and research costs are recognised directly as expense. To the extent that intangible assets (e.g. brand rights) have an indeterminate useful life, they are included in the annual impairment test.

The following table shows the useful lives serving as the basis for depreciation and amortisation by the straight-line method for intangible assets:

	Years
Brand rights, licences and customer bases	3 - 20
Patents and technologies	3 - 25
Software and software developments	2 - 10
Capitalised development costs	3 - 10

c_Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated regular depreciation occasioned by use and impairment. Depreciation is applied according to the straight-line method. If necessary, a reduction for impairment is recognised for property, plant and equipment down to the recoverable amount.

The following table shows the useful lives serving as the basis for depreciation and amortisation by the straight-line method for property, plant and equipment:

	Jahre
Buildings	10 - 50
Plant and machinery	3 - 20
Fixtures and office equipment	3 - 15

d_Impairment of intangible assets and property, plant and equipment

Assets that are subject to depreciation and amortisation are tested for impairment if corresponding events or changes in circumstances indicate that the carrying amount may potentially no longer be realisable. Assets that have an indeterminate useful life are tested annually for impairment unless indications are detected earlier that impairment may have occurred. The amount by which the carrying amount exceeds the recoverable amount is recognised as an impairment loss. The recoverable amount is the higher of the fair value of the asset less the costs of disposal, or the value in use. In subsequent years it is examined whether to apply a recovery in value to the recoverable amount, but to no more than the scheduled values, i.e. without impairment loss. The reversal of impairment losses recognised in previous periods is recognised immediately through profit or loss.

e_Inventories

Inventories are measured at the lower of cost or net realisable value. Raw materials and supplies are valued at the average cost. Work in progress, finished goods and merchandise are measured at average values or on the basis of cost, using the FIFO method. The cost of conversion for work in progress and finished goods consists of direct costs of materials, direct labour, other direct costs as well as appropriate shares of production-related indirect materials and indirect labour which have arisen as a result of bringing the inventories to their current location and current state. It is determined on the basis of normal capacity utilisation. Appropriate discounts are performed for sales-related risks. The net realisable value constitutes the estimated selling price in the ordinary course of business less the estimated costs of completion and sale yet to be incurred.

f_Deferred tax

Deferred tax relates to tax deferrals resulting from temporally diverging stated amounts between the balance sheet prepared in accordance with IFRS and the tax balance sheets of the individual companies, as well as from consolidation processes. The deferred tax assets also include tax rebate claims resulting from the anticipated use of existing loss carryforwards in subsequent years and which are to be realised with reasonable certainty. Deferred tax is determined on the basis of the tax rates which are likely to apply in the individual countries at the time of reversal of the differences. It is furthermore based on current legislation and ordinances. Deferred tax assets and liabilities are not discounted. Deferred tax resulting from temporary differences in connection with investments in subsidiaries and associated companies is reported unless differences cannot be reversed within a foreseeable time frame or the timing of the reversal can be controlled by the company. The deferred tax assets on temporary differences are tested for impairment at each reporting date. Deferred tax is fundamentally classified as non-current on the balance sheet. Deferred tax assets and liabilities are offset if a corresponding legally enforceable right to offsetting exists and if the deferred tax assets and liabilities are in respect of income taxes levied by the same taxation authority either for the same taxable entity or for different taxable entities that intend to settle on a net basis.

The tax expense for the period comprises current and deferred tax. Tax is reported in the income statement, unless it refers to items that have been recognised directly within equity or within the other result. In that instance, the tax is likewise recognised within equity or within the other result. The current tax expense is calculated using the tax regulations applicable at the balance sheet date (or being introduced shortly) of the countries in which the company and its subsidiaries are active and generate taxable income. The management examines tax declarations regularly, above all in respect of matters that are open to interpretation, and if appropriate creates provisions based on the amounts that are expected to be payable to the tax authorities.

g_Cash and cash equivalents

Cash and cash equivalents comprises cash in hand, demand deposits, and deposits with a maturity of up to three months. Amounts owed to banks repayable on demand form an integral part of the Group's cash management. For the purpose of the cash flow statement, they are therefore included in the financial resources alongside cash and cash equivalents with a maturity of three months. These amounts owed to banks and due at any time are shown on the balance sheet as short-term financial debt.

h_Pension provisions

The pension provisions are created for defined benefit pension obligations to management and other employees, and calculated on the basis of the present value of future commitments pursuant to IAS 19 using the projected unit credit method, taking into account future pay and pension increases and the mortality tables currently available. A variety of pension plans exist within the Group. The pension obligations are disclosed netted against the plan assets on the equity and liabilities side of the balance sheet. The remeasurements from pension plans are reflected in equity, under the retained earnings, with no income effect. They may not be reclassified to profit or loss at a later date (recycling).

For further information on the pension obligation and plan assets, please refer to Note [11].

In many countries in which CENTROTEC employees are engaged, there exists a contribution-based statutory basic pension scheme that pays out a pension on the basis of income and contributions made. In the case of defined contribution plans, fixed amounts are paid to funds outside the Group. In paying the contributions to public pension schemes, CENTROTEC has no further benefit obligations. In addition, individual employees in the Group have taken out policies with private insurance companies which are subsidised in certain respects on the basis of company agreements. Apart from the personnel expenses for subsidies that are included in employee benefit costs, the Group has no further benefit obligations. This applies in particular if a fund outside the Group does not maintain sufficient assets to settle the claims made against it from current and previous financial years.

i_Other provisions

Other provisions are created for all present obligations at the balance sheet date resulting from previous business transactions or past occurrences, where the amount and due date are uncertain. These accruals and provisions are stated at the present value of the most likely, reliably estimable amount of settlement and are not netted against revenue and gains. The likelihood of the cash outflow must be more than 50% ("more likely than not" criterion). Provisions are created only where a legal or factual obligation to third parties exists and the level of the provisions could be reliably determined. In the event of a wide range of obligations of a similar nature resulting for instance from statutory warranty obligations, these are determined on the basis of this group of obligations. Provisions may in certain circumstances be recognised as a liability if the likelihood of an isolated obligation materialising within the underlying overall Group is slight.

The provision for warranties should likewise be created for free-of-charge reworking, substitute deliveries, price reductions or compensation payments for nonfulfilment. It may be based on statutory obligations or on an independent warranty commitment. Within the CENTROTEC Group, as well as individual provisions, general provision should be created if a warranty claim must be expected on the basis of past events. The flat rate is to be determined independently by each Group company on the basis of past experience and updated annually.

j_Leases

IFRS provides a single lessee accounting model. This model requires lessees to recognise rights of use to assets and liabilities for all leases on the balance sheet. The CENTROTEC Group recognises mainly leases for passenger cars, fixtures and office equipment as well as rental agreements for real estate. It exercises certain options and does not use any rights of se/ lease liabilities for current leases (less than 1 year), leases with underlying assets of low value (less than EUR 5,000) and software. The rights of use for leases are shown on the balance sheet under the item Property, plant and equipment. For more information, please refer to the notes or schedule under the item Property, plant and equipment.

k_Financial instruments

A financial instrument is any contract that gives rise to both a financial asset at one enterprise and a financial liability or equity instrument at another enterprise. The balance sheet includes both primary and derivative financial instruments. Normal market purchases and sales of financial assets are recognised at the settlement date.

For the measurement of financial assets IFRS 9 applies the concept of categorisation and measurement. To that end, each financial instrument initially needs to be assigned to one of the three measurement categories:

- Amortised cost (AC category)
- Fair value through other comprehensive income (FVTOCI category)
- Fair value through profit or loss (FVTPL category)

Classification is fundamentally dependent on two criteria. First, on the nature of the business model in which the financial nstrument is held, and second, on the form of the contractual cash flows. Reclassification is permissible exclusively if the business model changes.

Overview of CENTROTEC financial Instruments and their categories:

Financial instrument	Category
Assets	
Loans originated by the enterprise and investments	AC category
Long-term securities	FVTPL category
Trade receivables	AC category
Cash and cash equivalents	AC category
Current investments	FVTPL category
Derivatives that satisfy the rules on hedge accounting	FVTOCI category
Derivatives that do not satisfy the rules on hedge accounting	FVTPL category
Other financial assets	AC category
Liabilities	
Borrowings	AC category
Trade payables	AC category
Derivatives that satisfy the rules on hedge accounting	FVTOCI category
Derivatives that do not satisfy the rules on hedge accounting	FVTPL category
Other financial liabilities	AC category

Impairment

The impairment model in IFRS 9 is based on the premise of providing for expected losses instead of losses that have arisen. Accordingly, losses should already be recognised if they are to be expected based on the credit risk. This is done by assigning all financial instruments to one of three levels that reflect the loss to be recognised. Upon addition, all financial instruments are fundamentally assigned to level 1. At this level, the impairment loss to be recognised is measured according to the so-called 12-month expected credit loss. This means the present value of payment defaults that arise from possible default events within 12 months after the reporting date. If the credit risk has increased significantly since the time of addition, a transfer to level 2 of the impairment model should be made. This has the consequence that risk provisioning needs to take place in the amount of the present value of the losses expected over the entire maturity. If there is objective evidence of impairment, the asset should then be classified to level 3. The risk provisioning to be recognised should be calculated in the same way as for level 2. There is the option of applying a simplified impairment model for trade receivables and for leasing receivables.

Accounting of hedging relationships
Derivative financial instruments are used within the Group for hedging the interest and exchange rate risks resulting from operating activities, financial transactions and investments, and are designated through cash flow hedges. Initial and subsequent measurement is at the fair value. The measurement result is broken down into an effective and an ineffective portion. The effective portion is recognised income-neutrally under a separate item within equity. The ineffective portion of the measurement result, on the other hand, is recognised through profit or loss. The accumulated measurement results within equity are liquidated with an income effect if the hedged item starts to affect income. The measurement result from derivative financial instruments that are classified as an economic hedge, and not for hedge accounting, is recognised through profit or loss.

Determination of the fair values of financial instruments
An enterprise is to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. This hierarchy comprises three levels: a) the prices quoted in active markets for identical assets or liabilities (and adopted unchanged) (Level 1); b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and c) inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

The fair values carried on the balance sheet generally correspond to the market prices of the financial assets and liabilities (Level 1). If no market prices are available, they are calculated with the aid of accepted valuation models (Level 2). In the CENTROTEC Group, securities that are measured at market prices come under Level 1. The financial derivatives for which the fair value is determined with the aid of the DCF method come under Level 2. The relevant market prices, interest rates and interest rate volatilities observed at the balance sheet dates and obtained from accepted external sources serve as the input parameters for this method. There are no other financial instruments that are carried at fair value, i.e. there are no financial instruments to be classified as Level 3. CENTROTEC determines disclosure of the fair value of bank liabilities by discounting the expected future payment streams (Level 2).

l_Revenue
Revenue is recognised for the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is implemented in a five-step framework model:
- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue recognition is normally based on a snapshot approach. However if a performance obligation is to be recognised for a time period, this is done using the input-oriented method because there exists a direct connection between the labour purchased materials costs for the Group and the transfer of the service to the customer. Contract costs that have arisen for the acquisition of a contract are to be recognised as an asset if the enterprise expects that their future reimbursement and these costs would not have arisen without the contract. However as a practical simplification, these costs may be recognised immediately as an expense if the contract concluded has an expected maturity of no more than one year.

m_Government grants
Government grants for costs are recognised as income-effective over the period in which the corresponding costs which they are intended to cover arise.

n_Financing costs
Financing costs such as interest are recognised as income or expense time-proportionally and on an accrual basis that reflects the terms of the asset or liability, using the effective interest rate method.

o_Dividends
Dividends such as dividend revenue from investments and shareholders' entitlements to dividend payments are recognised as payments when the right to receive payment arises.

F_Financial risk management

a_Financial risk factors

Financial risk management objectives and policies

The CENTROTEC Group operates internationally. In view of the variety of its activities, the Group is exposed to a large number of financial risks. We take risk to mean unexpected occurrences and possible developments that adversely affect the attainment of set targets and expected progress. Risks that have a material influence on the net worth, financial position and financial performance are of relevance. The Group's risk management system analyses various risks and attempts to minimise negative effects on the financial position of the Group. Risk management is practised on the basis of existing guidelines. Risk managers identify, measure, assess and support the steering of potential sources of risks.

In measuring and controlling significant individual risks, a distinction is made between credit, market and liquidity risks.

Credit risk

We take credit risk to mean the risk of a loss following the defaulting or deterioration in creditworthiness of a business partner. The maximum credit risk corresponds to the aggregate of the carrying amounts of financial assets on the balance sheet which are recognised net of reductions for impairment, plus these same reductions for impairment.

Impairment of trade receivables is applied according to uniform rules and covers all discernible creditworthiness risks. Portfolio impairment was created for losses that have materialised but not yet been identified. For further disclosures on impairment and the maturities structure of receivables, we refer to the disclosures on trade receivables.

Credit risks regarding accounts receivable are in essence limited by the application of credit approvals, credit insurance, credit limits and monitoring procedures. The level of a credit limit reflects the creditworthiness of a counterparty and the typical size of the transaction volume with that counterparty. The assessment of creditworthiness is based on the one hand on information from external credit reporting agencies and on the other hand on internally acquired past experience in dealing with the counterparty in question. With regard to receivables that are neither overdue nor impaired, there is no evidence at the reporting date that the debtors will not meet their commitments from these receivables.

As a result of the large number of customers in various customer groups and their international structure and the application of credit insurance, the credit risk of trade receivables is diversified. CENTROTEC has no significant concentration of credit risk with any single customer. The largest customer in the Group accounts for around 4% of revenue (previous year around 4%).

Liquidity risk

We take the liquidity risk in the narrower sense to mean the risk of being unable to meet current or future payment commitments or only being able to meet them on unfavourable terms. The Group generates financial resources predominantly through its business operations. The liquidity risk is controlled by maintaining adequate levels of cash and unutilised credit lines with banks. All contractual loan arrangements are continuously monitored. The following table shows the contractually agreed, undiscounted cash flows from financial instruments. Variable interest payments were stated at the rates determined at the reporting date. Foreign currency amounts were translated using the spot rate at the reporting date.

Liquidity analysis (including forecast on interest payments as well as the revolving credit lines)

in EUR '000	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 2 years	Of which maturity 2 to 5 years	Of which maturity over 5 years
2019	**239,328**	**76,794**	**9,051**	**24,362**	**129,121**
2018	234,972	75,169	8,772	19,972	131,059

There are moreover the following anticipated outflows f liquidity from the derivatives concluded:

in EUR '000	Total outstanding amount	Of which maturity less less than 1 year	Of which maturity 1 to 2 years	Of which maturity 2 to 5 years	Of which maturity over 5 years
2019	**957**	**156**	**155**	**414**	**232**
2018	1,351	221	187	526	417

Market risk

We take the market risk to mean the risk of a loss that may arise as a result of a change in market parameters that have a bearing on measurement (exchange rate, interest rate, price).

The market risks from currency translation within CENTROTEC are limited, as the transactions take place principally in eurozone countries. However, a growing portion of business activities is taking place in European countries outside the eurozone, particularly Eastern Europe, but the markets outside Europe are also coming increasingly into focus. This geographical expansion gives rise to limited, manageable exposure to market risks from changes in interest and exchange rates. The Group therefore uses instruments for hedging foreign currency risks only selectively.

If the euro had gained 10% in value against the principal foreign currencies for CENTROTEC at December 31, 2019, EBIT would have been higher by EUR 286 thousand (previous year EUR 247 thousand). If the euro had lost 10% in value, EBIT would have been lower by EUR 346 thousand (previous year EUR 300 thousand).

Currency sensitivity

in EUR '000 Währung	Reporting-date rate	Rate if EUR gains 10% in value	Sensitivity if EUR gains 10% in value	Rate if EUR loses 10% in value	Sensitivity if EUR loses 10% in value
CHF	1,0854	1,19	(1)	0,98	1
CNY	7,8205	8,60	52	7,04	(63)
DKK	7,4715	8,22	244	6,72	(297)
GBP	0,8508	0,94	(62)	0,77	72
HKD	8,7473	9,62	(1)	7,87	1
HRK	7,4395	8,18	(100)	6,70	122
PLN	4,2568	4,68	(21)	3,83	26
RUB	69,9563	76,95	52	62,96	(63)
USD	1,1234	1,24	123	1,01	(145)
Total			**286**		**(346)**

If the euro had gained 10% in value at December 31, 2019, equity would have been EUR 872 thousand (previous year EUR 848 thousand) higher or, if the euro had lost 10% in value, EUR 930 thousand (previous year EUR 889 thousand) lower. The determination of currency sensitivities took account of all significant financial instruments where the currency of the contract is not the same as the functional currency of the CENTROTEC Group. The calculations do not contain currency translation risks, nor deferred and actual taxes.

The market risks from interest rate changes stem predominantly from rate-sensitive financial assets and liabilities as well as cash and cash equivalents where interest rate changes result in changes in the anticipated cash flows. To hedge against adverse interest rate movements, mainly interest rate swaps have been concluded in order to hedge against the cash flow risks of loans with variable interest rates; they can be designated cash flow hedges in accordance with IFRS 9. For further disclosures on the hedging instruments used, please refer to the disclosures on the derivative financial instruments.

If market interest rates had been 100 base points higher or lower at December 31, 2019, earnings would have been EUR 294 thousand (previous year EUR 362 thousand) higher or EUR 109 thousand (previous year EUR 88 thousand) higher. Equity would correspondingly have been EUR 1,510 thousand (previous year EUR 1,547 thousand) higher or EUR 693 thousand (previous year EUR 263 thousand) lower at December 31, 2019.

Capital structure

Figures in EUR '000	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015
Equity	230,150	239,505	257,481	240,602	225,962
Long-term debt	239,097	216,780	219,641	134,898	125,375
Short-term debt	118,823	111,921	103,350	104,195	100,801
Balance sheet total	588,070	568,206	580,472	479,695	452,138
Equity ratio	39.1%	42.2%	44.4%	50.2%	50.0%
Debt ratio	60.9%	57.8%	55.6%	49.8%	50.0%

Belongs to section b_Capital risk management

All significant variable-interest receivables and liabilities from primary financial instruments of the CENTROTEC Group as well as cash flows from derivative financial instruments were taken into account in determining the sensitivity of earnings to interest rates. Equity sensitivity was calculated on the basis of hypothetical changes in the market value of the derivatives designated as hedges.

Other risks affecting the prices of financial instruments exist for the CENTROTEC Group above all in the form of trading prices and redemption prices that may affect the current investments. As a result of the conservative investment policy, this risk is assessed as moderate. The fair value of the current investments would increase or decrease by EUR 7,916 thousand as a result of a fluctuation of plus/minus 10%.

Operating risks

Through its operating activities, the Group is exposed to market price risks in the form of commodity price risks. These may have a negative effect on the net worth, financial position and financial performance. CENTROTEC assesses these risks on a regular basis by monitoring changes in key indicators as well as market information. These market price risks are controlled predominantly via routine business operations and financing activities.

Credit risks on the procurement side are limited in the case of CENTROTEC. There are a great many suppliers for many raw materials and supplies. In critical areas of procurement, at least two sources of supply exist in virtually every case.

b_Capital risk management

The Group's aims with regard to capital management are to maintain the company as a going concern, in order to protect the interests and expectations of our shareholders, employees and other stakeholders. Another aim is to maintain an optimum capital structure in order to reduce the capital costs and control the risks, building in a premium for maintaining financial flexibility. To minimise risks, a financing structure is being established in which the financing of the individual parts of the Group is ring-fenced, i.e. they are kept strictly separate. It is necessary to ensure that both internal and external growth prospects and opportunities can be realised by parts of the Group at any time.Potential measures for influencing the capital structure may concern both equity (e.g. ploughback) and debt (e.g. through the raising/repayment of loans). The target equity ratio should not normally be below 20 %.

G_ Critical assumptions and estimates

The preparation of the Consolidated Financial Statements in agreement with IFRS requirements as adopted in the EU renders it necessary to make assumptions and estimates that influence the net worth, financial position and financial performance. These include expectations regarding the likelihood of events occurring, formed in the prevailing circumstances. Estimates relate to affairs that are uncertain at the time of recognition or up until the preparation of the financial statements

The assumptions and estimates that can materially influence the net worth, financial position and financial performance are explained below.

CENTROTEC carries out an impairment test at least once a year on its goodwill-bearing cash generating units. To estimate the value in use, the management must estimate the anticipated future cash flows of the cash generating units and in addition select an appropriate discount rate to determine the present value of these cash flows. The management's expectations consequently have an indirect impact on the measurement of goodwill and other assets. Conducting sensitivity analyses yields the following results: if the estimates of the underlying free cash flow had been 10% lower, there would have been no impairment of goodwill. If an interest rate 100 base points higher had been taken as the basis for discounting of the cash flows, this would likewise not have led to any reduction in goodwill.

The recognition and measurement of provisions are equally influenced by the assumptions made on the probability of occurrence, timing, discount factor applied and absolute amount of the risk. In the case of pension entitlements in particular, actuarial calculations and estimates are indispensable.

Other key estimates concern determining the useful lives of intangible assets and property, plant and equipment, estimating the collectability of receivables and other assets, measuring inventories, the scope for realising tax receivables and deferred tax assets on temporary differences in accounting entries, tax loss carryforwards as well as the leases to be accounted for in ccordance with IFRS 16. In addition, at initial consolidation there are estimation uncertainties and areas of judgement in determining the fair values of the assets acquired and liabilities assumed.

H_ Disclosures on the consolidated companies

The following companies, which simultaneously constitute the CENTROTEC Group, were consolidated within CENTROTEC SE at December 31, 2019:

Company

	Place and country of incorporation	Share of capital	Subscribed capital	Currency (ISO code)	Founded/ acquired
Company					
CENTROTEC SE	Brilon, DE	-	16,256,453.00**	EUR	*30/01/2020
Segment Climate Systems					
Brink Climate Systems B.V.	Staphorst, NL	100%	20,004.00	EUR	02/01/2002
Brink Climate Systems France S.A.S.	Nantes, FR	100%	10,000.00	EUR	02/01/2014
Air Instal Group B.V.	Deventer, NL	100%	18,152.00	EUR	02/01/2002
Air Instal B.V.	Deventer, NL	100%	10,000.00	EUR	01/12/2015
ComfortExpert B.V.	Deventer, NL	100%	10,000.00	EUR	25/06/2015
CENTROTEC Real Estate B.V.	Doesburg, NL	100%	1.00	EUR	30/01/2014
Ned Air Holding Deutschland GmbH	Brilon, DE	100%	25,000.00	EUR	08/04/2014
Ned Air Holding B.V.	Ijsselmuiden, NL	100%	54,454.00	EUR	05/06/2003
Ned Air B.V.	Ijsselmuiden, NL	100%	54,454.00	EUR	05/06/2003
Holmak HeatX B.V.	Sassenheim, NL	100%	38,500.00	EUR	08/09/2005
Innosource B.V.	Sassenheim, NL	100%	18,000.00	EUR	08/09/2005
HOLMAK D.O.O.E.L.	Bitola, MK	100%	816,623.00	MKD	13/06/2013
CENTROTEC Energy Solutions B.V.	Staphorst, NL	100%	18,000.00	EUR	08/09/2005
CENTROTEC Energy Solutions Nederland B.V.	Staphorst, NL	100%	18,000.00	EUR	19/11/2010
Brink Climate Systems Deutschland GmbH	Ahaus, DE	100%	450,000.00	EUR	29/11/2005
Wolf Holding GmbH	Mainburg, DE	100%	25,000.00	EUR	22/09/2006
Wolf GmbH	Mainburg, DE	100%	20,000,000.00	EUR	05/10/2006
Wolf France S.A.S.	Massy, FR	100%	1,040,000.00	EUR	05/10/2006
Wolf Iberica S.A.	Madrid, ES	100%	1,181,315.74	EUR	05/10/2006
Wolf Technika Grzewcza Sp.z.o.o.	Warsaw, PL	100%	3,189,100.00	PLN	05/10/2006
Wolf Power Systems GmbH	Wolfhagen, DE	100%	500,000.00	EUR	23/07/2018
Wolf Sustainable AG	Zurich, CH	100%	100,000.00	CHF	24/06/2011
OOO Wolf Energiesparsysteme	Moscow, RU	100%	113,200,000.00	RUB	25/11/2011
Wolf Klimaatechniek B.V.	Kampen, NL	100%	150,000.00	EUR	05/10/2006
Wolf Italia S.R.L.	San Donato Melansese, IT	100%	100,000.00	EUR	01/07/2013
PRO-KLIMA d.o.o.	Samobor, HR	100%	9,107,600.00	HRK	01/07/2015
Wolf HVAC Systems Co. Ltd	Shanghai, CN	100%	7,692,755.00	CNY	01/02/2016
Wolf HVAC HK Limited	Hong Kong	100%	10,000.00	HKG	31/08/2015
CENTROTEC Energy Solutions GmbH	Brilon, DE	100%	25,000.00	EUR	23/07/2008

Company

	Place and country of incorporation	Share of capital	Subscribed capital	Currency (ISO code)	Founded/ acquired
Gas Flue Systems segment					
Ubbink B.V.	Doesburg, NL	100%	46,290.00	EUR	21/12/1999
Ubbink N.V./S.A.	Gentbrugge, BE	100%	592,117.00	EUR	21/12/1999
Ubbink UK Ltd.	Brackley, UK	100%	2,485,000.00	GBP	21/12/1999
Ubbink France S.A.S.	La Chapelle sur Erdre, FR	100%	310,000.00	EUR	21/12/1999
Centrotherm Systemtechnik GmbH	Brilon, DE	100%	108,360.00	EUR	15/12/1993
Centrotherm Gas Flue Technologies Italy S.R.L.	Verona, IT	100%	119,000.00	EUR	19/10/2000
Centrotherm Eco Systems, LLC	Albany, USA	100%	300,000.00	USD	22/04/2009
Centrotherm Gas Flue Technology (Jiangsu) Co., Ltd.	Nantong, CN	100%	4,863,901.52	CNY	11/02/2015
Ubbink Deutschland GmbH	Brilon, DE	100%	25,000.00	EUR	14/07/2008
CENTROTEC Composites GmbH	Brilon, DE	100%	27,000.00	EUR	01/08/1990
IVT-Industrie Vertrieb Technik GmbH & Co.KG	Holzwickede, DE	100%	10,000.00	EUR	01/07/2019
IVT Verwaltungsgesellschaft mbH	Holzwickede, DE	100%	25,000.00	EUR	01/01/2019
CENTROTEC International GmbH	Brilon, DE	100%	25,000.00	EUR	18/12/2002
CENTROTEC Finance BV	Staphorst, NL	100%	20,000.00	EUR	03/12/2015
CENTROTEC Finance BV & Co. KG	Brilon, DE	100%	14,876.00	EUR	16/12/2015
FIS CENTROTEC Finance	Luxembourg	100%	83,689,945.18	EUR	27/01/2016
CENTROTEC Building Technology (Jiaxing) Co. Ltd	Jiaxing, CN	100%	5,000,000.00	USD	20/09/2018
XCNT GmbH	Berlin, DE	100%	25,000.00	EUR	27/09/2018
Medical Technology & Engineering Plastics segment					
medimondi AG	Fulda, DE	100%	11,640,000.00	EUR	*16/10/2006
Möller GmbH	Fulda, DE	100%	60,000.00	EUR	28/08/2003
Möller Medical GmbH	Fulda, DE	100%	1,400,000.00	EUR	28/08/2003
Möller Medical USA Inc.	Saratoga Springs, USA	100%	10.00	USD	27/05/2014
Centroplast Engineering Plastics GmbH	Marsberg, DE	100%	250,000.00	EUR	01/08/1990
Rolf Schmidt Industriplast A/S	Kolding, DK	100%	3,000,000.00	DKK	16/03/2001
Companies consolidated using the equity method					
VAC-Stent Medtec AG	Canton Zug, CH	34%	100,000.00	CHF	01/08/2017
Companies recognised as available-for-sale financial assets (non-consolidated companies), as they are of no material significance:					
Wolf (Schweiz) AG	Kilchberg, CH	9%	100,000.00	CHF	18/02/2014

* Arisen through modifying conversion. Formerly CENTROTEC Sustainable AG, which in turn arose through modifying conversion dated July 17, 1998.

** CENTROTEC retired the 1,625,517 treasury shares in February 2020. The remaining capital stock of the company has consequently declined by EUR 1,625,517.00 from EUR 16,256,453.00 to EUR 14,630,936.00.

Explanatory notes on components of the consolidated financial statements

O Business combinations

IVT Verwaltungsgesellschaft mbH and IVT - Industrie Vertrieb Technik GmbH & Co.KG

The Ubbink Group, which belongs to CENTROTEC, acquired 100% of the shares of IVT GmbH & Co.KG with effect from July 1, 2019. This business, with registered office in Holzwickede, Germany, has a wide-ranging portfolio of products for pitched roof technology and therefore supplies a high-quality range of products for the roofing trade. This acquisition is consistent with our strategy of reinforcing our involvement in the German construction market and reducing our dependence on gas flue systems in the Ubbink Group. In other words, it gives Ubbink market access to the roof and building materials trade in Germany. As a new member company in the Gas Flue Systems segment, IVT functions such as production, development, purchasing, logistics, sales and finances will furthermore receive a boost.

The acquisition method to be applied pursuant to IFRS 3 calls for a purchase price allocation to be conducted in conjunction with the preparation of an opening balance sheet for the purposes of including the IVT companies in the Consolidated Financial Statements of the CENTROTEC Group. The following tables show the calculation of acquisition cost and goodwill, as well as the effects of the acquisition on the balance sheet and income statement:

Acquisition cost and goodwill

in EUR '000	
Total purchase price	2,364
Net assets acquired	1,759
Goodwill	605

Balance-sheet assets and liabilities of IVT

in EUR '000	Fair value at time of acquisition	Carrying amount
Cash and cash equivalents	3	3
Intangible assets (thereof customer base EUR 909 thousand, brand EUR 455 thousand)	1,364	0
Property, plant and equipment	933	691
Inventories	1,033	1,033
Receivables	807	807
Current assets	128	128
Short-term bank overdrafts	(1,117)	(1,117)
Current liabilities	(772)	(772)
Provisions	(27)	(27)
Non-current liability	(593)	(593)
Net assets acquired	**1,759**	**153**

Total purchase price to be settled in cash and cash equivalents

in EUR '000	
Total purchase price	(2,364)
Cash and cash equivalents acquired	3
Short-term bank overdrafts repayable on demand	(1,117)
Cash outflow from the acquisition (cash flow from investing activities)	(3,478)

EUR 1,864 thousand of the EUR 2,364 thousand was already paid in the 2019 financial year. A portion of the purchase price in the amount of EUR 500 thousand serves as cover against any warranty cases and will be paid in the next 15 months. The goodwill comprises the industry expertise of the workforce and the strategic significance of the acquired business for UCG (Ubbink-Centrotherm-Group). The goodwill is not deductible for tax purposes. The costs associated with the business combination in the amount of EUR 106 thousand are contained in the income statement under other expenses, as well as in the cash flow statement under the cash flows under cash flows from operating activities.

The receivables amounting to EUR 807 thousand represent net receivables. The gross amount of the receivables was EUR 815 thousand and the impairment thereon came to EUR 8 thousand. IVT has so far contributed EUR 2,532 thousand to consolidated external revenue in the 2019 financial year. If IVT had been part of the Group since January 1, 2019, its contribution to consolidated revenue would have been EUR 6,120 thousand. IVT has so far contributed EUR (52) thousand to EBIT. If the company had been part of the Group since January 1, 2019, its EBIT contribution would have been EUR (82) thousand.

1 Goodwill

The classification and movements of goodwill are shown in the following schedule:

in EUR '000	
2019	
Accumulated cost Jan 1	79,558
Exchange differences	(18)
Additions	605
Disposals	0
Accumulated cost Dec 31	80,145
Accumulated impairment Jan 1	(2,263)
Exchange differences	0
Additions	0
Disposals	0
Accumulated impairment Dec 31	(2,263)
Net carrying amount 31/12/2019	**77,882**
2018	
Accumulated cost Jan 1	79,548
Exchange differences	10
Additions	0
Disposals	0
Accumulated cost Dec 31	79,558
Accumulated impairment Jan 1	(2,263)
Exchange differences	0
Additions	0
Disposals	0
Accumulated impairment Dec 31	(2,263)
Net carrying amount 31/12/2018	**77,295**

The goodwill totalling EUR 77,295 thousand reported at December 31, 2018 rose by an amount of EUR 587 thousand in the 2019 financial year to EUR 77,882 thousand. Of this increase, EUR 605 thousand is attributable to the acquisition of IVT and EUR (18) thousand to exchange rate fluctuations.

In the CENTROTEC Group a distinction is made between four cash generating units to which goodwill is allocated. The impairment test was performed on the basis of value in use. The calculations were based on a cash flow oriented model. The calculations are based on the approved plans for 2020. The average growth over the past five years has been assumed for the years 2021 to 2024. Growth is 2.9% for the Wolf CGU, 8.1% for the Brink CGU, 6.1% for the Ubbink CGU and 5.2% for the medimondi CGU. A perpetual annuity is in addition calculated on the basis of the fifth year of the planning period for cash flow. The perpetual annuity was assumed to have a growth rate in cash flow of 1.0% (previous year 1.0%) for all CGUs. The discount rate was formed from the weighted costs of borrowed capital and equity capital, with the equity capital costs derived using CAPM. The discount rate before tax is 3.83% for the Wolf CGU, 3.59% for the Brink CGU, 3.68% for the Ubbink CGU and 3.79% for the medimondi CGU (previous year 4.08% to 4.50%).

The impairment tests revealed no need for impairment of goodwill in either the 2019 financial year or in the comparative period 2018.

The following table shows the distribution of goodwill between the cash generating units:

Cash generating units

in TEUR	31/12/2019	31/12/2018
Wolf Group	36,455	36,472
Brink Group	25,433	25,433
Ubbink Group	11,697	11,092
Medimondi Group	4,297	4,298
Total	**77,882**	**77,295**

2 Intangible assets

The classification and movements of intangible assets are shown in the following schedule:

in EUR '000	Industrial rights and similar rights	Software	Capitalised development costs	Assets in course of construction	Total intangible assets
2019					
Accumulated cost Jan 1	24,672	28,102	58,512	10,203	121,489
Exchange differences	(4)	11	0	0	7
Additions	118	1,617	2,100	7,763	11,598
Acquisitions	1,364	0	0	0	1,364
Reclasses	9	2,698	2,505	(5,212)	0
Disposals	(66)	(49)	(238)	(129)	(482)
Accumulated cost Dec 31	26,093	32,379	62,879	12,625	133,976
Accumulated depreciation/ amortisation and impairment Jan 1	(9,297)	(21,035)	(47,444)	0	(77,776)
Exchange differences	1	(6)	0	0	(5)
Additions	(639)	(3,019)	(3,522)	0	(7,180)
Impairment	0	0	(1,085)	0	(1,085)
Disposals	66	49	238	0	353
Accumulated depreciation/ amortisation and impairment Dec 31	(9,869)	(24,011)	(51,813)	0	(85,693)
Net carrying amount 31/12/2019	**16,224**	**8,368**	**11,066**	**12,625**	**48,283**
2018					
Accumulated cost Jan 1	24,700	25,488	55,832	4,937	110,957
Exchange differences	3	(1)	2	0	4
Additions	26	1,266	2,831	6,981	11,104
Reclasses	(6)	1,667	54	(1,715)	0
Disposals	(51)	(318)	(207)	0	(576)
Accumulated cost Dec 31	24,672	28,102	58,512	10,203	121,489
Accumulated depreciation/ amortisation and impairment Jan 1	(8,778)	(18,843)	(43,602)	0	(71,223)
Exchange differences	0	0	(1)	0	(1)
Additions	(568)	(2,408)	(4,048)	0	(7,024)
Disposals	49	216	207	0	472
Accumulated depreciation/ amortisation and impairment Dec 31	(9,297)	(21,035)	(47,444)	0	(77,776)
Net carrying amount 31/12/2018	**15,375**	**7,067**	**11,068**	**10,203**	**43,713**

The industrial rights and similar rights include the "Wolf" brand (EUR 11.5 million). The Wolf brand has no specified useful life because we have secured the exclusive right to use the "Wolf" brand under trademark rights; its useful life is therefore indefinite from a legal perspective. Even taking the economic perspective as a basis, we are unable to forecast for how long the company and therefore the "Wolf" brand will exist; as a result, based on an analysis of all relevant factors we are unable to express any foreseeable limit to the period in which the asset is likely to generate net cash flows for the company. No amortisation takes place in view of the indefinite useful life. The "Wolf" brand is therefore subjected to a yearly impairment test, which has hitherto revealed no need for impairment. The parameters used for this correspond to the parameters for the impairment test of goodwill in Note 1. The EUR 1,085 thousand in impairment from the area of capitalised development costs relates to a project from the Climate Systems segment that is not currently being pursued further and was therefore written down. Expenses for predominantly internal research and development (incl. expenditure that may be recognised as an asset) in the financial year amounted to EUR 18,969 thousand (previous year EUR 17,905 thousand). The development activities related mainly to the CHA line of new high-efficiency heat pumps running on climate-friendly refrigerants, the aligning of the product range with the Chinese market, a new generation of gas condensing boilers in the performance range of 38-55 kW and compact air handling units with air volumes of up to 3,300 m^3/h. Other developments included ventilation solutions for residential buildings with extended air volumes as well as an innovative ventilation concept with heat recovery for renovations. There exists a commitment amounting to EUR 6 thousand (previous year EUR 457 thousand) for intangible assets.

3 Property, plant and equipment

The classification and movements of property, plant and equipment are shown in the following schedule:

in EUR '000	Land and buildings	Rights of use to land & buildings	Technical equipment & machinery	Rights of use to technical equipment & machinery	Fixtures & fittings	Rights of use to fixtures & fittings	Assets in course of construction	Total property, plant & equipment
2019								
Accumulated cost Jan 1	114,340	0	113,278	0	77,503	0	12,490	317,611
Addition with effect from Jan 1 under IFRS 16	0	6,690	0	0	0	5,716	0	12,406
Exchange differences	(21)	19	44	(1)	17	9	(41)	26
Additions	6,563	2,750	5,181	841	5,959	4,068	14,039	39,401
Acquisitions	0	0	503	355	75	0	0	933
Disposals	0	(124)	(1,083)	(35)	(1,346)	(4)	(506)	(3,098)
Reclasses	4,219	0	(1,609)	6,528	4,073	184	(13,395)	0
Accumulated cost Dec 31	125,101	9,335	116,314	7,688	86,281	9,973	12,587	367,279
Accumulated depreciation/ amortisation and impairment Jan 1	(50,996)	0	(79,752)	0	(56,884)	0	0	(187,632)
Exchange differences	1	(3)	(17)	0	(10)	(4)	0	(33)
Additions	(3,591)	(1,608)	(7,018)	(586)	(6,826)	(3,333)	0	(22,962)
Disposals	0	124	1,061	35	1,270	4	0	2,494
Reclasses	39	0	2,502	(2,463)	(19)	(59)	0	0
Accumulated depreciation/ amortisation and impairment Dec 31	(54,547)	(1,487)	(83,224)	(3,014)	(62,469)	(3,392)	0	(208,133)
Net carrying amount 31/12/2019	**70,554**	**7,848**	**33,090**	**4,674**	**23,812**	**6,581**	**12,587**	**159,146**
2018								
Accumulated cost Jan 1	114,289	0	107,702	0	72,064	0	4,026	298,081
Exchange differences	6		77		(9)		(2)	72
Additions	785		4,041		5,430		12,917	23,173
Reclasses	212		2,835		1,316		(4,363)	0
Disposals	(952)		(1,377)		(1,298)		(88)	(3,715)
Accumulated cost Dec 31	114,340	0	113,278	0	77,503	0	12,490	317,611
Accumulated depreciation/ amortisation and impairment Jan 1	(48,124)	0	(74,000)	0	(51,940)	0	0	(174,064)
Exchange differences	0		(14)		6		0	(8)
Additions	(3,818)		(7,144)		(6,074)		0	(17,036)
Disposals	946		1,352		1,178		0	3,476
Reclasses	0		54		(54)		0	0
Accumulated depreciation/ amortisation and impairment Dec 31	(50,996)	0	(79,752)	0	(56,884)	0	0	187,632
Net carrying amount 31/12/2018	**63,344**	**0**	**33,526**	**0**	**20,619**	**0**	**12,490**	**129,979**

Land and buildings comprise mainly the production and office buildings in Brilon (Germany), Mainburg (Germany), Doesburg (Netherlands), Kampen (Netherlands), Staphorst (Netherlands), La Chapelle sur Erdre (France), Fulda (Germany), Marsberg (Germany), Wolfhagen (Germany), Gorleben (Germany), Kolding (Denmark), San Donato Milanese (Italy), Madrid (Spain) and Samobor (Croatia). Construction work on new buildings and extensions to production halls were completed at the Doesburg, Kolding and Samobor locations in the 2019 financial year.

Technical equipment and machinery at the production plants was extended and technologically upgraded. Other furniture, fixtures and office equipment consists of various items in production, warehouses and administration. In addition there exist commitments amounting to EUR 721 thousand for property, plant and equipment.

The rights of use to assets that are to be recognised since January 1, 2019 under IFRS 16 relate mainly to the renting of offices, cars and forklift trucks.

Property, plant and equipment for the previous year includes assets in the amount of EUR 3,553 thousand that were recognised as finance leases using the classification of the old standard on leases IAS 17. The bulk of these assets comprised technical equipment and machinery amounting to EUR 3,468 thousand and other furniture, fixtures and office equipment amounting to EUR 85 thousand. As a result of the amended standard on leases, since January 1, 2019 all rights of use to leased assets are recognised on the balance sheet with the exception of current and minor-value assets.

4 Financial investements accounted for using the equity method, loans and investments

These assets comprise investments accounted for using the equity method, other investments that are not included in consolidation as they are of no material significance (see Section H. Disclosures on the consolidated companies), as well as loans originated by the enterprise, and securities.

Associates accounted for using the equity method

VAC-Stent Medtec AG is accounted for at equity. Möller Medical holds a 34% participating interest in this company. The carrying amount of this investment was EUR 67 thousand at the end of financial year (previous year EUR 64 thousand). No current annual financial statements are available for this company for the most recent reporting date, so no further disclosures can be made on VAC-Stent Medtec AG. However the effects from these financial statements for the CENTROTEC Group are insignificant.

5 Other financial assets and other assets

The following table shows a breakdown of other financial assets and non-financial assets according to maturity. The prepaid expenses largely comprise insurance premiums and service expenses.

Other financial assets and other assets

in EUR '000	**31/12/2019**	**31/12/2018**
Miscellaneous financial assets	21	9
Other non-current financial assets	**21**	**9**
Prepaid expenses	18	18
Other assets	18	12
Other non-current non-financial assets	**36**	**30**
Current investments	79,156	98,199
Derivative assets	93	0
Miscellaneous financial assets	3,999	3,693
Other current financial assets	**83,248**	**101,892**
Receivables from VAT	4,026	3,583
Prepaid expenses	3,498	3,606
Payments on account for inventories	341	816
Other assets	171	701
Other current non-financial assets	**8,036**	**8,706**

The current investments mainly comprise available-for-sale funds, which are to be regarded like liquidity. Thanks to the diversification of financial instruments across various priority investments and professional asset management, the overall risk position is regarded as moderate.

6 Deferred tax assets and tax liabilities

Pursuant to IAS 12 the deferred tax assets and deferred tax liabilities are calculated on the temporary difference between the stated amounts of assets and liabilities in the IFRS balance sheet and the tax balance sheet, and also from tax loss carryforwards. These differences in the stated amounts result among other things from adjustments to stated amounts in the context of business combinations. The net values shown represent the netted values of deferred tax assets and deferred tax liabilities of the Group companies in respect of a taxation authority.

The deferred tax assets result principally from pension provisions as well as other liabilities, and are comprised as follows:

Deferred tax assets on temporary differences and tax loss carryforwards

	Gross		After netting	
In EUR '000	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Reversal expected within 12 months	2,200	2,025	2,050	1,921
Reversal expected after more than 12 months	16,767	11,496	8,106	7,434
Total	**18,967**	**13,521**	**10,156**	**9,355**

The deferred tax assets from loss carryforwards are comprised as follows:

Tax loss carryforwards

in EUR '000	**31/12/2019**	**31/12/2018**
Loss carryforwards	24,182	19,234
Deferred tax assets from loss carryforwards	6,475	5,195
Reductions for impairment	(4,597)	(3,247)
Deferred tax assets from loss carryforwards	**1,878**	**1,948**

Of the deferred tax assets on loss carryforwards, EUR 857 thousand (previous year EUR 1,015 thousand) relates to companies which also posted a loss in the current year. The deferred tax assets in question were tested for impairment on the basis of earnings forecasts. No deferred tax assets were recognised on loss carryforwards amounting to EUR 16,488 thousand (previous year EUR 9,994 thousand).
Except for an amount of EUR 2,156 thousand, the loss carryforwards can be carried forward indefinitely. Of the losses for which carryforward is restricted, EUR 4 thousand expires in over five years, EUR 281 thousand within five years, EUR 145 thousand within four years, EUR 125 thousand within three years, EUR 1,601 thousand within two years and EUR 1 thousand within one year.

The composition of deferred tax liabilities is as follows:

Deferred tax liabilities on temporary differences

		Gross		After netting
in EUR '000	**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**
Reversal expected within 12 months	149	230	0	126
Reversal expected after more than 12 months	18,764	15,646	10,103	11,583
Total	**18,913**	**15,876**	**10,103**	**11,709**

The composition of deferred tax assets and deferred tax liabilities by balance sheet item is as follows:

Deferred tax

in EUR '000	2019	2018
Deferred tax assets (gross)		
Intangible assets	60	91
Property, plant and equipment	773	940
Inventories	516	532
Other financial assets	801	1,119
Pension provisions	9,096	6,277
Other provisions	1,490	1,371
Other liabilities	4,142	929
Other	211	314
Tax loss carryforwards	1.878	1.948
	18.967	**13.521**
Deferred tax liabilities (gross)		
Intangible assets	9,032	9,119
Property, plant and equipment	9,432	6,114
Inventories	128	57
Other provisions	50	88
Other liabilities	136	223
Other	135	275
	18,913	**15,876**

Of the deferred tax assets and deferred tax liabilities, EUR 8,571 thousand (previous year EUR 5,519 thousand) was netted directly with equity. Exchange differences represent EUR 91 thousand of this amount (previous year EUR 108 thousand), and interest rate derivatives EUR 354 thousand (previous year EUR 164 thousand). Pension provisions account for EUR 8,126 thousand (previous year EUR 5,247 thousand).

Deferred tax balance sheet items

in EUR '000	31/12/2019	31/12/2018
Deferred tax assets	10,155	9,355
Deferred tax liabilities	(10,103)	(11,709)
Balance	**52**	**(2,354)**
Of which: from netting against equity	8,571	5,519

Development in deferred tax

in EUR '000	31/12/2019	31/12/2018
Recognition of deferred tax (balance)	52	(2,354)
Difference year on year	2,406	2,400
Of which:		
Through profit or loss	(665)	2,576
Netted against equity (incl. exchange differences)	3,053	(167)
Other	20	(9)

No deferred tax liabilities were recognised on temporary differences resulting from shares in subsidiaries (outside basis differences) amounting to EUR 7,497 thousand (previous year EUR 10,412 thousand), because these differences will probably not be reversed in the foreseeable future and the parent is in a position to control the timing of the reversal of the temporary differences.

7 Inventories

Group inventories are broken down as follows:

Inventories by category

in EUR '000	31/12/2019	31/12/2018
Raw materials and supplies	30,585	29,205
Work in progress	17,008	15,957
Finished goods and merchandise	38,786	33,499
Total	**86,379**	**78,661**

Impairment of inventories developed as follows:

in EUR '000	31/12/2019
Impairment at the start of the financial year	5,955
Additions recognised as an expense	2,134
Reversal/utilisations	(1,318)
Currency translation effects	9
Impairment at end of financial year	**6,780**

8 Trade receivables

2019 in EUR '000	Default rate	Gross value	Impairment	Net value
Not overdue	1.1%	57,040	(597)	56,443
Overdue 1 - 30 days	0.4%	8,724	(35)	8,689
Overdue 31 - 90 days	1%	3,513	(34)	3,479
Overdue 91 - 180 days	18,8%	1.606	(302)	1.304
Overdue by more than 181 days	42.5%	4,247	(1,805)	2,442
Total		**75,130**	**(2,773)**	**72,357**

2018 in EUR '000	Default rate	Gross value	Impairment	Net value
Not overdue	1.6%	52,705	(855)	51,850
Overdue 1 - 30 days	0.1%	8,359	(6)	8,353
Overdue 31 - 90 days	1.2%	2,557	(29)	2,528
Overdue 91 - 180 days	3.6%	1,273	(46)	1,227
Overdue by more than 181 days	58.7%	3,067	(1,801)	1,266
Total		**67,961**	**(2,737)**	**65,224**

The trade receivables do not contain any significant financing component because they are due within 30 days of the invoice date. The number of customers is high. The largest customer accounts for approx. 4% of revenue. Impairment is based on observable historical credit risks and is adjusted with forward-looking estimates.

The following table shows the changes in impairment:s

in EUR '000	31/12/2019	31/12/2018
Impairment at the start of the financial year	2,737	3,034
Income-effective changes in impairment during the period under review	600	395
Derecognition of receivables	(323)	(569)
Payments received and recovery in value of receivables originally written off	(250)	(115)
Currency translation effects	1	(8)
Acquisitions	8	0
Impairment at end of financial year	**2,773**	**2,737**

The carrying amounts of the trade receivables are denominated in the following currencies:

in EUR '000	31/12/2019	31/12/2018
EUR	68,130	63,265
HRK	2.028	839
GBP	1.303	743
USD	1.264	748
DKK	986	782
PLN	550	784
Other currencies	869	800
Total	**75,130**	**67,961**
Impairment	2,773	2,737
Trade receivables	**72,357**	**65,224**

9 Cash and cash equivalents

Cash and cash equivalents

in EUR '000	31/12/2019	31/12/2018
Cash in hand	26	47
Cash and cash equivalents	39,042	49,714
Total	**39,068**	**49,761**

10 Equity

General

The issued capital of the company amounted to EUR 16,256,453 at December 31, 2019 (previous year EUR 18,020,923). It is divided into 16,256,453 (previous year 18,020,923) no par value shares with a notional value of EUR 1.00 per share. The capital stock is fully paid in.

Development of number of shares

in shares	2019	2018
Total, January 1	18,020,923	18,020,923
Retirement	1,764,470	0
Total, December 31	**16,256,453**	**18,020,923**

1,764,470 of the treasury shares held at December 31, 2018 were retired in August 2019, leaving only 16,256,453 shares outstanding at December 31, 2019.

Proposal for the distribution of accumulated profit

According to German commercial and stock corporation requirements, the annual financial statements of the Group parent CENTROTEC SE constitute the basis for the appropriation of profit for the 2019 financial year. A distributable dividend therefore depends, among other things, on the profit available for distribution reported by that company in the separate financial statements at December 31, 2019. The net income for the year reported there is EUR 3,433 thousand and the reported retained earnings EUR 9,622 thousand. In light of the increased investing activities and in response to the unprecedented market uncertainty due to the coronavirus, however, the Supervisory Board and Management Board of CENTROTEC have resolved to propose to the Annual General Meeting that the payment of a dividend for the 2019 financial year be dispensed with completely. The balance of the profit is to be carried forward for new account.

Treasury stock

Pursuant to the resolution of the Annual General Meeting of June 18, 2019 the company was authorised until June 17, 2024 to acquire treasury stock which, together with existing treasury stock, represents up to ten percent of the capital stock at the time of the authorisation taking effect. The price for the acquisition of these shares may not be more than 10% higher or more than 10% lower than the closing price in XETRA trading on the Frankfurt Stock Exchange (or in a successor system) for shares of the same class and features on the three trading days preceding the acquisition. The Management Board is authorised to offer all or some of the shares thus acquired to third parties in (part) payment of the acquisition of companies or investments in companies, excluding the shareholders' right of subscription. The Management Board is furthermore authorised to retire the company's treasury stock without the need for a further resolution to be adopted by the Annual General Meeting. Retirement may be restricted to part of the purchased shares.

On the basis of this authorisation the company purchased and acquired 1,625,517 treasury shares through the share buyback offer designed for the acquisition of treasury stock as published on the website of the company on August 27, 2019 and in the Federal Gazette on August 30, 2019 with an offer price of EUR 12.60 per no par value share. At December 31, 2019 the company thus held 1,625,517 treasury shares, for which it does not enjoy voting rights.

Authorised capital

Pursuant to the resolution of the Annual General Meeting on May 22, 2017 the Management Board is, with the consent of the Supervisory Board, authorised to increase the capital stock on one or more occasions by up to EUR 3,000,000 (in words: three million euros) by May 30, 2022 for cash and/or contributions in kind through the issuance of new no par value bearer shares (Authorised Capital 2017).

The new shares are fundamentally to be offered to the shareholders for subscription; they may also be accepted by banks or enterprises within the meaning of Section 186 (5) first sentence of the German Stock Corporation Act (AktG) with the obligation to offer them for subscription to the shareholders.

The Management Board is, with the consent of the Supervisory Board, authorised to exclude the shareholders' statutory subscription right in the following instances:

- In order to exclude residual amounts from the subscription right;
- For a capital increase for cash, if the issuing price of the new shares does not significantly undercut the market price of the shares of the company already listed at the time when the issuing price is finally fixed by the Management Board and the number of new shares as an arithmetic proportion of the capital stock issued excluding the subscription right pursuant to Section 186 (3) fourth sentence of the German Stock Corporation Act does not exceed the limit of 10% of the capital stock of the company, either at the time of this authorisation becoming effective or at the time of its exercising; this limiting authorisation shall include those shares that, during the term of Authorised Capital 2017 (i), were issued or sold excluding the subscription right in direct or analogous application of Section 186 (3) fourth sentence of the German Stock Corporation Act or (ii) that can or must be issued to service debt instruments (including participating bonds) with conversion or option rights or a conversion obligation, provided the debt instrument or participating bonds are issued during the term of Authorised Capital 2017 in analogous application of Section 186 (3) fourth sentence of the German Stock Corporation Act, excluding subscription right of shareholders;
- For a capital increase for cash for the purpose of acquiring (including indirectly) businesses, operations, business units, participations in other businesses or other assets or entitlements to acquire assets, including receivables from the company or its Group companies;
- For issuance to employees of the company or of domestic and international affiliated companies (Section 202 (4) of the German Stock Corporation Act); as well as
- For running a scrip dividend where the shareholders are given the offer to contribute their dividend entitlement to the company in whole or part by way of a contribution in kind in return for the granting of new shares.

The Management Board is authorised, with the approval of the Supervisory Board, to specify the further details of the effecting of capital increases from the Authorised Capital 2017.

11 Pension provisions

Employees' entitlements to defined benefit plans are based on statutory or contractual arrangements and direct commitments. The pension liabilities in Germany stem from company agreements or individual contractual arrangements. They comprise defined benefits (direct commitments) based on the guidelines on the granting of company pensions and, building on that, on a company agreement. There in addition exist defined benefits in the form of direct commitments based on the benefit regulation of the Essener Verband pension plan. It is furthermore possible to participate in a defined benefit plan on the basis of individual contractual agreements. In addition, the company offers defined contribution plans. The obligations comprise the payment of retirement benefits, payable upon reaching pensionable age. The level of the payments depends in essence on the number of years' service completed and the pensionable salary prior to the start of benefit payments or the converted amount. In Germany, they are financed principally by means of pension provisions.

The existing benefit obligations in the Netherlands consist of individual contractual arrangements for a limited number of management employees, who will receive life-long retirement benefit payments from the time their employed relationship ceases as a result of reaching pensionable age. The level of the payments depends in essence on the qualifying number of years' service and the (average) pensionable salary. This defined benefit obligation is financed through Nationale Nederlanden, an outside insurer.

The entitlements of the Italian and Belgian employees are based on statutory arrangements. The level of the payments depends in essence on the qualifying number of years' service and the pensionable salary.

The pension provision is calculated using the projected unit credit method pursuant to IAS 19, which also takes account of anticipated pay and retirement benefit increases. The provision amount has been calculated using actuarial methods and the latest mortality tables (Germany: G Heubeck 2018; Netherlands: AG Prognosetafel 2016).

The calculation parameters for calculating the provisions for pension entitlements have changed as follows:

Key actuarial assumptions

				2019				2018
in %	**Germany**	**Netherlands**	**Belgium**	**Italy**	**Germany**	**Netherlands**	**Belgium**	**Italy**
Discount rate	0.80	0.75	0.80	0.77	1.90	1.50	1.70	1.57
Assumed salary increases	2.50	2.00	2.20	1.00	2.50	2.00	2.20	1.00
Assumed pension increase	1.25	2.00	0.00	2.40	1.25	2.00	0.00	2.63

Retirement benefit payments

in EUR '000	**31/12/2019**	**31/12/2018**
Fund-financed obligations	12,206	11,117
Fair value of plan assets	(11,864)	(11,004)
Subtotal	342	113
Present value of non-fund-financed obligation	55,585	45,521
Influence of the upper assets threshold	0	0
Pension provisions reported	**55,927**	**45,634**

The following table shows the development of pension obligations and plan assets:

Development in pension obligations and plan assets

in EUR ’000	Present value of the defined benefit obligation	External plan assets	Total	Influence of the upper assets threshold	Total
01/01/2019	**56,638**	**(11,004)**	**45,634**	**0**	**45,634**
Service cost	932	0	932	0	932
Past service cost	0	0	0	0	0
Interest expense/interest income (incl. expected return on plan assets)	1,013	(148)	865	0	865
Payments made	(1,684)	412	(1,272)	0	(1,272)
Contributions paid by employer	11	(85)	(74)	0	(74)
Contributions paid by employee	0	(12)	(12)	0	(12)
Gains and losses from compensation	0	0	0	0	0
Remeasurement effects:					
from plan assets	0	(1,027)	(1,027)	0	(1,027)
from changes in financial assumptions	10,136	0	10,136	0	10,136
from changes in demographic assumptions	34	0	34	0	34
from experience adjustments	711	0	711	0	711
changes in the upper assets threshold	0	0	0	0	0
Total of remeasurement effects	**10,881**	**(1,027)**	**9,854**	**0**	**9,854**
31/12/2019	**67,791**	**(11,864)**	**55,927**	**0**	**55,927**

in EUR ’000	Present value of the defined benefit obligation	External plan assets	Total	Influence of the upper assets threshold	Total
01/01/2018	**56,676**	**(10,445)**	**46,231**	**0**	**46,231**
Service cost	985	0	985	0	985
Past service cost	0	0	0	0	0
Interest expense/interest income (incl. expected return on plan assets)	862	(138)	724	0	724
Payments made	(1,616)	416	(1,200)	0	(1,200)
Contributions paid by employer	12	(60)	(48)	0	(48)
Contributions paid by employee	0	(18)	(18)	0	(18)
Gains and losses from compensation	0	0	0	0	0
Remeasurement effects:					
from plan assets	0	(759)	(759)	0	(759)
from changes in financial assumptions	(2,954)	0	(2,954)	0	(2,954)
from changes in demographic assumptions	1,882	0	1,882	0	1,882
from experience adjustments	791	0	791	0	791
changes in the upper assets threshold	0	0	0	0	0
Total of remeasurement effects	**(281)**	**(759)**	**(1,040)**	**0**	**(1,040)**
31/12/2018	**56,638**	**(11,004)**	**45,634**	**0**	**45,634**

The plan assets are comprised as follows:

in EUR '000	31/12/2019	31/12/2018
Insurance	11,864	11,004
Total	**11,864**	**11,004**

The bulk of the plan assets is managed by the pension insurer Nationale Nederlanden, the Netherlands. Nationale Nederlanden invests in a variety of portfolios, such as government bonds, corporate bonds, mortgages, shares and real estate. Once a year a payment is made to Nationale Nederlanden, as calculated by Nationale Nederlanden using various parameters such as age. The cash outflow for 2020 will be approx. EUR 48 thousand. Nationale Nederlanden makes the payments to the employees.

The average weighted term of the existing pension obligations is 18 years. The pension payments for the coming year are expected to amount to EUR 1,807 thousand.

The following table shows the sensitivity analysis for pension obligations to reflect changes in the various assumptions made during measurement:

Sensitivities in the main actuarial assumptions

			31/12/2019		31/12/2018
Change in DBO in %	**in %**	**Increase in DBO in %**	**Decrease in DBO in %**	**Increase in DBO in %**	**Decrease in DBO in %**
Interest rate	0.5	(8.5)	9.8	(7.9)	9.0
Pension trend	0.5	7.1	(6.4)	6.4	(5.8)
Salary trend	0.5	0.4	(0.4)	0.4	(0.4)

The effects of the sensitivity analysis were calculated in the same way to measure the pension obligation.

12 Other provisions

The following table shows the movements in provisions in the year under review:

Other provisions

in EUR '000	Warranty obligations	Legal claims and court proceedings	Personnel-related costs	Miscellaneous provisions	Total
01/01/2019	**11,767**	**283**	**3,884**	**1,074**	**17,008**
Added	4,636	41	2,119	3,146	9,942
Used	(5,755)	(220)	(1,365)	(2,445)	(9,785)
Reversed	(2)	0	(389)	(94)	(485)
Exchange differences	0	0	(6)	23	17
Compounding	139	0	17	0	156
Acquisitions	5	0	0	22	27
31/12/2019	**10,790**	**104**	**4,260**	**1,726**	**16,880**
Of which use expected < 1 year	328	104	2,242	1,378	4,052

A distinction between short-term and long-term provisions was made on the balance sheet, based on the estimated timing of their use. The provisions for warranty obligations are calculated for each type of revenue according to values indicted by experience, as well as for specific individual cases. The warranty obligations were created for general and individual warranty risks on the basis of various warranty factors. The warranty periods generally last between two and six years, possibly varying upwards for goodwill reasons. The outflow of resources for legal claims and court proceedings is expected substantially within the next year. The personnel-related provisions relate e.g. to provisions for long-service payments made after employment by the company for a specified number of years' service. The miscellaneous provisions relate to a large number of individual matters that are deemed not material.

13 Borrowings

The following table shows bank liabilities and other loans, broken down according to real estate loans, general credit facilities and other loans.

Borrowings maturities schedule

in EUR '000	Total outstanding amount	Of which maturity less than 1 year	Of which maturity 1 to 5 years	Of which maturity over 5 years	Interest rate spread
31/12/2019					
Real estate loans	50,929	3,685	13,988	33,256	1.4 - 5.4%
Other loans	102,207	2,712	8,211	91,284	0.7 – 6.5%
General credit facilities	14,330	14,330	0	0	0.6 – 6.5%
Borrowings excluding leases	**167,466**	**20,727**	**22,199**	**124,540**	
Lease liabilities	17,662	5,718	9,994	1,950	1.5 – 3.5%
Total	**185,128**	**26,445**	**32,193**	**126,490**	
31/12/2018					
Real estate loans	51,768	3,798	12,954	35,016	1.4 – 5.4%
Other loans	98,461	2,358	5,082	91,021	1.3 – 5.3%
General credit facilities	16,187	16,187	0	0	0.6 – 6.3%
Borrowings excluding leases	**166,416**	**22,343**	**18,036**	**126,037**	
Finance leases	2,522	720	1,652	150	1.3 – 7.6%
Total	**168,938**	**23,063**	**19,688**	**126,187**	

The increase in lease liabilities at December 31, 2019 results from the amended IFRS 16 now that all rights of use to leased assets must be recognised as an asset (see explanations under property, plant and equipment) and the corresponding lease liabilities recognised as a liability.

The carrying amounts of the liabilities are denominated in the following currencies

in EUR '000	31/12/2019	31/12/2018
EUR	175,903	163,774
DKK	6,073	3,538
USD	1,527	1,576
PLN	467	50
GBP	460	0
CNY	430	0
RUB	268	0
Total	**185,128**	**168,938**

In the case of the real estate loans, the fixed interest rates in the individual loan agreements expire at various times between 2020 and 2028, with the result that the risk is adequately diversified. The same applies to the other loans, where the fixed interest rates expire between 2020 and 2028. The fair value of the financial debt that was determined by discounting future cash flows is approx. EUR 4.1 million above the carrying amounts.

Security for liabilities to credit institutions

in EUR '000	31/12/2019	31/12/2018
Property, plant and equipment	33,467	45,671
Intangible assets	33	37
Inventories	13,656	13,222
Receivables	2,270	4,225
Other assets	10,938	808
Total	**60,364**	**63,963**

Pledged interest in companies	Ownership interest
Brink Climate Systems B.V.	100%

Security was furnished on the customary commercial terms for lending.

14 Other financial liabilities and other liabilities

The following table shows the breakdown of other financial liabilities and other liabilities on both an item by item basis and by maturity:

in EUR '000	31/12/2019	31/12/2018
Purchase price liability	250	170
Derivative liabilities	1,235	615
Miscellaneous financial liabilities	58	68
Other non-current financial liabilities	**1,543**	**853**
Miscellaneous liabilities	13	19
Other non-current liabilities	**13**	**19**
Other liabilities to customers, principally from discounts	13,295	10,781
Outstanding invoices	4,884	3,653
Interest deferrals	545	558
Credits outstanding	420	365
Miscellaneous financial liabilities	1,794	2,106
Other current financial liabilities	**20,938**	**17,463**
Employee remuneration	8,354	7,788
Vacation and overtime	7,989	8,878
Advances received	3,455	3,983
Taxation and social premiums	4,209	3,920
VAT	2,425	1,917
Partial retirement	2,545	2,976
Miscellaneous liabilities	2,556	1,838
Other current liabilities	**31,533**	**31,300**

The actuarially determined obligations for partial retirement were discounted at 0.63% and recognised as a liability at their present value. The liabilities, which relate to current partial retirement obligations, were netted against assets from securities amounting to EUR 2,259 thousand (previous year EUR 2,160 thousand). The securities were acquired via a trusteeship in order to fulfil statutory requirements in respect of statutory insolvency insurance for partial retirement obligations entered into. The greater portion of derivative financial instruments is due in the next five years.

15 Additional disclosures on financial instruments

The following tables show the carrying amounts of financial assets and liabilities according to measurement category, as well as their fair values:

Financial assets

	At amortised cost		At fair value		Total	
in EUR '000	Financial liabilities	Financial assets	Through profit or loss	Through other comprehensive income	Carrying amount	Fair value
Balance sheet item at December 31, 2019						
Loans originated by the enterprise and investments		205			205	205
Securities			492		492	492
Cash and cash equivalents		39,068			39,068	39,068
Trade receivables		72,357			72,357	72,357
Derivative financial instruments			62	31	93	93
Current investments			79,156		79,156	79,156
Miscellaneous financial assets		4,020			4,020	4,020
Total financial assets, December 31, 2019	**0**	**115,650**	**79,710**	**31**	**195,391**	**195,391**
Borrowings excluding lease liabilities	167,466				167,466	171,571
Trade payables	32,256				32,256	32,256
Derivative financial instruments				1,235	1,235	1,235
Miscellaneous financial liabilities	21,246				21,246	21,246
Total financial liabilities, December 31, 2019	**220,968**	**0**	**0**	**1,235**	**222,203**	**226,308**
Balance sheet item at December 31, 2018						
Loans originated by the enterprise and investments		209			209	209
Securities			613		613	613
Cash and cash equivalents		49,761			49,761	49,761
Trade receivables		65,224			65,224	65,224
Derivative financial instruments					0	0
Current investments			98,199		98,199	98,199
Miscellaneous financial assets		3,702			3,702	3,702
Total financial assets, December 31, 2018	**0**	**118,896**	**98,812**	**0**	**217,708**	**217,708**
Borrowings excluding finance leases	166,416				166,416	168,719
Trade payables	32,453				32,453	32,453
Derivative financial instruments			32	620	652	652
Miscellaneous financial liabilities	17,664				17,664	17,664
Total financial liabilities, December 31, 2018	**216,533**	**0**	**32**	**620**	**217,185**	**219,488**

The category of loans originated by the enterprise includes long-term loans that are measured at amortised cost. The fair value of the loans corresponds approximately to the carrying amount.

Interests in companies not included in consolidation and not accounted for by the equity method are summarised in the investments category. These are exclusively non-listed corporate enterprises. The investments are measured at acquisition cost as no publicly listed market prices exist and the fair value cannot be reliably determined due to the uncertainty of future cash flows. The fair value could only be reliably determined through specific sales negotiations.

The carrying amounts of the assets in the securities category correspond to the respective market prices.

The assets in the categories cash and cash equivalents, trade receivables and miscellaneous assets have predominantly short maturity dates, with the result that their carrying amounts at the balance sheet date correspond to the fair values.

The categories derivative assets and liabilities include financial derivatives that are designated both as cash flow hedges and as derivatives serving as economic hedging transactions, but not for hedge accounting, which are recognised at fair value.

Current investments include investment funds recognised at fair value.

The categories trade payables and miscellaneous financial liabilities fundamentally contain liabilities with regularly short maturities. The carrying amounts therefore correspond to the fair values.

The borrowings categories excluding finance leases contain liabilities predominantly with maturities of more than one year. The fair values are determined by discounting the cash flows associated with the liabilities, taking account of the current interest rate parameters. The individual creditworthiness ratings within the Group are taken into account in the form of market creditworthiness and liquidity spreads when determining the present value.

Net gains or losses from financial instruments by measurement category

The following table shows the net gains or losses on financial instruments taken into account in the income statement, by measurement category. Interest, currency translation, impairment, reversals and results from disposals were taken into account in determining the net results.

in EUR '000	At amortised cost Financial liabilities	At amortised cost Financial assets	At fair value Through profit or loss	Total
2019	(3,430)	(609)	5,962	**1,923**
2018	(3,297)	(714)	(6,173)	(10,184)

Derivative financial instruments

The Group uses interest rate swaps for hedging interest rate risks. To hedge against exchange rate fluctuations, forward contracts are also concluded as required. They comprise cash flow hedges.

There are in addition other derivatives that are to be regarded as economic hedging transactions but are not designated for hedge accounting. The following table shows the contracts concluded.

In EUR '000 Financial derivatives	2019 Contract volume	Total assets	2019 Total liabilities	Total assets	2018 Total liabilities
Interest rate swap	23,728	0	1,235	0	615
Forward contracts	5,850	31	0	0	5
Other derivatives	699	62	0	0	32
Total		**93**	**1,235**	**0**	**652**
of which short-term		93	0	0	37

The full fair value of a derivative hedging instrument is classified as a non-current asset/liability provided its maturity exceeds 12 months; it is otherwise classified as a current asset/liability.

The ineffective portion of cash flow hedges recognised in the income statement amounts to EUR 17 thousand (previous year EUR 14 thousand).

At December 31, 2019 the fixed interest rates for interest rate swaps varied between 0.66% and 3.99% (previous year 0.66% and 3.99%). The gains and losses from interest rate hedging instruments recognised within equity (reserve for cash flow hedges) are continually recognised through profit or loss until the bank loans have been repaid (Note 13). Of the forward contracts, USD and GBP are hedged.

The other derivatives are economic hedging transactions that are, however, not designated for hedge accounting. Unrealised and realised measurement results are recognised at fair value through profit or loss, under the result from financial assets/liabilities.

16 Revenue

Climate Systems

Our largest segment Climate Systems manufactures and sells heating systems for gas and oil, renewable energy (solar thermal, heat pumps, biomass, biogas plants), combined heat and power units, ventilation systems with heat recovery and also climate control and ventilation technology. To a minor extent it also offers maintenance work and commissioning services. The principal customers include wholesalers, distributors, tradespeople and plant engineers. The revenue normally relates to a specific point in time. If a performance obligation such as a service relates to a time period, the income is recognised using the working time spent relative to the total hours expected, or the cost of materials relative to the total cost of materials expected. Revenue is mostly realised when control has been transferred to the customer. This is the case for a specific point in time if, for example, an entitlement to receive payment exists, the customer holds title to the asset physical possession of the asset has been transferred, the significant risks and rewards associated with ownership of the asset reside with the customer, and the customer has accepted the asset. The entitlement to the consideration is generally due 30 days after delivery. Because the entitlement to receive the consideration arises unconditionally at the time of fulfilment of the performance obligation to deliver the goods, a receivable is generally capitalised immediately. No measurement of a contractual asset or contractual liability occurs. Combined heat and power units are a different case. Here, the payment terms have normally been negotiated, e.g. 30% upon placing the order, 60% when ready for shipment and 10% upon commissioning/acceptance. In this case contractual liabilities (received in advance) may then be recognised. The same applies to service contracts. The level of the entitlement is based on the contractually agreed consideration. There is no contractual right of return. Provisions are formed according to IAS 37 for statutory and further warranties.

Gas Flue Systems

The Gas Flue Systems segment manufactures and sells gas flue systems for boilers, air piping systems for ventilation with heat recovery, and construction materials for airtight, watertight and sustainable building. The bulk of business is handled via OEM customers and distribution partners. Revenue is realised when control has been transferred to the customer. This is the case for a specific point in time if, for example, an entitlement to receive payment exists, the customer holds title to the asset physical possession of the asset has been transferred, the significant risks and rewards associated with ownership of the asset reside with the customer, and the customer has accepted the asset. The entitlement to the consideration is generally due between 30 and 60 days after delivery. Because the entitlement to receive the consideration arises unconditionally at the time of fulfilment of the performance obligation to deliver the goods, a receivable is generally capitalised immediately. No measurement of a contractual asset or contractual liability occurs. The level of the entitlement is based on the contractually agreed consideration. There is no contractual right of return. However the statutorily prescribed warranty period naturally applies. As before, appropriate provisions are created within the meaning of IAS 37.

Medical Technology & Engineering Plastics

The Medical Technology & Engineering Plastics segment manufactures and sells medical technology equipment and components, as well as engineering plastics (semi-finished articles and technical parts). In the Medical Technology area, sales are made to industrial customers and clinics, as well as directly to doctors. In the Engineering Plastics area, business is generally channelled through industrial customers. Here again, revenue is realised if, for example, an entitlement to receive payment exists, the customer holds title to the asset physical ossession of the asset has been transferred, the significant risks and rewards associated with ownership of the asset reside with the customer, and the customer has accepted the asset. The entitlement to the consideration is generally due 30 days after delivery. Because the entitlement to receive the consideration arises unconditionally at the time of fulfilment of the performance obligation to deliver the goods, a receivable is generally capitalised immediately. No measurement of a contractual asset or contractual liability occurs. The level of the entitlement is based on the contractually agreed consideration. There is no contractual right of return. However the statutorily prescribed warranty period naturally applies. As before, appropriate provisions are created within the meaning of IAS 37.

Revenue by segment, subdivided by product group and country

2019 Revenue from third parties by product group	Climate Systems	Gas Flue Systems	MT & EP	Total
Sale of products	428,051	139,591	53,846	621,488
Sale of services	27,585	0	143	27,728
Other revenues	1,739	0	24	1,763
Total	**457,375**	**139,591**	**54,013**	**650,979**
Revenue from third parties by country				
European euro countries	398,935	112,319	35,237	546,491
of which Germany	276,557	26,205	28,103	330,865
European non-euro countries	44,954	11,662	13,239	69,855
Rest of world	13,486	15,610	5,537	34,633
Total	**457,375**	**139,591**	**54,013**	**650,979**

2018 Revenue from third parties by product group	Climate Systems	Gas Flue Systems	MT & EP	Total
Sale of products	407,850	128,023	51,623	587,496
Sale of services	27,020	0	0	27,020
Other revenues	75	121	27	223
Total	**434,945**	**128,144**	**51,650**	**614,739**
Revenue from third parties by country				
European euro countries	380,396	103,379	34,717	518,492
of which Germany	265,598	20,705	28,482	314,785
European non-euro countries	41,502	10,730	12,754	64,986
Rest of world	13,047	14,035	4,179	31,261
Total	**434,945**	**128,144**	**51,650**	**614,739**

Net contracts

Contract obligations	
01/01/2019	3,983
Revenues recognised in the period under review that were included in the net contractual liabilities at the start of the period	(3,815)
New contractual liabilities	3,287
31/12/2019	**3,455**

No costs for the fulfilment or acquisition of a contract were capitalised.

17 Cost of purchased materials and services as well as change in inventories

Cost of purchased materials

in EUR '000	2019	2018
Cost of purchased materials	282,613	273,011
Cost of purchased services	33,612	31,506
Supplier discounts	(1,332)	(1,239)
Total	**314,893**	**303,278**
Change in inventories of finished goods and work in progress	(3,520)	(3,975)
Cost of purchased materials incl. change in inventories	311,373	299,303

18 Other income

The breakdown of other income is as follows:

Other income

in EUR ’000	2019	2018
Foreign exchange gains	1,071	1,493
Insurance and other compensation	949	328
Costs passed on/costs refunded	856	956
Reversal of provisions	722	1,428
Liquidation/reversal of impairment of receivables	419	435
Government grants	390	440
Sales proceeds from the disposal of fixed assets	136	90
Other	4,836	5,003
Total	**9,379**	**10,173**

Government grants

in EUR ’000	2019	2018
Personnel-related	181	136
Other	209	304
Total	**390**	**440**

19 Personnel expenses and total employees

Personnel expenses

in EUR ’000	2019	2018
Wages and salaries	152,428	143,796
Social insurance	21,682	19,842
Expenses for defined benefit plans	932	985
Expenses for defined contribution plans	10,075	9,419
Total	**185,117**	**174,042**

Total employees

		2019		2018
	Average	At reporting date	Average	At reporting date
Individuals	3,264	3,339	3,067	3,081
FTE	3,155	3,222	2,962	2,962
of which office staff	1,784	1,798	1,679	1,720
of which industrial workers	1,371	1,424	1,283	1,242

The figures at the reporting date include 126 temporary workers expressed as FTE (previous year 130) as well as 156 temporary workers expressed as individuals (previous year 156). The averages include 143 FTE temporary workers (previous year 163) as well as 161 individuals employed as temporary workers (previous year 182).

20 Other expenses

Other expenses are made up as follows:

Other expenses

in EUR ’000	2019	2018
Outward freight	17,342	16,332
Promotional costs	14,281	12,240
Travel expenses and fleet	11,911	14,295
Temporary employees	6,990	7,318
Legal and consultancy costs	6,840	5,055
IT expenses	6,249	4,872
Maintenance costs	5,463	5,140
Energy	5,309	5,001
Other personnel expenses	3,799	3,494
Sales commissions	3,561	3,105
General running costs	2,709	2,571
Guarantee expenses	2,681	1,893
Rent for buildingsother rent/ancillary costs	2,258	4,299
Insurance	2,091	2,038
Communication	1,184	1,205
Exchange rate losses	794	1,682
Impairment of receivables	658	367
Bad debt losses	443	479
Other	10,423	10,735
Total	**104,986**	**102,121**

Expenses for travel and fleet as well as for buildings/other rent declined as a result of the new standard on leases because the rights of use to leased vehicles and offices need to be recognised as an asset or liability. This prompts a shift in expenditure away from other operating expenses and towards depreciation/amortisation and interest expense. Minor-value assets are not accounted for under IFRS 16. Expenditure for minor-value assets came to EUR 330 thousand. The same applies to assets with a lease term of less than one year. Expenditure on such assets amounted to EUR 1,765 thousand.

21 Interest income and expense

Interest income and expense is broken down as follows:

in EUR ’000	2019	2018
Interest income	203	214
Interest expense on loans	(3,585)	(3,526)
Other interest expense	(1,089)	(879)
Interest expense for leases (IFRS 16)	(294)	0
Total	**(4,765)**	**(4,191)**
Of which: Retirement benefit obligations	(865)	(724)

The total interest income and total interest expense for financial assets and financial liabilities that are not measured at fair value through profit or loss amount to EUR (3,502) thousand (previous year EUR (3,418) thousand). The rise in interest expense results mainly from the first-time adoption of the standard on leases (IFRS 16). This was behind interest expense for lease liabilities in the amount of EUR 294 thousand for the financial year.

22 Other financial result

EUR 5,143 thousand (previous year EUR -7,013 thousand) is reported in the other financial result. This results mainly from measurement of the current investments at the reporting date.

23 Income tax

DImcome tax is composed as follows:

in EUR ’000	2019	2018
Actual income tax expense for the current financial year	9,268	8,930
Actual income tax expense for previous financial years	127	197
Deferred tax for the current financial year	653	(2,357)
Deferred tax for prior periods	12	(218)
Total	**10,060**	**6,552**

Deferred tax expense developed as follows:

in EUR ’000	2019	2018
From temporary differences	897	(1,409)
From loss carryforwards	(232)	(1,167)
Deferred tax expense (previous year tax income)	**665**	**(2,576)**

The relationship between actual tax expense and anticipated tax expense is as follows:

in EUR '000	2019	2018
Result before income taxes (EBT)	33,493	19,222
Anticipated tax expense (on basis of respective corporate tax rates)	**7,570**	**6,651**
Anticipated tax rate (in %)	22.6	34.6
Adjustments to anticipated tax expense		
Effects from non-deductible expenses and tax-exempt income	1,807	174
Effects from loss carryforwards	1,048	(638)
Adjustments for earlier financial years (actual income tax expense and deferred tax)	138	(23)
Other tax effects	(503)	388
Tax expense according to i ncome statement	**10,060**	**6,552**
Effective tax rate (in %)	30.0	34.1

The reported tax expense of EUR 10.1 million (previous year EUR 6.6 million) differs by EUR 2.5 million (previous year EUR 0.1 million) from the anticipated tax expense of EUR 7.6 million (previous year EUR 6.7 million) that is obtained if a weighted anticipated average tax rate is applied to EBT. This average rate was determined on the basis of the respective local corporate tax ratesand results and was 22.6% in 2019 (previous year 34.6%), the main effect comes from the reversal of earning in the financial results The effective tax rate is 30.0% (previous year 34.1%).

24 Non-controlling interests

At December 31, 2019, continuing on from the prior-year period, non-controlling interests amounted to EUR 0.

25 Earnings per share

The earnings per share (basic) and the diluted earnings per share are illustrated in the following table. The basic earnings per share are calculated on the basis of the profit or loss for the period attributable to the shareholders of CENTROTEC SE in relation to the weighted number of shares issued throughout the year, less treasury stock (1,625,517 shares, previous year 1,764,470).

Basic earnings per share

	31/12/2019	31/12/2018
Consolidated net income (net loss) of shareholders in EUR '000	23,433	12,620
Weighted average ordinary shares issued, '000	15,798	17,078
Basic earnings per share in EUR	**1.48**	**0.74**

For the diluted figure, potential shares from stock options have been taken into account in the number of shares, over and above the number of shares in the basic figure. Because the stock options scheme has expired, there will no longer be any effects from this.

Diluted earnings per share

	31/12/2019	31/12/2018
Consolidated net income (net loss) of shareholders in EUR '000	23,433	12,620
Weighted average ordinary shares issued, '000	15,798	17,078
Assumed exercise of stock options granted (weighted average), '000	0	0
Weighted average diluted ordinary shares, '000	15,798	17,078
Diluted earnings per share in EUR	**1.48**	**0.74**

26 Segment reporting

The operating segments are reported on in agreement with internal reporting to the principal decision-makers. The principal decision-maker is responsible for decisions regarding the allocation of resources to the operating segments and for examining their profitability. The principal decision-maker is the Management Board, which controls the following three segments:

1_**„Climate Systems"**: in this segment, heating, ventilation and climate control systems together with systems for using renewable energies for detached and semi-detached houses as well as for utility buildings such as public amenities, schools etc. are developed, produced and sold. The main focus of the product range is on a high degree of energy-saving and on interlinking heating, ventilation and climate control systems. In this market segment, CENTROTEC is among the leading companies in Europe.

2_**„Gas Flue Systems"**: here, gas flue systems for heating units and air piping systems as well as construction materials for airtight and watertight, sustainable construction are developed, produced and marketed. The emphasis of these systems is on plastic gas flue systems for condensing boiler systems. In this segment, CENTROTEC is one of the leading companies in Europe.

3_**„Medical Technology & Engineering Plastics"**: this segment develops, manufactures and sells medical technology and diagnostic articles and instruments. This segment also comprises the manufacture and sale of semi-finished plastic articles, prefabricated products and assemblies for small series in various sectors.

Segment reporting is based on the same accounting policies as for the other sections of the Consolidated Financial Statements. Income and expenditure are attributed directly to the segments on the basis of source or origin. The data is taken from the accounting systems of the companies that are allocated to the respective segments. The way they are allocated is evident in the presentation of the consolidated companies.

The key indicators used for managing the segments are revenue and EBIT, which are shown in segment reporting. The revenues relate principally to deliveries of goods. They are reported net of VAT, returns, discounts and price reductions. The "Gas Flue Systems" segment also includes the figures for CENTROTEC SE. Inter-segmental business is priced according to the arm's length principle. Pricing is comparable to third party transactions less cost items (in particular distribution costs), which do not occur in inter-segmental transactions.

Reconciliation of assets

in EUR '000	2019	2018
Total assets	574,456	555,270
Loans originated by the enterprise and investments (incl. at equity)	764	886
Income tax receivable as well as deferred tax assets	12,850	12,050
Total (ASSETS):	**588,070**	**568,206**

27 Cash flow statement

The Consolidated Cash Flow Statement shows how the Group's cash and cash equivalents changed in the course of the financial year under review as a result of cash inflows and outflows. The financial resources consist of cash and cash equivalents as well as drawing on current accounts with commercial banks. The financial resources are composed as follows:

Breakdown of financial resources

in EUR '000	31/12/2019	31/12/2018
Cash and cash equivalents	39,068	49,761
Bank overdrafts repayable on demand	(14,330)	(16,187)
Total	**24,738**	**33,574**

At the end of the 2019 financial year financial resources amounted to EUR 24,738 thousand, a decrease of EUR 8,836 thousand compared with the previous year. The cash flow from operating activities rose by EUR 3,798 thousand to EUR 42,023 thousand. The increased investment in property, plant and equipment and in intangible assets as well as the acquisition of IVT drove a negative increase in cash flow from investing activities compared with the previous year to EUR -21,943 thousand (previous year EUR -14,175 thousand). The negative cash flow from financing activities came down from the previous year to EUR -29,048 thousand (previous year EUR -35,261 thousand).

Short-term credit facilities to secure constant liquidity have been arranged with several credit institutions that are independent of each other. At the balance sheet date, the available borrowing facilities from current overdraft facilities amount to EUR 42.2 million (previous year EUR 37.6 million).

Substantial non-cash transactions result e.g. from exchange rate fluctuations. Overall repayments for lease liabilities came to EUR 6,044 thousand.

Reconciliation for borrowed capital excluding bank overdrafts repayable on demand

	01/01	Changes in cash			Non-cash changes			31/12/2019
		Repay-ments	New loans	Acqui-sition	Exchange rate fluctuations	Reclassi-fications	Other change	
Non-current borrowings	144,073	(1,824)	8,768	480	27	(4,827)	42	146,739
Non-current lease liabilities	1,802	(2,395)	20,588	128	0	(8,403)	224	11,944
Current borrowings	6,157	(4,589)	0	0	2	4,827	0	6,397
Current lease liabilities	719	(3,649)	32	110	0	8,403	103	5,718
Total	**152,751**	**(12,457)**	**29,388**	**718**	**29**	**0**	**369**	**170,798**

J_ Other disclosures

1_ Contingent liabilities and miscellaneous particulars

The customary warranty obligations are assumed, for which provisions have been formed where claims are probable.
In the context of its ordinary business activities, the company moreover regularly enters into contingent liabilities from guarantees, cheques and bills of exchange, among other things. Furthermore, contingent liabilities may arise from areas of the Group in which there exist statutory arrangements on partial retirement but for which no provisions have been recognised, as it is unlikely that employees in those areas will call upon the existing statutory arrangements. Provisions were formed for areas in which the probability of use is greater than 50%.

Overall, it is assumed that over and above the situations described here, no substantial liabilities arose as a result of the contingent liabilities during the period under review, or only to the extent evident in these Notes.

2_ Significant events occurring after the balance sheet date

An Extraordinary General Meeting was held on December 10, 2019. It was resolved at that meeting to convert the company into a European company (SE) by the name of CENTROTEC SE. Conversion takes effect with entry on the Commercial Register. Entry took place on January 30, 2020.

On February 7, 2020 the Management Board resolved, with the consent of the Supervisory Board, to retire 1,625,517 treasury shares, with the effect of reducing the capital stock. This measure reduced the capital stock of the company by EUR 1,625,517.00, from EUR 16,256,453.00 to EUR 14,630,936.00. Following the retirement of the treasury stock, the capital stock of the company is divided into 14,630,936 no par value bearer shares, each no par value share representing a pro rata amount of EUR 1.00 of the capital stock.

In the weeks prior to this report's completion the global spread of the corona virus as well as efforts by individual countries to limit its spread prompted an unprecedented level of uncertainty on financial, commodity and goods markets worldwide. Although the risks generated by the corona virus rate as very high overall for CENTROTEC, from the company's perspective they do not pose an existential threat thanks to the stable financial and liquidity position.

There were no other significant events at and after the balance sheet date.

3_ Related party disclosures

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party's financial and operating decisions. Pursuant to IAS 24, the members of the Management Board and Supervisory Board, close members of their families as well as subsidiaries that are not fully consolidated and equity investments can fundamentally be considered to be related parties in the case of the CENTROTEC Group.

Legal transactions with Management Board members and Supervisory Board members
The Management Board members did not hold any other high-ranking positions with other companies in the past year. A number of members of the Supervisory Board work in high-ranking positions at other companies with which CENTROTEC maintains relationships in the normal course of business. Transactions with such companies are conducted in the same manner as arm's length transactions. The goods and services received from these companies amounted to EUR 27,775 thousand in the financial year (previous year EUR 27,422 thousand), and comprised mainly production-related and other services. They are balanced out by company expenses saved elsewhere of roughly the same amount. The business volume of services provided to these companies by CENTROTEC in the financial year came to EUR 74 thousand (previous year EUR 114 thousand).

Relations between the parent company and the subsidiaries
The activities of CENTROTEC SE focus essentially on performing strategic and financial holding functions for the operating affiliated companies, on advising and supporting them for individual projects, and on providing services on behalf of Group companies in the areas of accounts, taxes, payroll accounting and data processing. CENTROTEC in addition steers the Group finances, coordinates investor relations and provides support for projects at the subsidiaries, including particularly mergers and acquisitions activities.

Total remuneration of the Management Board and Supervisory Board
The Management Board of three members received remuneration pursuant to the German Commercial Code totalling EUR 1,609 thousand (previous year EUR 1,354 thousand). The expenses recognised for the financial year for short-term benefits amounted to EUR 1,586 thousand (previous year EUR 1,310 thousand), and EUR 165 thousand for long-term benefits (previous year EUR 120 thousand). The provisions for the variable remuneration came to EUR 965 thousand at the end of the financial year (previous year EUR 1,275 thousand).

The remuneration of the members of the Management Board, including travel expenses, came to EUR 154 thousand (previous year EUR 219 thousand). As in the previous year, there were no loans or advances to Management Board and Supervisory Board members in the 2019 financial year.

Retired members of the Management Board received benefits totalling EUR 59 thousand in the 2019 financial year (previous year EUR 57 thousand). The provisions for pension commitments to former Management Board members came to EUR 1,106 thousand (previous year EUR 1,004 thousand).

The Management Board and Supervisory Board remuneration is shown by member in a separate remuneration report. The remuneration report forms part of the Group Management Report.

Directors' holdings
The following table shows directors' holdings at the balance sheet date:

Management Board	Shares (total)	31/12/2019 Options (total)	Shares (total)	31/12/2018 Options (total)
Dr Thomas Kneip	0	0	0	0
Bernhard Pawlik	0	0	0	0
Günther Wühr	0	0	0	0
Dr Christoph Traxler (until 31/03/2019)	0	0	0	0
Supervisory Board				
Guido A Krass	5,279,976	0	2,400,000	0
Andreas Freiherr von Maltzan	0	0	0	0
Christian C Pochtler	0	0	0	0
CENTROTEC				
Ordinary shares	16,256,453	0	18,020,923	0
ETreasury stock	1,625,517	0	1,764,470	0

Management Board and Supervisory Board
Dr Thomas Kneip, Regensburg, Germany, merchant
Since January 2014 Management Board member of CENTROTEC SE and since April 2014 responsible for the Climate Systems segment

Bernhard Pawlik, Ottobrunn, Germany, industrial engineer
Since April 2018 Management Board member of CENTROTEC SE and since the same date responsible or the Gas Flue Systems segment, in the management of which he has been involved since 2014

Günther Wühr, Deggendorf, Germany, merchant
Since April 2019 Management Board member of CENTROTEC SE and since the same date responsible for the Medical Technology & Engineering Plastics segment

Dr Christoph Traxler, Fulda, Germany, physicist
From April 2004 to March 2019 Management Board member of CENTROTEC SE and since April 2004 to March 2019 responsible for the Medical Technology & Engineering Plastics segment and, from April 2014 to March 2019, jointly responsible for the Climate Systems segment

Members of the Supervisory Board:
Guido A Krass,
Oberwil-Lieli, Switzerland, entrepreneur (Chairman)
Andreas Freiherr von Maltzan,
Munich, Germany, entrepreneur (Deputy Chairman)
Mag. Christian C Pochtler,
Vienna, Austria, entrepreneur

The following members of the Management and Supervisory Boards also hold other non-executive directorships as defined in Section 125 (1), fifth sentence of the German Stock Corporation Act:

Guido A Krass	Wolf GmbH, Mainburg, Germany medimondi AG, Fulda, Germany (Chairman)
Andreas Freiherr von Maltzan	None
Mag. Christian C Pochtler	Denzel AG, Vienna, Austria Schoeller Holding SE & Co. KGaA, Pullach
Dr Thomas Kneip	Wolf France S.A.S., Massy, France Wolf Sustainable (Schweiz) AG, Kilchberg, Switzerland Wolf Energiesparsysteme OOO, Moscow, Russia Wolf HVAC Systems Co. Ltd., Shanghai, China
Bernhard Pawlik	None
Günther Wühr	None

4_Corporate Governance Code

Pursuant to Section 161 of the German Stock Corporation Act, the Management Board and Supervisory Board of a company listed on the stock exchange are obliged to declare once a year whether and to what extent the code has been and is complied with.

The Management Board and Supervisory Board of CENTROTEC SE have declared the extent to which the recommendations of the Government Commission on the German Corporate Governance Code are complied with by the respective companies. The regularly submitted declarations and explanations are available to the public on the website of CENTROTEC SE at www.centrotec.com.

5_Independent auditors' fees

The auditors of CENTROTEC are PricewaterhouseCoopers GmbH WPG, Germany. The amounts shown below do not contain the fees for other independent auditors of Group subsidiaries, nor do they contain the amounts for international subsidiaries of the Group.

in EUR '000	2019	2018
Auditing services for the financial statements	459	433
Other assurance services	15	0
Tax consultancy services	160	128
Other services	105	0
Total expenses	**739**	**561**

The other assurance services relate to miscellaneous business audits as part of a capital cover check taking account of ISAE 3000.

The miscellaneous services comprise business consultancy on an implementation.

The tax consultancy services relate to the preparation of tax returns and to support for tax audits by the tax authorities.

6_Date and approval of the financial statements

The financial statements were approved by the Management Board and authorised as a whole for issue on March 23, 2020.

Once approved and ratified by the corporate bodies and following their publication, these financial statements may only be amended to the extent that is permissible by law.

Brilon, March 23, 2020

Dr Thomas Kneip

Bernhard Pawlik

Günther Wühr

Independent auditor's report

To CENTROTEC SE
(formerly: CENTROTEC Sustainable AG), Brilon

Note on the auditing of the consolidated financial statements and group management report

Audit opinions
We have audited the Consolidated Financial Statements of CENTROTEC SE (formerly: CENTROTEC Sustainable AG), Brilon, and its subsidiaries (the Group) – comprising the Consolidated Balance Sheet at December 31, 2019, the Consolidated Statement of Comprehensive Income, the Consolidated Income Statement, the Consolidated Statement of Movements in Equity and the Consolidated Cash Flow Statement for the financial year from January 1 to December 31, 2019 as well as the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition we have audited the Group Management Report of CENTROTEC SE (formerly: CENTROTEC Sustainable AG) for the financial year from January 1 to December 31, 2019. In accordance with the requirements of German law, we have not examined the content of the components of the Group Management Report stated in the "Other information" section of our Auditor's Report.

In our opinion, based on the findings of our audit,

- the enclosed Consolidated Financial Statements comply in all material respects with the IFRS as adopted in the EU, and the additional requirements of German law pursuant to Section 315e (1) of the German Commercial Code (HGB), and in accordance with these requirements give a true and fair view of the net worth and financial position of the Group at December 31, 2019 as well as of its financial performance for the financial year from January 1 to December 31, 2019, and

- the enclosed Group Management Report as a whole provides a suitable view of the Group's position. In all material respects this Group Management Report is consistent with the Consolidated Financial Statements, complies with the requirements of German law and suitably presents the opportunities and risks of future development. Our audit opinion of the Group Management Report does not extend to the contents of the Group Management Report components stated in the "Other information" section.

Pursuant to Section 322 (3) first sentence of HGB, we declare that our audit has not led to any objections regarding the correctness of the Consolidated Financial Statements and Group Management Report.

Basis for the audit opinions
We conducted our audit of the Consolidated Financial Statements and Group Management Report in accordance with Section 317 of HGB and the EU Regulation on specific requirements regarding statutory audit of public-interest entities (hereinafter: "Regulation (EU) No. 537/2014") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany, IDW). Under those regulations and principles our responsibility is described further in the section "Responsibility of the auditor for the auditing of the Consolidated Financial Statements and Group Management Report" of our Auditor's Report, We are independent of the Group companies, as is consistent with the regulations under European law, German commercial law and professional law, and have fulfilled our other German professional duties in accordance with these requirements. In addition, we declare that, pursuant to Article 10 (2) letter f) of Regulation (EU) No. 537/2014 we did not perform any prohibited non-audit services within the meaning of Article 5 (1) of Regulation (EU) No. 537/2014. We are of the opinion that the audit evidence we obtained is adequate and suitable to serve as a basis for our audit opinions on the Consolidated Financial Statements and Group Management Report.

Key audit matters in the auditing of the Consolidated Financial Statements
Key audit matters are those matters which, according to our sound judgment, were of most significance in our audit of the Consolidated Financial Statements for the financial year from January 1 to December 31, 2019. Those matters were taken into account as a whole with regard to our audit of the Consolidated Financial Statements and the forming of our audit opinion on them; we do not provide any separate audit opinion on those matters.

In our opinion the following matter was of key importance in our audit:

1. Intrinsic value of goodwill

We have structured our presentation of this key audit matter as follows:

1. Matter and problem statement
2. Audit approach and findings
3. Reference to additional information

We present the key audit matter below:

1. Intrinsic value of goodwill

1. The Consolidated Financial Statements of the company report goodwill with an overall amount of € 77.9 million under the balance sheet item "Goodwill". Goodwill is tested for impairment by the company once a year or ad hoc to identify a possible need for amortisation. The impairment test is performed at the level of the groups of cash-generating units to which the respective goodwill is allocated. In the impairment test, the carrying amount of the respective cash-generating units including goodwill is compared with the appropriate recoverable amount. The recoverable amount is fundamentally determined on the basis of the value in use. The basis of the valuation is regularly the present value of future payment streams of the respective group of cash-generating units. The present values are determined using discounted cash flow models. Here the approved medium-range planning of the Group serves as the starting point, which is reassessed using assumptions on long-term growth rates. Expectations regarding the future market development and assumptions on the development of macroeconomic factors are also taken into account here. Discounting is performed using the weighted average capital costs of the respective group of cash-generating units. No need for impairment was established as the result of testing for impairment.

   The result of this evaluation depends to a high degree on management's assessment of the future cash inflows of the respective group of cash-generating units, the discount rate applied, the growth rate as well as other assumptions, and is therefore subject to considerable uncertainty. In light of the above and in view of the complexity of the evaluation, this matter was of particular importance in the course of our audit.

2. In the course of our audit, among other things we evaluated the methodological procedures for testing for impairment. After comparing the future cash inflows used in the calculation with the approved medium-range planning of the Group, we assessed the appropriateness of the calculation in particular by reconciling it with general and industry-specific market expectations. Supplementary adjustments to the medium-range planning for purposes of impairment testing were discussed by us with the company employees responsible and evaluated. We also evaluated whether the costs for Group functions were properly reflected. With the knowledge that even relatively small changes in the discount rate applied can have material effects on the enterprise value determined in this way, we considered in depth the parameters used to determine the discount rate applied, and evaluated the measurement model. To reflect the existing forecast uncertainty, we evaluated the sensitivity analyses prepared by the company and performed our own sensitivity analyses. As a result, we stablished that the carrying amounts of the cash-generating units including the allocated goodwill, taking account of the available information, are adequately covered by the discounted future cash surpluses.

   The measurement parameters and assumptions used by management are as a whole transparent.

3. The company's disclosures on goodwill are contained in Sections E and I of the Notes to the Consolidated Financial Statements.

Other Information

Management is responsible for the other information. The other information comprises the following components of the Group Management Report, the content of which we have not examined:

- The Corporate Governance Statement pursuant to Section 289f HGB and Section 315d of HGB contained in the section "Business activities" of the Group Management Report
- The Corporate Governance Report according to No. 3.10 of the German Corporate Governance Code
- The separate Non-Financial Group Report pursuant to Section 315b (3) of HGB

The other information also comprises the remaining sections of the Annual Report – disregarding further cross-references to external information – with the exception of the audited Consolidated Financial Statements, audited Group Management Report as well as our Auditor's Report.

Our audit opinions of the Consolidated Financial Statements and Group Management Report do not extend to the other information, and we accordingly express neither an audit opinion nor any other form of audit conclusion in that regard.

In connection with our audit, it is our responsibility to read the other information and to assess whether the other information

- exhibits material discrepancies with the Consolidated Financial Statements, Group Management Report or our knowledge obtained in the course of the audit, or
- appears in any other respects to be misrepresented.

Responsibility of management and the supervisory body for the Consolidated Financial Statements and Group Management Report

The management is responsible for the preparation of the Consolidated Financial Statements, which comply in all material respects with the IFRS as adopted in the EU, and the additional requirements of German law pursuant to Section 315e (1) of HGB, and for ensuring that in accordance with these requirements the Consolidated Financial Statements give a true and fair view of the net worth, financial position and financial performance of the Group. The management is also responsible for the internal controls that it has determined to be necessary to enable the preparation of Consolidated Financial Statements that are free from material – intentional or unintentional – misrepresentations.

In preparing the Consolidated Financial Statements, the management is responsible for assessing the Group’s ability to remain a going concern. In addition it has the responsibility to state matters, where relevant, in connection with remaining a going concern. Furthermore, it is responsible for preparing the accounts based on the going concern accounting principle, unless there is the intention to liquidate the Group or cease business operations or no realistic alternative to such a course exists.

The management is also responsible for the preparation of the Group Management Report, which as a whole provides a suitable view of the Group’s position and is consistent in all material respects with the Consolidated Financial Statements, complies with the requirements of German law and suitably presents the opportunities and risks of future development. The management is in addition responsible for the precautions and measures (systems) that it has deemed necessary to enable the preparation of a Group Management Report that is consistent with the applicable requirements of German law, and to enable it to furnish sufficient suitable evidence for the statements made in the Group Management Report.

The Supervisory Board is responsible for overseeing the Group’s accounting process for the preparation of the Consolidated Financial Statements and Group Management Report.

Responsibility of the auditors for the auditing of the Consolidated Financial Statements and Group Management Report

Our objective is to obtain reasonable assurance whether the Consolidated Financial Statements are as a whole free from material – intentional or unintentional – misrepresentations, and whether the Group Management Report as a whole provides a suitable view of the Group’s position and is consistent in all material respects with the Consolidated Financial Statements as well as with the findings of our audit, complies with the requirements of German law and suitably presents the opportunities and risks of future development, as well as to provide an audit report that contains our audit opinions on the Consolidated Financial Statements and Group Management Report.

Reasonable assurance means a high degree of assurance, but no guarantee that an audit conducted in accordance with Section 317 of HGB, Regulation (EU) No. 537/2014 and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer will always reveal a material misrepresentation. Misrepresentations may result from infringements or misstatements and are regarded as material if it could reasonably be expected that they might individually or as a whole influence the economic decisions of the reader made on the basis of these Consolidated Financial Statements and this Group Management Report.

During the audit we exercise sound judgment and maintain a critical basic stance. In addition

- we identify and assess the risks of material – intentional and unintentional – misrepresentations in the Consolidated Financial Statements and Group Management Report, plan and conduct audit procedures in response to those risks, and obtain audit evidence that is sufficient and suitable to serve as the basis for our audit opinions. The risk that material misrepresentations are not identified is greater for infringements than for misstatements, because infringements may involve fraudulent collaboration, forgeries, intentional incompleteness, misleading representations and bypassing of internal controls.
- we acquire an understanding of the relevant internal control system for the audit of the Consolidated Financial Statements and the relevant precautions and measures for the audit of the Group Management Report in order to plan audit procedures that may be appropriate in the circumstances, but not with the aim of submitting an audit opinion on the effectiveness of those systems.

- we assess the appropriateness of the accounting methods used by the management as well as the justifiability of the value estimates presented by the management and of related disclosures.
- we draw conclusions on the appropriateness of the going concern accounting principle used by the management and, based on the audit evidence obtained, on whether a material uncertainty exists in connection with events or circumstances that may raise significant doubts about the ability of the Group to remain a going concern. If we reach the conclusion that a material uncertainty exists, we are obliged to point out the affected disclosures contained in the Consolidated Financial Statements and Group Management Report in the Auditor's Report or, if those disclosures are inappropriate, to modify our audit opinion on the matter in question. We draw our conclusions on the basis of the audit vidence obtained by the date of our Auditor's Report. However future events or circumstances may result in the Group no longer being able to operate as a going concern.
- we assess the overall presentation, structure and content of the Consolidated Financial Statements including the disclosures, as well as whether the Consolidated Financial Statements present the underlying transactions and events such that, taking account of the IFRS as adopted in the EU and the additional requirements of German law pursuant to Section 315e (1) of HGB, the Consolidated Financial Statements give a true and fair view of the net worth, financial position and financial p performance of the Group.
- we obtain sufficient, suitable audit evidence for the accounting information of the enterprises or business activities within the Group to be able to provide audit opinions on the Consolidated Financial Statements and Group Management Report. We are responsible for instructing, overseeing and executing the audit of the Consolidated Financial Statements. We bear sole responsibility for our audit opinions.
- we assess whether the Group Management Report is consistent with the Consolidated Financial Statements, and also its ompliance with the legal requirements and the impression it gives of the situation of the Group.
- we conduct audit procedures on the future-related statements by management in the Group Management Report. Based on sufficient, suitable audit evidence we in particular seek to comprehend the material assumptions which underlie the future-related statements by management and assess whether the future-related statements have been derived properly from those assumptions. We do not give a separate audit opinion on the future-related statements as well as on their underlying assumptions. There is a considerable unavoidable risk that future events will deviate materially from the future-related statements.

We discuss for example the planned scope and timetable of the audit with the officers responsible for monitoring, as well as significant audit findings, including any shortcomings that we identify in the Internal Control System in the course of our audit.

We make a declaration to the officers responsible for monitoring that we have complied with the relevant independence requirements, and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence, as well as the precautions taken in that regard.

Of the matters that we have discussed with the officers responsible for monitoring, we identify those that were of greatest significance for the period in question in the audit of the Consolidated Financial Statements and therefore constitute the key audit matters. We describe these matters in the Auditor's Report, unless laws or other regulations stipulate that the matter cannot be stated publicly.

Miscellaneous statutory and other legal requirements

Other disclosures pursuant to Article 10 of Regulation (EU) No. 537/2014

We were appointed as Group auditor by the Annual General Meeting on June 18, 2019. We were issued with our mandate by the Supervisory Board on December 10, 2019. We have served as Group auditor of CENTROTEC SE (formerly: CENTROTEC Sustainable AG, Brilon), without interruption since the 2001 financial year.

We declare that the audit opinions contained in this Auditor's Report are consistent with the supplementary report to the Audit Committee pursuant to Article 11 of Regulation (EU) No. 537/2014 (audit report).

Responsible auditor

The independent auditor responsible for the audit is Holger Plaum.

Kassel, March 23, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Holger Plaum (Independent auditor)	ppa. Markus Küfner (Independent auditor)

Independent auditors' report on a business audit to obtain limited assurance on the non-financial reporting

To CENTROTEC SE, Brilon

We have subjected the separate Non-Financial Group Report according to Section 315b (3) of the German Commercial Code of CENTROTEC SE (formerly: CENTROTEC Sustainable AG), Brilon, (hereinafter referred to as the "Company") for the period from January 1, 2019 to December 31, 2019 (hereinafter referred to as the "Non-Financial Report") to a business audit to obtain limited assurance.

Responsibility of the management

The management of the Company is responsible for the preparation of the Non-Financial Report in accordance with Sections 315c in conjunction with 289c to 289e of the German Commercial Code.

This responsibility of the Company's management comprises the selection and application of suitable methods of non-financial reporting as well as the making of assumptions and estimates for individual non-financial disclosures that are appropriate in the circumstances. In addition, the management is responsible for the internal controls that it has deemed necessary to enable the preparation of a non-financial report that is free from material – intentional or unintentional – misstatements.

Independence and quality assurance of the auditing firm

We have complied with the German professional regulations on independence as well as with other requirements of professional conduct.

Our auditing firm adopts the national statutory regulations and professional declarations – in particular the Professional Code of Conduct for Public Auditors and Sworn Accountants (BS WP/vBP) as well as the IDW Quality Assurance Standards 1 "Quality assurance requirements in audit practice" (IDW QS 1) of the Institute of Public Auditors in Germany (IDW) and correspondingly operates a comprehensive quality assurance system that comprises documented regulations and measures in respect of compliance with requirements of professional conduct, professional standards as well as critical statutory and other legal requirements.

Responsibility of the auditors

Our responsibility is to give an audit opinion with limited assurance on the disclosures in the Non-Financial Report, on the basis of our review.

Our engagement does not include the assessment of external documentation sources or expert opinions that are referred to in the Non-Financial Report.

We conducted our business audit taking into consideration the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", published by the IAASB. This requires that we plan and perform the audit such that we can assess with limited assurance whether matters have come to our attention that cause us to believe that the Non-Financial Report of the Company for the period from January 1, 2019 to December 31, 2019 has not in all material respects been prepared in agreement with Sections 315c in conjunction with 289c to 289e of the German Commercial Code.

In a business audit to obtain limited assurance, the audit procedures carried out are less extensive compared to a business audit to obtain reasonable assurance, with the result that correspondingly a much lower level of assurance is obtained. The selection of the audit procedures is a matter for the auditor's professional judgement.

In the course of our audit we carried out the following audit cedures, among others, as well as other activities:

- Obtaining an understanding of the structure of the sustainability organisation
- Interviewing management and relevant employees who were involved in the preparation of the Non-Financial Report about the preparation process, about the internal system of control for this process as well as about disclosures in the Non-Financial Report
- Identifying probable risks of material misstatements in the Non-Financial Report
- Analytical assessment of disclosures in the Non-Financial Report
- Reconciling disclosures with the corresponding data in the Consolidated Financial Statements and Group Management Report
- Assessing the presentation of the disclosures

Audit opinion

Based on the audit procedures carried out and the audit evidence obtained, no matters have come to our attention that cause us o believe that the Non-Financial Report of the Company for the period from January 1, 2019 to December 31, 2019 has not in all material respects been prepared in agreement with Sections 315c in conjunction with 289c to 289e of the German Commercial Code.

Purpose of the report

We issue this report on the basis of the engagement agreed with the Company. The audit was carried out for the purposes of the Company and the report is intended merely to inform the Company of the findings of the audit.

The report is not intended as a basis for third parties to reach (investment) decisions. Our responsibility is solely towards the Company. On the other hand we bear no responsibility in respect of third parties.

Frankfurt am Main, March 23, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

ppa. Nicolette Behncke
German Public Auditor

ppa. Thomas Groth

Financial calendar 2020

March 31	Analysts Meeting/Publication of 2019 accounts
May 14	Publication of 01/2020 Quarterly Report
May 28	Annual General Meeting of Shareholders, Mainburg
August 13	Publication of 02/2020 Half-Year Report
November 13	Publication of 03/2020 Quarterly Report
November 16-18	Deutsches Eigenkapitalforum 2020, Frankfurt am Main

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