Meeting a challenge takes substance.

Companies that prove their caliber over decades – companies like ElringKlinger, in fact – possess the ability to strengthen their competitive position even in the toughest of times. The sure-footed strategy that we pursue has established us as a reliable technology partner to the automobile industry and other sectors. Through consistent innovation – and never losing sight of our fundamental values – we develop future-oriented solutions that keep our customers moving.

To enable us to achieve our aims, we have a team that spans the globe. It is our staff’s ideas and commitment that form the foundations for success in our traditional, as well as new fields of business. Our potential to meet every challenge is based on real substance.
## ElringKlinger AG Balance Sheet as at December 31, 2008

### ASSETS

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td></td>
<td>EUR '000</td>
<td>EUR '000</td>
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<tr>
<td>Fixed assets</td>
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<tr>
<td>Intangible fixed assets</td>
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<td>Prepaid and deferred expenses</td>
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### LIABILITIES AND SHAREHOLDERS’ EQUITY

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<tr>
<td></td>
<td>EUR '000</td>
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<td>281,543</td>
<td>148,777</td>
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**Total**  
577,841 463,544
**ElringKlinger AG Income Statement**  
for the period from January 1 to December 31, 2008

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<thead>
<tr>
<th>Description</th>
<th>2008</th>
<th>2007</th>
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<td>Amortization and depreciation on intangible fixed and tangible fixed assets</td>
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<td>Other operating expenses</td>
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<td>-472</td>
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<td><strong>Retained earnings</strong></td>
<td><strong>8,640</strong></td>
<td><strong>26,880</strong></td>
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</tbody>
</table>

**FInAnCIAl sTATEmEnTs AG**
General statements
The financial statements of ElringKlinger AG, Dettingen/Erms, are prepared in accordance with the provisions of the German stock corporation act and the German commercial code that apply for large-sized corporations.

In order to improve the clarity of presentation, we have prepared the financial statements with figures given in thousand Euros (EUR '000), have combined items in the balance sheet and the income statement, and have itemized these amounts in the notes. Moreover, all annotations required by law for items of the balance sheet and the income statement have been included in the notes and amended with supplementary comments.

Accounting and valuation principles

Fixed assets
Additions to intangible fixed assets, tangible fixed assets and financial assets are recognised at acquisition or manufacturing costs. The manufacturing costs include direct material and production costs as well as the overhead cost and the amortization and depreciation as specified for obligatory capitalization by German tax law.

Assets with finite useful lives are depreciated using the highest rates allowed under German tax law and the expected life times are taken from the fiscal amortization tables. Acquisitions until December 31, 2007 are depreciated using the declining balance method, as far as permitted by German tax law. Acquisitions after December 31, 2007 are depreciated by using the straight-line method only.

Low-value assets, which are assets with acquisition or manufacturing costs up to and including EUR 410 (acquisition date before January 1, 2008) respectively up to and including EUR 150 (acquisition date after December 31, 2007), are entirely depreciated in the year of acquisition. For assets acquired after December 31, 2007, a collective item is recorded as far as the acquisition or manufacturing costs exceed EUR 150, but do not exceed EUR 1,000. The respective collective item is released with an effect on profit in the year of building and the following four fiscal years with one fifth in each year.

If necessary or permissible, impairments are made and depreciations allowed under German tax law are made.

The impairment tests for shares in affiliated companies and participations are based on annual valuations. These valuations reflect the capitalized earnings value calculated by using the mid-term budgets for each shareholding. In addition, the calculations assume that after the last mid-term planning period a perpetual income amount is earned. If the carrying value of an asset exceeds its capitalized earnings value, impairment is recorded.

If the reasons for impairments are no longer applicable, the impairment charges are reversed but the write-up is to historical cost less scheduled depreciation at the maximum.

Current assets
Current assets are recognised at acquisition or manufacturing costs or, if lower, their fair value as of the balance sheet date. Raw materials, supplies & consumables as well as merchandise are measured at their average acquisition costs. Partially values used for a 3-years-period are used.

The valuation of the finished products and work in progress includes direct cost of the goods and adequate allocations of the necessary material and production overhead cost. The overhead costs are determined at the minimum amounts required by German tax law. If replacement costs are lower than purchase or manufacturing cost, these lower replace-
ment cost are recognised. Impairment charges are recorded due to obsolescence for slow moving goods, the quality of goods and due to lower net realisable values.

Valuation adjustments are set up for individual risks to receivables and other assets. The general credit risk is taken into account through a flat rate valuation adjustment.

Securities of current assets are measured at acquisition cost or, if lower, their fair values at the balance sheet date.

Cash in hand and bank balances are valued at nominal amounts.

Untaxed special reserve
Untaxed special reserves are recorded if permissible.

Provisions and liabilities
Provisions for pensions are recognized in full at the entry age value determined on actuarial principles using an interest rate of 6% and applying the mortality tables 2005 G established by Prof. Dr. Klaus Heubeck.

In accordance with the IDW Accounting Standard IDW RS HFA 3: Accounting of obligations arising from partial retirement schemes under IAS and German GAAP, the provision for obligations arising from partial retirement agreements includes both, (i) the indemnification credits for wages and salaries and (ii) the benefit increases and severances for the maturity period of the employees partial retirement. The provisions for benefit increases and severances are set up for partial retirement contracts agreed as at the balance sheet date and – based on an agreement with the workers council – for partial retirement contracts that have to be accepted prospectively during the term of the agreement with the workers council.

Provisions are established for all recognizable risks, for onerous contracts and contingent liabilities. They are measured in accordance with the judgement of a reasonable business person as a measure.

Liabilities are recognized at their repayment amounts.

Foreign currency items and currency translation
Receivables and payables in foreign currency are measured at the rate when incurred. Losses from unfavourable changes in exchange rates as at the balance sheet date are recognized.

Explanations in relation to the balance sheet

Fixed assets
The development of the individual items of the fixed assets of the ElringKlinger AG and the schedule of shareholdings are shown on the following pages.

Financial assets include shares in affiliated companies, participations, loans and securities.
Changes in fixed assets as at December 31, 2008

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR ’000</td>
<td>EUR ’000</td>
<td>EUR ’000</td>
<td>EUR ’000</td>
<td>EUR ’000</td>
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</tr>
<tr>
<td>Patents, licences</td>
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<td>720</td>
<td>165</td>
<td>151</td>
<td>19,618</td>
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<td></td>
<td></td>
</tr>
<tr>
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<td>6,607</td>
<td>8,896</td>
<td>5,861</td>
<td>123,922</td>
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<td>202,397</td>
<td>24,477</td>
<td>13,476</td>
<td>5,586</td>
<td>234,764</td>
</tr>
<tr>
<td>3. Other machines, furnitures and fixtures</td>
<td>95,890</td>
<td>4,303</td>
<td>1,399</td>
<td>3,412</td>
<td>98,180</td>
</tr>
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<td>24,893</td>
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<td>26,414</td>
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<td><strong>438,024</strong></td>
<td><strong>60,280</strong></td>
<td><strong>-165</strong></td>
<td><strong>14,859</strong></td>
<td><strong>483,280</strong></td>
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<td>III. Financial assets</td>
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</tr>
<tr>
<td>fixed assets</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Patents, licences</td>
<td>18,884</td>
<td>720</td>
<td>165</td>
<td>151</td>
<td>19,618</td>
</tr>
<tr>
<td>II. Tangible</td>
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<td></td>
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<tr>
<td>fixed assets</td>
<td>114,280</td>
<td>6,607</td>
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<td>5,861</td>
<td>123,922</td>
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<td>24,477</td>
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<td>234,764</td>
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<tr>
<td>3. Other machines</td>
<td>95,890</td>
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<td>1,399</td>
<td>3,412</td>
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<td>4. Advance</td>
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<tr>
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<td>483,280</td>
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<td></td>
<td></td>
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<tr>
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<tr>
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<td>0</td>
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<tr>
<td>4. non-current</td>
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<td></td>
</tr>
<tr>
<td>securities</td>
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<tr>
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<td>9,572</td>
<td>1,698</td>
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<td>27,623</td>
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<td>352,982</td>
<td>402,857</td>
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</table>
## Schedule of shareholdings as at December 31, 2008

### Shares in affiliated companies

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<thead>
<tr>
<th>Name of company</th>
<th>Domicile</th>
<th>Abbreviation</th>
<th>Capital share in %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Gedächtnisstiftung KARL MULLER BELEGSCHAFTSHILFE GmbH</td>
<td>Dettingen/Erms</td>
<td>KMBH</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring Klinger Motrotechnik GmbH</td>
<td>Idstein</td>
<td>EK</td>
<td>92.86</td>
</tr>
<tr>
<td>ElringKlinger Logistic Service GmbH</td>
<td>Rottenburg/Neckar</td>
<td>EKLS</td>
<td>76.00</td>
</tr>
<tr>
<td>ElringKlinger Kunststofftechnik GmbH</td>
<td>Bietigheim-Bissingen</td>
<td>EKT</td>
<td>74.50</td>
</tr>
<tr>
<td><strong>Foreign</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ElringKlinger Abschirmtechnik (Schweiz) AG</td>
<td>Sevilen (CH)</td>
<td>EKAB</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring Klinger (Great Britain) Ltd.</td>
<td>Redcar (United Kingdom)</td>
<td>EKGB</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring Klinger S.p.A.</td>
<td>Mazzo di Rho (Italy)</td>
<td>EKI</td>
<td>100.00</td>
</tr>
<tr>
<td>Technik-Park Heliport Kft.</td>
<td>Kecskeméét-Kádáfalva (Hungary)</td>
<td>TPH</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring Parts Ltd.</td>
<td>Gateshead (United Kingdom)</td>
<td>EP</td>
<td>90.00</td>
</tr>
<tr>
<td>Elring Klinger, S.A.</td>
<td>Reus (Spain)</td>
<td>EKSA</td>
<td>100.00</td>
</tr>
<tr>
<td>ElringKlinger Canada, Inc.</td>
<td>Leamington (Canada)</td>
<td>EKCA</td>
<td>100.00</td>
</tr>
<tr>
<td>ElringKlinger North America, Inc.</td>
<td>Livonia/Michigan (USA)</td>
<td>EKNA</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring Klinger México, S.A. de C.V.</td>
<td>Toluca (Mexico)</td>
<td>EKMX</td>
<td>100.00</td>
</tr>
<tr>
<td>EKASER, S.A. de C.V.</td>
<td>Toluca (Mexico)</td>
<td>EKAS</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring Klinger do Brasil Ltda.</td>
<td>Piracicaba (Brazil)</td>
<td>EKB</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring of North America, Inc.</td>
<td>Branchburg/New Jersey (USA)</td>
<td>ELNA</td>
<td>60.00</td>
</tr>
<tr>
<td>ElringKlinger USA, Inc.</td>
<td>Buford (USA)</td>
<td>EKUS</td>
<td>100.00</td>
</tr>
<tr>
<td>Eiring Gaskets (Pty) Ltd.</td>
<td>Johannesburg (South Africa)</td>
<td>EGS</td>
<td>51.00</td>
</tr>
<tr>
<td>ElringKlinger Automotive Components (India) Pvt. Ltd.</td>
<td>Ranjangaon (India)</td>
<td>EKIA</td>
<td>100.00</td>
</tr>
<tr>
<td>ElringKlinger China, Ltd.</td>
<td>Suzhou (China)</td>
<td>EKCI</td>
<td>100.00</td>
</tr>
<tr>
<td>Changchun ElringKlinger Ltd.</td>
<td>Changchun (China)</td>
<td>CEK</td>
<td>78.00</td>
</tr>
<tr>
<td>ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.</td>
<td>Qingdao (China)</td>
<td>EKTC</td>
<td>74.50</td>
</tr>
<tr>
<td>Sevex Holdings, Inc.</td>
<td>Kansas (USA)</td>
<td>EKCI</td>
<td>100.00</td>
</tr>
<tr>
<td>ATD Thermsulate AG, i. l.</td>
<td>Baar (CH)</td>
<td>EKCI</td>
<td>100.00</td>
</tr>
</tbody>
</table>

### Shares in joint ventures

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Domicile</th>
<th>Abbreviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ElringKlinger Korea Co., Ltd.</td>
<td>Changwon (South Korea)</td>
<td>EKKO</td>
</tr>
<tr>
<td>ElringKlinger Marusan Corporation</td>
<td>Tokyo (Japan)</td>
<td>EKMA</td>
</tr>
<tr>
<td>Taiyo Jushi Kakoh Co., Ltd.</td>
<td>Tokyo (Japan)</td>
<td></td>
</tr>
<tr>
<td>Marusan Kogyo Co., Ltd.</td>
<td>Tokyo (Japan)</td>
<td></td>
</tr>
<tr>
<td>Shares in affiliated companies</td>
<td>Capital in %</td>
<td>Local currency (LC)</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gedächtnisstiftung Karl Müller Belégschaftshilfe GmbH Dettingen/Erms KgBH</td>
<td>100.00</td>
<td>54</td>
</tr>
<tr>
<td>Elring Klinger motortechnik GmbH Idstein EKm</td>
<td>92.86</td>
<td>3,511</td>
</tr>
<tr>
<td>Elring Klinger logistic service GmbH Rottenburg/neckar EKLs</td>
<td>76.00</td>
<td>1,233</td>
</tr>
<tr>
<td>Elring Klinger Kunststofftechnik GmbH Bietigheim-Bissingen EKT</td>
<td>74.50</td>
<td>30,118</td>
</tr>
<tr>
<td>Foreign</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elring Klinger Abschirmtechnik (schweiz) AG sevelen (CH) EKAB</td>
<td>100.00</td>
<td>29,134</td>
</tr>
<tr>
<td>Elring Klingen (Great Britain) ltd. Redcar (United Kingdom) EKGB</td>
<td>100.00</td>
<td>6,123</td>
</tr>
<tr>
<td>Elring Klinger s.p.A. mazzo di Rho (Italy) EKI</td>
<td>100.00</td>
<td>148,033</td>
</tr>
<tr>
<td>Technik-Park Heliport Kft. Kecskemét-Kádafalva (Hungary) TPH</td>
<td>100.00</td>
<td>32,980</td>
</tr>
<tr>
<td>Elring Parts ltd. Gateshead (United Kingdom) EP</td>
<td>90.00</td>
<td>1,947</td>
</tr>
<tr>
<td>Elring Klinger, s.A. Reus (Spain) EKsA</td>
<td>100.00</td>
<td>7,417</td>
</tr>
<tr>
<td>Elring Klinger Canada, Inc. leamington (Canada) EKCA</td>
<td>100.00</td>
<td>14,2487</td>
</tr>
<tr>
<td>Elring of north America, Inc. Branchburg/new Jersey (USA) ElnA</td>
<td>60.00</td>
<td>1,947</td>
</tr>
<tr>
<td>Elring Klinger Usa, Inc. Buford (USA) EKUs</td>
<td>100.00</td>
<td>6,123</td>
</tr>
<tr>
<td>Elring Gaskets (Pty) ltd. Johannesburg (South Africa) EGs</td>
<td>51.00</td>
<td>273,293</td>
</tr>
<tr>
<td>Elring Klinger Automotive Components (India) Pvt. ltd. Ranjangaon (India) EKIA</td>
<td>100.00</td>
<td>40,866</td>
</tr>
<tr>
<td>Elring Klinger China, ltd. suzhou (China) EKCI</td>
<td>100.00</td>
<td>350,321</td>
</tr>
<tr>
<td>Changchun Elring Klinger ltd. Changchun (China) CEK</td>
<td>78.00</td>
<td>142,487</td>
</tr>
<tr>
<td>Elring Klinger Engineered Plastics (Qingdao) Commercial Co., ltd. Qingdao (China) EKTC</td>
<td>74.50</td>
<td>626</td>
</tr>
</tbody>
</table>

\(^{1}\)100 units local currency as at balance sheet date
Current assets

Inventories

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR ‘000</td>
</tr>
<tr>
<td>Raw materials, consumables and supplies</td>
<td>19,587</td>
</tr>
<tr>
<td>Work in progress</td>
<td>4,405</td>
</tr>
<tr>
<td>Finished goods and merchandise</td>
<td>43,083</td>
</tr>
<tr>
<td>Prepayments</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td><strong>67,108</strong></td>
</tr>
</tbody>
</table>

Accounts receivable and other assets

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR ‘000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>43,302</td>
</tr>
<tr>
<td>Receivables from affiliated companies</td>
<td>43,932</td>
</tr>
<tr>
<td>Receivables from participations</td>
<td>4,303</td>
</tr>
<tr>
<td>Other assets</td>
<td>15,023</td>
</tr>
<tr>
<td></td>
<td><strong>106,560</strong></td>
</tr>
</tbody>
</table>

Receivables from affiliated companies include EUR ‘000 28,827 (p.y. EUR ‘000 5,050) relating to financial transactions and the rest to trade. Unchanged to the previous year the receivables from participations relate to trade.

Other assets include EUR ‘000 4,764 (p.y. EUR ‘000 4,836) with a residual term of more than one year. All other receivables and other assets have remaining terms of less than one year.

Shareholders’ equity

In accordance with the decision of the shareholder’s meeting of May 30, 2008, a split of the nominal capital (stock split) was conducted with the relation of one to three. In consequence the number of shares increased from 19,200,000 to 57,600,000 individual shares. The share holders are entitled to the 38,400,000 new shares in the same relation as their previous share capital.

The nominal capital is divided into 57,600,000 individual shares after the stock split. The shares are registered.

At the shareholders’ meeting held on June 8, 2005, the authorized capital was approved to EUR ‘000 28,800. The Management Board is entitled, under precondition of approval by the Supervisory Board to call this capital in until June 15, 2010.

An amount of EUR ‘000 2,337 was transferred from the net profit for 2008 to other revenue reserves.

As at December 31, 2008, the revenue reserves comprise a reserve required by the provisions of the German stock companies Act amounting to EUR ‘000 3,013 (p.y. EUR ‘000 3,013) and other revenue reserves of EUR ‘000 148,876 (p.y. EUR ‘000 146,539).
The retained earnings developed as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>EUR '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained earnings as at December 31, 2007</td>
<td>26,880</td>
</tr>
<tr>
<td>Profit distribution for 2007</td>
<td>-26,880</td>
</tr>
<tr>
<td>Profit brought forward</td>
<td>0</td>
</tr>
<tr>
<td>Net profit for 2008</td>
<td>10,977</td>
</tr>
<tr>
<td>Appropriation to other revenue reserves</td>
<td>-2,337</td>
</tr>
<tr>
<td><strong>Retained earnings at December 31, 2008</strong></td>
<td><strong>8,640</strong></td>
</tr>
</tbody>
</table>

**Untaxed special reserve**

The untaxed special reserve concerns planned investments to replace buildings and machines as a consequence of the fire at Runkel plant based on R 6.6 EStR (German tax regulations), as well as capital gain from a real estate sale based on § 6b para. 3 EStG (German tax law).

**Provisions**

The other provisions relate to:

<table>
<thead>
<tr>
<th>Description</th>
<th>Dec. 31, 2008 EUR '000</th>
<th>Dec. 31, 2007 EUR '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative risks</td>
<td>16,162</td>
<td>124</td>
</tr>
<tr>
<td>Relating to employees</td>
<td>8,631</td>
<td>13,995</td>
</tr>
<tr>
<td>Warranty obligations</td>
<td>3,592</td>
<td>6,191</td>
</tr>
<tr>
<td>Onerous sales contracts</td>
<td>598</td>
<td>961</td>
</tr>
<tr>
<td>Litigation costs</td>
<td>345</td>
<td>278</td>
</tr>
<tr>
<td>Maintenance (§ 249 Sec. 2 HGB)</td>
<td>0</td>
<td>2,170</td>
</tr>
<tr>
<td>Other risks</td>
<td>4,367</td>
<td>7,541</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33,695</strong></td>
<td><strong>31,260</strong></td>
</tr>
</tbody>
</table>

The other risks mainly comprise outstanding purchase invoices and credit notes.

**Liabilities**

<table>
<thead>
<tr>
<th>Description</th>
<th>Total amount as at Dec. 31, 2008 EUR '000</th>
<th>thereof with a remaining term</th>
<th>Total amount as at Dec. 31, 2007 EUR '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank debts</td>
<td>234,961</td>
<td>EUR '000</td>
<td>EUR '000</td>
</tr>
<tr>
<td>Prepayments received</td>
<td>119</td>
<td>95,867</td>
<td>11,861</td>
</tr>
<tr>
<td>Trade payables</td>
<td>14,427</td>
<td>14,427</td>
<td>21,065</td>
</tr>
<tr>
<td>Payables to affiliated companies</td>
<td>791</td>
<td>744</td>
<td>1,453</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>31,245</td>
<td>17,795</td>
<td>28,023</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>281,543</strong></td>
<td><strong>128,952</strong></td>
<td><strong>148,777</strong></td>
</tr>
</tbody>
</table>
Bank debts include EUR '000 11,861 that are secured by mortgage on own property. The other liabilities are unsecured, except for the reservation of title until the purchase price payment with respect to trade payables.

Of the liabilities to affiliated companies, EUR '000 777 (p.y. 64) relate to financial transactions, and the rest to trade. EUR '000 47 (p.y. EUR '000 55) have a remaining term of more than one year.

Other liabilities include EUR '000 1,305 (p.y. EUR '000 1,038) relating to tax and EUR '000 203 (p.y. EUR '000 195) to social security charges.

Explanations on the income statement

Sales
Breakdown by geographical markets

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic</td>
<td>EUR '000</td>
<td>EUR '000</td>
</tr>
<tr>
<td>Foreign</td>
<td>153,759</td>
<td>159,507</td>
</tr>
<tr>
<td>Total sales</td>
<td>233,938</td>
<td>236,761</td>
</tr>
</tbody>
</table>

In terms of areas of activity, sales of EUR '000 296,279 (p.y. EUR '000 308,366) relate to OEM deliveries, EUR '000 87,125 (p.y. EUR '000 83,194) to spare parts and EUR '000 4,293 (p.y. EUR '000 4,708) to the lease of industrial property.

Other operating income

The other operating income relates to out-of-period income of EUR '000 6,582 (p.y. EUR '000 2,455). This is comprised mainly of income from the release of provisions (EUR '000 5,517, p.y. EUR '000 2,217) and gains on disposals of fixed assets (EUR '000 872, p.y. EUR '000 238).

Income from release of the untaxed special reserve of EUR '000 4,268 (p.y. EUR '000 0) is comprised in the other operating income.

Furthermore the other operating income contains insurance benefits for the fire at Runkel plant in the amount of EUR '000 1,810 (p.y. EUR '000 14,339).

Cost of materials

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses for raw materials, supplies &amp; consumables and for merchandise</td>
<td>165,532</td>
<td>164,025</td>
</tr>
<tr>
<td>Expenses for purchased services</td>
<td>16,077</td>
<td>16,254</td>
</tr>
<tr>
<td></td>
<td><strong>181,609</strong></td>
<td><strong>180,279</strong></td>
</tr>
</tbody>
</table>

Personnel expenses

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>77,239</td>
<td>77,119</td>
</tr>
<tr>
<td>Social security charges and expenses for retirement pensions</td>
<td>17,787</td>
<td>17,378</td>
</tr>
<tr>
<td>– of which, for retirement pensions –</td>
<td>(3,745)</td>
<td>(3,494)</td>
</tr>
<tr>
<td></td>
<td><strong>95,026</strong></td>
<td><strong>94,497</strong></td>
</tr>
</tbody>
</table>
Amortization and depreciation
Amortization and depreciation of the financial year 2008 include EUR '000 5,686 (p.y. EUR '000 3,765) impairment charges for fixed assets. They relate to buildings and machines in the amount of EUR '000 4,731 (p.y. EUR '000 3,765) due to the fire at Runkel plant. They resulted from the transfer of untaxed special reserves to the replacing assets.

Other operating expenses
The other operating expenses include out-of-period items of EUR '000 1,859 (p.y. EUR '000 280) from the disposal of fixed assets (EUR '000 676) and from the loss of receivables (EUR '000 1,183). Furthermore they contain EUR '000 86 (p.y. EUR '000 5,930) additions to untaxed special reserves.

Income from affiliated companies

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from affiliated companies</td>
<td>2,943</td>
<td>8,627</td>
</tr>
<tr>
<td>Appreciations on financial assets</td>
<td>0</td>
<td>2,200</td>
</tr>
<tr>
<td>Writedowns on financial assets</td>
<td>-8,000</td>
<td>-6,700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-5,057</strong></td>
<td><strong>4,127</strong></td>
</tr>
</tbody>
</table>

Of the income from affiliated companies, EUR '000 2,848 (p.y. EUR '000 8,620) is derived from affiliated companies.

Net interest result

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from other securities and loans of financial assets</td>
<td>1,258</td>
<td>2,010</td>
</tr>
<tr>
<td>Other interest and similar income</td>
<td>1,356</td>
<td>419</td>
</tr>
<tr>
<td>Appreciations on loans and securities</td>
<td>2</td>
<td>562</td>
</tr>
<tr>
<td>Depreciations on loans and securities</td>
<td>-1,572</td>
<td>-1,676</td>
</tr>
<tr>
<td>Interest and similar expenses</td>
<td>-7,857</td>
<td>-3,412</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-6,813</strong></td>
<td><strong>-2,097</strong></td>
</tr>
</tbody>
</table>

The interest result includes income from loans of financial fixed assets to affiliated companies of EUR '000 1,183 (p.y. EUR '000 1,990), interest income from affiliated companies in the amount of EUR '000 733 (p.y. EUR '000 248) and interest expense to affiliated companies of EUR '000 163 (p.y. EUR '000 147).

Tax on income
The tax on income includes EUR '000 1,183 (p.y. EUR '000 106) of expenses relating to other periods.

Other taxes
The other taxes include tax expenses relating to other periods amounting to EUR '000 1 (p.y. EUR '000 309).

Contingent liabilities
There are contingent liabilities from the issue and transfer of bills in the amount of EUR '000 274 (p.y. EUR '000 135), from sureties granted and guarantees of contract fulfilment.
in the amount of EUR '000 9,002 (p.y. EUR '000 1,375), of which on behalf of affiliated companies EUR '000 9,002 (p.y. EUR '000 1,315).

ElringKlinger AG has undertaken to furnish an affiliated company with funds such that it will at all times be able to meet its payment obligations from a contract for work and services.

ElringKlinger AG has undertaken to suppliers of subsidiaries to stand in for future receivables of the suppliers of subsidiaries, in case the subsidiaries fail to meet their payment obligations within a certain period.

Furthermore ElringKlinger AG has undertaken to furnish three subsidiaries with funds so that they will at all times be able to meet their payment obligations relating to loan and trade amounting up to EUR '000 12,982 in relation to a further subsidiary.

Other financial obligations
Financial obligations concerning a subsidiary amounted to EUR '000 1,500 exist due to loan agreement.

Moreover there are financial obligations under current business transactions in the magnitude that is usual in business.

### Other disclosures

**Number of employees**
The numbers employed on average during the year (excluding board members) were as follows:

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers</td>
<td>1,105</td>
<td>1,065</td>
</tr>
<tr>
<td>Salaried staff</td>
<td>565</td>
<td>531</td>
</tr>
<tr>
<td>Apprentices</td>
<td>62</td>
<td>61</td>
</tr>
<tr>
<td></td>
<td><strong>1,732</strong></td>
<td><strong>1,657</strong></td>
</tr>
</tbody>
</table>

**Derivative financial instruments**
As at the balance sheet date, December 31, 2008, the following financial derivatives that serve to hedge risks arising from changes in interest rates and to even out fluctuations in the procurement prices for raw materials (nickel):

<table>
<thead>
<tr>
<th></th>
<th>Fair market value</th>
<th>Carrying value</th>
<th>Provision</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest-related derivatives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest swaps</td>
<td>-260</td>
<td>-260</td>
<td>-260</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Derivatives relating to raw materials</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nickel forward contracts</td>
<td>-15,902</td>
<td>-15,902</td>
<td>-15,902</td>
</tr>
<tr>
<td></td>
<td><strong>-16,162</strong></td>
<td><strong>-16,162</strong></td>
<td><strong>-16,162</strong></td>
</tr>
</tbody>
</table>
The negative fair market values are classified as other provisions in the balance sheet.

The computation of the bank-confirmed market values of the financial derivatives uses generally accepted mathematical methods and the market data available as at the balance sheet (mark-to-market method).

Corporate bodies

**Supervisory board**

Dr. Helmut Lerchner, Aichtal, Chairman

- Corporate advisor
  - Member of the supervisory board of Deutz AG, Cologne
  - Member of the Südwest advisory board of Dresdner Bank AG, Stuttgart

Walter Herwarth Lechler, Stuttgart, Deputy Chairman

- Managing shareholder
  - Positions on advisory boards or administrative boards at
    - Lechler Inc., St. Charles/USA
    - Lechler Ltd., Sheffield, United Kingdom
    - Lechler India Pvt. Ltd., Thane, India
    - Lechler Kft, Kecskemét, Hungary
    - Lechler France S.A., Montreuil, France
    - Lechler AB, Hagfors, Sweden
    - Lechler SA, Wavre, Belgium
    - Lechler S.A., Madrid, Spain and
    - ETS-Elex (India) Pvt. Ltd., Thane, India

Gert Bauer, Reutlingen, Employee Representative

- First commissioner of IG Metall Reutlingen, Tübingen
  - Member of the supervisory board of Hugo Boss AG, Metzingen
  - Member of advisory council of BIKOM GmbH, Reutlingen

Dr. Rainer Hahn, Stuttgart

- Former member of the management of Robert Bosch GmbH, Stuttgart
  - Supervisory board seats at
    - Robert Bosch GmbH, Stuttgart
    - Bosch Rexroth AG, Stuttgart
    - Rieter Holding AG, Winterthur/Switzerland
  - Member of TÜV SÜD Gesellschafterausschuss GbR, Munich, and member of the administrative board of TÜV SÜD e. V., Mannheim
Remuneration of the supervisory board

In 2008 the total remuneration of the supervisory board of ElringKlinger AG amounted to EUR '000 311 (p.y. EUR '000 420).

The total remuneration of the supervisory board is allocated to the individual supervisory board members as follow:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Fixed (prior year)</th>
<th>Variable (prior year)</th>
<th>Total (prior year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Helmut Lerchner</td>
<td></td>
<td>38,000 (38,000)</td>
<td>24,400 (45,962)</td>
<td>62,400 (83,962)</td>
</tr>
<tr>
<td>Walter Herwarth Lechler</td>
<td></td>
<td>31,000 (28,500)</td>
<td>18,300 (34,471)</td>
<td>49,300 (62,971)</td>
</tr>
<tr>
<td>Gert Bauer</td>
<td></td>
<td>14,000 (15,000)</td>
<td>12,200 (22,981)</td>
<td>26,200 (37,981)</td>
</tr>
<tr>
<td>Dr. Rainer Hahn</td>
<td></td>
<td>14,000 (15,000)</td>
<td>12,200 (22,981)</td>
<td>26,200 (37,981)</td>
</tr>
<tr>
<td>Karl-Uwe van Husen</td>
<td></td>
<td>26,000 (19,000)</td>
<td>12,200 (22,981)</td>
<td>38,200 (41,981)</td>
</tr>
<tr>
<td>Dr. Thomas Klinger-Lohr</td>
<td></td>
<td>18,000 (18,000)</td>
<td>12,200 (22,981)</td>
<td>30,200 (40,981)</td>
</tr>
<tr>
<td>Manfred Rupp</td>
<td></td>
<td>14,000 (15,000)</td>
<td>12,200 (22,981)</td>
<td>26,200 (37,981)</td>
</tr>
<tr>
<td>Markus Siegers</td>
<td></td>
<td>14,000 (15,000)</td>
<td>12,200 (22,981)</td>
<td>26,200 (37,981)</td>
</tr>
<tr>
<td>Manfred Strauß</td>
<td></td>
<td>14,000 (15,000)</td>
<td>12,200 (22,981)</td>
<td>26,200 (37,981)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>183,000 (178,500)</strong></td>
<td><strong>128,100 (241,300)</strong></td>
<td><strong>311,100 (419,800)</strong></td>
</tr>
</tbody>
</table>

Dr. Thomas Klinger-Lohr is a member of the advisory or administrative council, as the case may be, of the following subsidiaries of Betal Netherland Holding B.V., Rotterdam, Netherlands, of which holding company he is also the managing director:

- Klinger Holding Plc., Sidcup, United Kingdom
- Klinger Holding Austria GmbH, Gumpoldskirchen, Austria
- Klinger S.p.A., Mazzo di Rho, Italy
- Saidi, Madrid, Spain
- Klinger AG, Egliswil, Switzerland
- Klinger Finnland OY, Masala, Finland and Uni Klinger Ltd., Mumbai, India
The variable remuneration reflects the expense for which provisions have been set up, based on the provisional consolidated income before taxes prepared under IFRS for the year 2008.

The difference between the provision for the variable remuneration for the financial year 2007 and the amounts actually paid was EUR 52.42. This amount is included in the other operating income.

Management board

Dr. Stefan Wolf,
Leinfelden-Echterdingen, Chairman
responsible for the group companies, the central divisions finance, controlling, law, human resources, investor relations, IT and public relations as well as the business divisions spare parts and industrial parks

Theo Becker,
Metzingen
responsible for the business divisions cylinder head gaskets/central research & development, special gaskets, casings/modules/elastomer technology, shielding technology and the central divisions quality and environment, procurement and Runkel plant

Karl Schmauder,
Hülben
responsible for the distribution of original equipment and new business fields

Memberships in supervisory boards and similar bodies

Dr. Stefan Wolf is a member of the regional state advisory board Baden-Württemberg of Commerzbank AG, Frankfurt.

Remuneration of the management board

The remuneration of the management board in the financial year 2008 totalled EUR ’000 1,488 (p.y. EUR ’000 3,211). This is composed of fixed (EUR ’000 761; p.y. EUR ’000 750) and variable (EUR ’000 728; p.y. EUR ’000 2,462) parts. The variable parts are composed of the income-related remuneration for the financial year 2008 in the amount of EUR ’000 671 (p.y. EUR ’000 1,223) and long-term results-dependent remuneration in the amount of EUR ’000 57 (p.y. EUR ’000 1,239). The long-term remuneration comprises bonuses relating to the development of the company value and Stock Appreciation Rights.

The total remuneration of the management board is distributed among the individual management board members as follows:

<table>
<thead>
<tr>
<th>Management Board</th>
<th>fixed components (prior year)</th>
<th>components dependent on the results of the reporting year (prior year)</th>
<th>long-term results-dependent bonuses (prior year)</th>
<th>total (prior year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DR. STEFAN WOLF</td>
<td>302,016.50 (301,854.27)</td>
<td>304,861.00 (555,711.94)</td>
<td>32,514.51 (496,790.98)</td>
<td>639,392.01 (1,354,357.19)</td>
</tr>
<tr>
<td>THEO BECKER</td>
<td>237,963.46 (226,248.96)</td>
<td>182,917.40 (333,426.30)</td>
<td>0.00 (365,093.24)</td>
<td>420,880.86 (924,768.50)</td>
</tr>
<tr>
<td>KARL SCHMAUDER</td>
<td>220,534.92 (221,494.15)</td>
<td>182,917.40 (333,426.30)</td>
<td>24,643.70 (377,093.24)</td>
<td>428,096.02 (932,013.69)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>760,514.88 (749,597.38)</td>
<td>670,695.80 (1,222,564.54)</td>
<td>57,158.21 (1,238,977.46)</td>
<td>1,488,368.89 (3,211,139.38)</td>
</tr>
</tbody>
</table>
The variable remuneration shown as “components dependent on the result of the reporting year” reflects the expense, including accrued provisions based on the provisional income before taxes for the year 2008 of the consolidated accounts that are prepared in accordance with IFRS. In addition, the difference amounts between the provisions formed as at December 31, 2007 and the amounts actually disbursed in 2008 are included. For Stock Appreciation Rights the fair value as of the grant date is used. No remunerations arose from the bonuses relating to the company value.

The Stock Appreciation Rights refer to a right for cash settlement, but not for shares of ElringKlinger AG. The Stock Appreciation Rights agreed as at December 31, 2008 have a maturity of 3 years and are granted in annual portions as of February 1, 2008, February 1, 2009 and February 1, 2010. The strike price is the average stock price of the last 60 trading days before the granting date. The number of the Stock Appreciation Rights is calculated based on the fixed remuneration of the respective board member and the strike price. The cash payments are the difference between the exercise price, which is calculated as an average from the stock price of the last 60 trading days, and the strike price. A payment is made only when the share price of ElringKlinger AG has increased at a higher rate than the smoothed index containing the ElringKlinger stock, but at least by 25%. The payment per portion is limited to the amount of the yearly fixed salary amount.

Provisions are built in order to cover the estimated future obligation. The fair value is determined based on the Cox-Ross-Rubinstein-Model and by using current market parameters. The provision is accrued pro rata temporis over the vesting period and is assessed on every balance sheet date and on the exercise date. The variation of the fair value is recognised in net income.

For the fiscal year 2008 the following data arose:

<table>
<thead>
<tr>
<th>Date of issue</th>
<th>1st portion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Stock Appreciation Rights granted in the year 2008</td>
<td>20,341</td>
</tr>
<tr>
<td>Strike Price (EUR)</td>
<td>24.63</td>
</tr>
<tr>
<td>Number of Stock Appreciation Rights existing as of December 31, 2008 (still exercisable)</td>
<td>20,341</td>
</tr>
<tr>
<td>Remaining time to maturity</td>
<td>2.08</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Value of Participation Rights held by members of the management board</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2008 (EUR '000)</td>
</tr>
<tr>
<td>December 31, 2007 (EUR '000)</td>
</tr>
</tbody>
</table>

The additions to pension provisions for the members of the management board amount to EUR '000 117 (p.y. EUR '000 129) and are related to Stefan Wolf amounting to EUR '000 40 (p.y. EUR '000 52), Theo Becker amounting to EUR '000 45 (p.y. EUR '000 28) and Karl Schmauder amounting to EUR '000 32 (p.y. EUR '000 49).

Provisions for pensions and remuneration for former members of the management board

Provisions of EUR '000 9,051 (p.y. EUR '000 8,873) have been set up for pension obligations to former members of the management board, the management of merged companies and their surviving dependants. The total remuneration of former members of the management board – including remuneration of former members of corporate bodies of merged companies – came to EUR '000 837 (p.y. EUR '000 810) in the financial year 2008.
As of the balance sheet date 2008 the following participations exist and were announced pursuant to sec. 21 para. 1 German Securities Trading Law (WpHG):

1. Voting rights notification
Details about the person obligated to give notice:
Name:  DWS Investment GmbH
Place:  Frankfurt/ Main
State:  Germany
Published on December 16, 2008

ElringKlinger AG has received the following notification on December 16, 2008:
"Notification of voting rights pursuant to sec. 21 para 1 WpHG
Pursuant to section 21 (1), 24 WpHG ("German Securities Trading Act) in conjunction with section 32 (2) InvG ("German Investment Act"), we hereby notify that the percentage of voting rights of our subsidiary DWS Investment GmbH, Frankfurt, Germany, in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, fell below the threshold of 3% on 12 December 2008 and amounts to 2.63% (1,516,262 voting rights) as per this date."

2. Voting rights notification
Details about the person obligated to give notice:
Name: Walter Herwarth Lechler
State:  Germany
Published on December 2, 2008

ElringKlinger AG received the following notification from Mr Walter Herwarth Lechler on December 1, 2008:
"I hereby notify, pursuant to sec. 21 para 1 of the WpHG, that on November 25, 2008 my voting interest in ElringKlinger AG exceeded the threshold of 25% and amounts to 25.001% (14,400,800 voting rights) on this day.
10.13% of these voting rights (5,837,000 voting rights) are attributed to me in accordance with sec. 22 para. 1 no. 1 WpHG.
Voting rights attributed to me are held over the following companies controlled by me, whose voting interest in ElringKlinger AG amounts in each case to 3% or more: Lechler GmbH, Metzingen."

Information pursuant to sec. 160 para 1 no. 8 German Stock Act (AktG)

As of the balance sheet date 2008 the following participations exist and were announced pursuant to sec. 21 para. 1 German Securities Trading Law (WpHG):

<table>
<thead>
<tr>
<th>Service</th>
<th>2008 EUR '000</th>
<th>2007 EUR '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of the financial statements</td>
<td>294</td>
<td>263</td>
</tr>
<tr>
<td>Other confirmation services</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Tax consultancy services</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Other services</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>322</strong></td>
<td><strong>290</strong></td>
</tr>
</tbody>
</table>

The fees of the auditor amount to:

<table>
<thead>
<tr>
<th></th>
<th>2008 EUR '000</th>
<th>2007 EUR '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of the financial statements</td>
<td>294</td>
<td>263</td>
</tr>
<tr>
<td>Other confirmation services</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Tax consultancy services</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Other services</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>322</strong></td>
<td><strong>290</strong></td>
</tr>
</tbody>
</table>
3. Voting rights notification

Details about the person obligated to give notice:
Name: Columbia Wanger Asset Management, L.P.
Place: Chicago, IL
State: USA
Published on October 2, 2008

ElringKlinger AG has received the following notification:
"Notification of Voting Rights pursuant to sec. 21, 22 WpHG
1 October 2008
On behalf of Columbia Wanger Asset Management, L.P., 227 W. Monroe Street, Suite 3000, Chicago, IL, USA, we hereby give notice, pursuant to sec. 21 para. 1 WpHG, that on 29 September 2008 the voting interest of Columbia Wanger Asset Management, L.P., in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, fell below the threshold of 3% and amounted to 2.99% of the voting rights [i.e., 1,727,000 shares with voting rights, out of 57,600,000 shares with voting rights outstanding (based on Bloomberg)] on this day.
2.99% (all) of the voting rights (1,727,000 voting rights) are attributed to us in accordance with sec. 22 para. 1 sent. 1 no. 6."

4. Voting rights notification

Details about the person obligated to give notice:
Name: KWL GmbH i. Gr. u. a.
Place: Ludwigsburg
State: Germany
Published on April 2, 2008

We received the following notification on April 1, 2008:
"Notification pursuant to sec. 21 para. 1 WpHG
Persons obligated to give notice:
1. KWL GmbH i. Gr., Ludwigsburg, Germany 2. Elrena GmbH, Basel, Switzerland
We, the Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to sec. 21 para. 1 WpHG on behalf of the following companies as follows:
1. KWL GmbH i. Gr.
The percentage of voting rights of KWL GmbH i. Gr. in ElringKlinger AG on March 20, 2008 exceeded the threshold of 3%, 5%, 10%, 15% and 20% and amounts to 20.02% (3,843,560 voting rights) on this day.
10.02% (1,922,912 voting rights) of these voting rights are attributed to KWL GmbH i. Gr. in accordance with sec. 22 para. 1 sent. 1 no. 1 WpHG and further 10.003% (1,920,648 voting rights) are attributed in accordance with sec. 22 para. 2 sent. 1 WpHG.
The voting rights, which were attributable to KWL GmbH i. Gr., were held by the following shareholder that holds 3 % or more of the voting rights in ElringKlinger AG:
• Elrena GmbH
The voting rights, which were attributable to KWL GmbH i. Gr., were held by the following companies that were controlled by it and hold 3 % or more of the voting rights in ElringKlinger AG:
• Elgarta GmbH
• Eroca AG
• Klaus Lechler Beteiligungs-GmbH."
2. Elrena GmbH
The percentage of voting rights of Elrena GmbH in ElringKlinger AG exceeded the thresholds of 15% and 20% on March 20, 2008 and amounts to 20.02% (3,843,560 voting rights) on this day.
10.02% (1,922,912 voting rights) of these voting rights are attributed to Elrena GmbH in accordance with sec. 22 para. 2 sent. 1 WpHG. The voting rights, which were attributable to Elrena GmbH, were held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
• Elgarta GmbH
• Eroca AG
• Klaus Lechler Beteiligungs-GmbH
• KWL GmbH i.Gr.”

5. Voting rights notification
Details about the person obligated to give notice:
Name: Paul Lechler Stiftung gGmbH u.a.
Place: Ludwigsburg
State: Germany
Published on March 31, 2008

We received the following notification on March 27, 2008:
"Notification pursuant to sec. 21 para. 1 WpHG
Persons obligated to give notice:
1. Mrs Lieselotte Lechler, Stuttgart, Germany 2. Paul Lechler Stiftung gGmbH, Ludwigsburg, Germany
We, the Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to sec. 21 para. 1 WpHG on behalf of Mrs Lieselotte Lechler and Paul Lechler Stiftung gGmbH as follows:
1. Lieselotte Lechler
The percentage of voting rights of Lieselotte Lechler in ElringKlinger AG fell under the threshold of 10%, 5% and 3% on March 20, 2008 and amounts to 0% (0 voting rights) on this day.
2. Paul Lechler Stiftung gGmbH
The percentage of voting rights of Paul Lechler Stiftung gGmbH in ElringKlinger AG exceeded the thresholds of 3%, 5% and 10% on March 20, 2008 and amounts to 10.02% (1,922,912 voting rights) on this day.
10.02% (1,922,912 voting rights) of these voting rights are attributed to Paul Lechler Stiftung gGmbH in accordance with sec. 22 para. 1 sent. 1 no. 1 WpHG. The voting rights, which were attributable to Paul Lechler Stiftung gGmbH, were held by the following companies that were controlled by it and hold 3% or more of the voting rights in ElringKlinger AG:
• Elgarta GmbH
• Eroca AG
• Klaus Lechler Beteiligungs-GmbH.”
6. Voting rights notification
Details about the person obligated to give notice:
Name: New Star Asset Management
Place: London SW1X 7NE
State: Great Britain
Published on February 20, 2008

We received the following notification of the New Star Asset Management, Great Britain, on February 19, 2008:
"Notification pursuant to sec. 21 para. 1 WpHG
We hereby give notice, pursuant to sec. 21 para 1 of the WpHG, that on 18th February 2008 our voting interest in ElringKlinger AG fell below the threshold of 3% and amounts to 2.97% (569,624 voting rights) on this day.
2.97% of the voting rights (569,624 voting rights) are attributable to us in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG."

7. Voting rights notification
Details about the person obligated to give notice:
Name: Elrena GmbH, and others
Place: Basel
State: Switzerland
Published on May 7, 2007

Parties required to give notice:
1. Elrena GmbH, Basel, Switzerland
2. Karl Uwe van Husen, Germany

ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen / Erms, Germany, received the following notification pursuant to sec. 41 para. 2 and sec. 21 para. 1 WpHG from Elrena GmbH, Basel, Switzerland:
"On behalf of Elrena GmbH, Basel, Switzerland, and Mr Karl Uwe van Husen, we inform you pursuant to sec. 41 para. 2 and sec. 21 para. 1 WpHG (in the respective current version) for the purpose of correction and supplement to notifications made in the past by the parties on which notification is incumbent as follows:
1. Karl Uwe van Husen, Germany:
   a. The percentage of voting rights of Mr Karl Uwe van Husen in ElringKlinger AG (formerly ZWL Grundbesitz- und Beteiligungs- AG) at September 4, 1997, fell below the thresholds of 10 % and 5 % and amounted to 0.025 % (900 voting rights).
   b. Today, at May 3, 2007, the percentage of voting rights of Mr van Husen in ElringKlinger AG amounts to 0.016 % (3,000 voting rights).
2. Elrena GmbH, Basel, Switzerland:
   c. The percentage of voting rights of Elrena GmbH in ElringKlinger AG at April 1, 2002 amounted to 10.69 % (512,012 voting rights).
   d. Today, at May 3, 2007, the percentage of voting rights of Elrena GmbH in ElringKlinger AG amounts to 10.003 % (1,920,648 voting rights)."
8. Voting rights notification
Details of the parties required to give notice:
Name: Elgarta GmbH, and others
Place: Basel
State: Switzerland
Published on May, 7, 2007

Parties required to give notice
1. Elgarta GmbH, Basel, Switzerland
2. Eroca AG, Basel, Switzerland
3. Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany
4. Lechler Beteiligungs-GmbH, Ludwigsburg, Germany
5. Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany
6. INLOVO GmbH, Ludwigsburg, Germany
7. Frau Lieselotte Lechler, Germany

ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen / Erms, Deutschland, received the following notification pursuant to sec. 41 para. 2 and sec. 21 para. 1 WpHG from Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany:

"On behalf of Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany, and on behalf of the following companies and Mrs Lieselotte Lechler, we inform you pursuant to sec. 41 Abs. 2 and sec. 21 Abs. 1 WpHG (in the respective current version) for the purpose of correction and supplementary to notifications made in the past by the parties required to give notice as follows:

1. Elgarta GmbH, Basel, Switzerland:
   a) The percentage of voting rights of Elgarta GmbH in ElringKlinger AG at April 1, 2002, amounted to 13.25 % (635,878 voting rights).
   b) Today, May 3, 2007, the percentage of voting rights of Elgarta GmbH in ElringKlinger AG amounts to 10.004 % (1,920,712 voting rights).

2. Eroca AG, Basel, Switzerland:
   a) The percentage of voting rights of Eroca AG in ElringKlinger AG at April 1, 2002, amounted to 13.25 % (635,878 voting rights). These voting rights were in the percentage of 13.25 % (635,878 voting rights) attributable to Eroca AG pursuant to sec. 22 para. 1 sent. 1 No.1 WpHG.
   b) The voting rights, which were attributable to Eroca AG, were held by the following company that was controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:
      • Elgarta GmbH.
   c) Today, May 3, 2007, the percentage of voting rights of Eroca AG in ElringKlinger AG amounts to 10.004 % (1,920,712 voting rights). These voting rights are entirely attributable to Eroca AG pursuant to sec. 22 para. 1 sent. 1 no. 1 WpHG.
   d) The voting rights, which are attributable to Eroca AG, are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG:
      • Elgarta GmbH.

3. Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany:
   a) The percentage of voting rights of Klaus Lechler Beteiligungs-GmbH in ElringKlinger AG at May 8, 2002, exceeded the thresholds of 5 % and 10 % and amounted to 10.35 % (496,678 voting rights) on this day. These voting rights were entirely attributable to Klaus Lechler Beteiligungs-GmbH pursuant to sec. 22 para. 1 sent. 1 no. 1 WpHG.
The voting rights, which were attributable to Klaus Lechler Beteiligungs- GmbH, were
held by the following companies that were controlled by it and hold at least 3% or more
of voting rights in ElringKlinger AG:
• Elgarta GmbH,
• Eroca AG.

b) Today, May 3, 2007, the percentage of voting rights of Klaus Lechler Beteiligungs-
GmbH in ElringKlinger AG amounts to 10.02 % (1,922,912 voting rights). These voting
rights are in the percentage of 10.004 % (1,920,712 voting rights) attributable to Klaus
Lechler Beteiligungs- GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.
The voting rights, which are attributable to Klaus Lechler Beteiligungs- GmbH, are held
by the following companies that are controlled by it and hold at least 3% or more of
voting rights in ElringKlinger AG:
• Elgarta GmbH,
• Eroca AG.

4. Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:
1. The percentage of voting rights of Lechler Beteiligungs- GmbH in ElringKlinger AG at
November 30, 2001, exceeded the thresholds of 5 % and 10 % and amounted to
12.13 % (582,012 voting rights).
2. The percentage of voting rights of Lechler Beteiligungs- GmbH in ElringKlinger AG at
April 1, 2002 amounted to 12.13 % (582,012 voting rights).
3. Today, at May 3, 2007, the percentage of voting rights of Lechler Beteiligungs- GmbH in
ElringKlinger AG amounts to 10.0003 % (1,920,048 voting rights).

5. Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany:
a) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in
ElringKlinger AG at November 30, 2001, exceeded the thresholds of 5 % and 10 % and
amounted to 12.13 % (582,012 voting rights). These voting rights were in the percen-
tage of 12.13 % (582,012 voting rights) attributable to Paul Lechler Gesellschaft bürger-
lichen Rechts pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG (essentially corresponding
The voting rights, which were attributable to Paul Lechler Gesellschaft bürgerlichen
Rechts, were held by the following company that was controlled by it and hold 3 % or
more of the voting rights in ElringKlinger AG:
• Lechler Beteiligungs- GmbH.
b) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in
ElringKlinger AG at April 1, 2002, amounted to 12.13 % (582,012 voting rights). These voting
rights were entirely attributable to Paul Lechler Gesellschaft bürgerlichen Rechts
pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.
The voting rights, which are attributable to Paul Lechler Gesellschaft bürgerlichen
Rechts, were held by the following company that was controlled by it and hold at least
3 % of voting rights in ElringKlinger AG:
• Lechler Beteiligungs- GmbH.
c) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in
ElringKlinger AG at December 4, 2003, fell below the thresholds of 10 % and 5 % and
have amounted since then to 0.00 % (0 voting rights).

6. INLOVO GmbH, Ludwigsburg, Germany:
a) The percentage of voting rights of INLOVO GmbH in ElringKlinger AG at December 4,
2003, exceeded the thresholds of 5 % and 10 % and amounted to 10.04 % (482,012
voting rights). These voting rights were in the percentage of 10.04 % (482,012 voting
rights) attributable to INLOVO GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.
The percentage of voting rights, which were attributable to INLOVO GmbH, were held by the following company that was controlled by it and hold at least 3% or more of the voting rights in ElringKlinger AG:

- Lechler Beteiligungs- GmbH.

b) Today, May 3, 2007, the percentage of voting rights of INLOVO GmbH in ElringKlinger AG amounts to 10.0003% (1,920,048 voting rights). These voting rights are entirely attributable to INLOVO GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

The percentage of voting rights, which are attributable to INLOVO GmbH, are held by the following company that is controlled by it and holds at least 3% or more of the voting rights in ElringKlinger AG:

- Lechler Beteiligungs- GmbH.

7. Klaus Lechler, Germany:

a) The percentage of voting rights of Mr. Klaus Lechler in ElringKlinger AG at April 1, 2002 amounted to 25.37% (1,217,890 voting rights). These voting rights were in the percentage of 13.25% (635,878 voting rights) attributable to Mr. Klaus Lechler pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG and in the percentage of 12.13% (582,012 voting rights) pursuant to sec. 22 para. 1 sent. 1 No. 2 WpHG.

The voting rights, which were attributable to Mr. Klaus Lechler, were held by the following companies that were controlled by him and hold at least 3% or more in ElringKlinger AG:

- Elgarta GmbH,
- Eroca AG,
- Klaus Lechler Beteiligungs- GmbH.

The voting rights of the following shareholder, who hold 3% or more in ElringKlinger AG, were assigned to him:

- Lechler Beteiligungs- GmbH.

b) The percentage of voting rights of Mr. Klaus Lechler in ElringKlinger AG at June 18, 2003 fell below the threshold of 25% and amounted to 23.29% (1,117,890 voting rights). These voting rights were in the percentage of 13.25% (635,878 voting rights) attributable to Mr. Klaus Lechler pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG and in the percentage of 10.04% (482,012 voting rights) pursuant to sec. 22 para. 1 sent. 1 No. 2 WpHG.

The voting rights, which were attributable to Mr. Klaus Lechler, were held by the following companies that were controlled by him and hold at least 3% or more in ElringKlinger AG:

- Elgarta GmbH,
- Eroca AG,
- Klaus Lechler Beteiligungs- GmbH.

The voting rights of the following shareholder, who hold at least 3% or more in ElringKlinger AG, were assigned to him:

- Lechler Beteiligungs- GmbH.
Statement of compliance with the German Corporate Governance Code

The management board and the supervisory board issued on December 4, 2008 a declaration of compliance pursuant to sec. 161 AktG on the German Corporate Governance Code and published it on the internet site of ElringKlinger AG on December 4, 2008. This declaration of compliance will be available on the Internet and therewith made durably accessible to shareholders. It will be published in the Annual Report as part of the Corporate Governance Report.

Proposal for the appropriation of profits

In agreement with the Supervisory Board, the Management Board proposes to the Shareholders’ Meeting to appropriate the retained earnings as at December 31, 2008 amounting to EUR '000 8,640 to distribute a dividend of EUR 0.15 per share.

Dettingen/Erms, March 26, 2009

The Management Board

Dr. Stefan Wolf                            Theo Becker                          Karl Schmauder
Macroeconomic Conditions and Business Environment

Global economic downturn

Global economic growth decelerated considerably in 2008, with the global economy expanding by just 3.4% (5.2%). The financial and credit crisis exerted increasing pressure on economic performance over the course of the year and finally impacted on the real economy in the fourth quarter.

Germany’s gross domestic product (GDP) increased by a mere 1.3% in 2008, half as much as in the previous year. Exports rose by a moderate 3.9% (7.5%).

In the euro area, GDP expanded by just 1.0% compared with the previous year. The second and third quarters produced the first ever contraction of the eurozone economy in two successive quarters, constituting a period of recession.

At 5.6%, Russia’s growth in GDP remained relatively dynamic in 2008. Here too, however, there was evidence of a more pronounced economic downturn towards the end of the year.

The United States, as the epicenter of the financial and credit crisis, recorded economic growth of 1.1% in 2008. While consumer spending during the first half of the year had been buoyed to a certain extent by tax credits issued for the purpose of stabilizing the economy, domestic demand began to weaken considerably from the third quarter of 2008 onward. The fourth quarter saw the US economy contract by 6.2%, its worst performance in 27 years.

Despite the turbulence experienced at a global level, the South American economy as a whole recorded stable growth in 2008. GDP in the region’s largest economy, Brazil, expanded by 5.8%.

The Asian economic area as a whole succeeded in maintaining its dynamic momentum in 2008. Having said that, here too the rate of growth began to ebb away in mid-2008, before finally contracting more noticeably towards the end of the year. China’s growth in GDP still reached 9.0% in 2008, while the Indian economy expanded by 7.3%. After a 12.7% plunge recorded in the fourth quarter, Japan’s economic growth for 2008 as a whole was 0.3% down on the previous year’s figure.

Both the industrialized countries and the emerging economies were hit almost simultaneously by the global economic downturn towards the end of the second half, as a result of which the dynamic growth rates previously seen in the emerging regions proved insufficient to offset the spreading malaise within the well-established markets of Europe, America and Asia.

Automobile market severely affected by financial and credit crisis

Over the course of the second half of 2008 the effects of the global financial and economic crisis had an increasingly adverse impact on the business environment of the automobile and automotive supply industry. Uncertainty as to the future direction
taken by the economy and higher credit costs conspired to dampen consumer confidence. This was reflected in tentative spending on the part of consumers and a noticeable decline in global demand for new motor vehicles. Against this backdrop, the majority of the world’s car manufacturers began to scale down their production in the second half of 2008 and extend the collective vacation period arranged for their plants.

Dip in global demand for automobiles
Global automobile production fell sharply for the first time since 2001, contracting to 68.1 million units in 2008. Compared with the previous year, this corresponds to a 3.9% decline in the number of cars produced worldwide. At the same time, global automobile sales receded to 66.6 million units in 2008. Automobile sales in the well-established markets of Western Europe, North America and Japan, which are of particular importance to ElringKlinger AG, fell by 12.2% in the period under review. Having initially proved less susceptible to the macroeconomic downturn experienced elsewhere, the emerging markets were eventually impacted by global events, which saw local demand for motor vehicles slump in the final months of the year.

German automobile market contracts slightly
The significant rise in fuel prices in mid-2008, together with ongoing political debate as to a possible change in the government’s policy on vehicle taxation, produced growing uncertainty among consumers. According to data published by the Verband der Automobilindustrie (VDA), Germany’s association of the automobile industry, the number of car registrations in Germany contracted by just 1.8% to 3.1 million vehicles in 2008.

Exports of new vehicles were no longer buoyant enough to offset weak domestic demand. The number of passenger vehicles exported declined by 4.0%, as a result of which domestic automobile production fell by 3.1% in 2008, having reached a record high of 5.7 million units in the preceding year.

Slump in European demand for automobiles
The European car market performed poorly during the period under review. In total, the number of cars sold in 2008 fell by 7.8% compared with the previous year. The decline in sales volumes in Western Europe was attributable mainly to significant market contraction in Spain, Italy and the United Kingdom. Year on year, Western Europe recorded a 8.3% decline in the number of new cars registered in 2008. In the fourth quarter of 2008 the majority of vehicle manufacturers experienced a dramatic slump in sales volumes. Compared with 2007, European vehicle production fell by 4.1% to 18.7 (19.5) million units.

In Eastern Europe, demand for cars was buoyed by dynamic consumer and investment spending over the course of the first half of 2008, as well as being fueled by the continuing need for replacement purchases within these markets. However, as was the case elsewhere, economic conditions within this region also began to deteriorate from the second half of the year onwards. Many Eastern European economies had to contend with rising inflation and the increasingly severe credit squeeze. In total, new car registrations in Eastern Europe fell by 0.7% year on year.

Record year for Russia
Overall, 2008 proved to be a record year for what has now become Europe’s second-largest automobile market – Russia. At 2.7 million units, the number of vehicles sold rose by 14.9% compared with the previous year. Having said that, the global financial crisis finally engulfed the Russian automobile market in November 2008 and triggered a severe slump. December saw a temporary rise in demand for foreign marques, prompted by an increase in protective tariffs on imported vehicles from 25 to 30% effective from January 11, 2009.

Double-digit production downsizing in the US
The US market put in another poor performance in 2008. Demand for new vehicles was adversely affected by the general economic downturn and spiraling fuel prices. Against this backdrop, the number of new cars sold stood at just 13.2 million, down on the previous year’s figure of 16.2 million units, which had already been considered lackluster. The decline in new vehicle registrations amounted to 18.5%. In the second half of the year in particular automobile manufacturers slashed their production figures by as much as 30% in some cases. As a result, the number of vehicles produced in the United States in 2008 fell by 16.1% year on year to 13.0 million units.
Positive trend in South America

The South American automobile market continued to develop at an encouraging rate over the course of the year. Brazil, for instance, produced 2.2 million vehicles in 2008, 11.0% more than last year.

Signs of weakening in Asian car market

While Japan recorded a 4.8% year-on-year decline in the number of vehicles sold, China saw car sales rise by 7.3% to 5.6 million units. India’s automobile market produced growth of 2.2% in terms of the number of cars sold. At the same time, small yet dynamic markets such as Malaysia, Thailand or Indonesia generated stronger demand in the period under review. Despite this solid performance, there was a noticeable downturn in demand from Asia towards the end of year.

In the fourth quarter of 2008 both the well-established markets on the one side and the key emerging economies on the other recorded a decline in demand for automobiles of between 3% and 20%.

Share of diesel remains stable amid general market contraction

The share of diesel-powered vehicles among new car registrations remained solid against the backdrop of a rapidly declining automobile market in 2008. Despite what was at times a more pronounced rise in diesel prices compared to other fuels, around 53% of Western European consumers purchasing a new vehicle opted for a fuel-efficient diesel engine in 2008. To a certain extent, the introduction of a CO₂-based vehicle tax in some European countries also had a positive effect on the proportion of diesel vehicles sold. Particularly in Scandinavia, the UK and France the share of diesel engines among total new registrations was higher than in the previous year. In Germany, diesel vehicles came in slightly lower than the year before accounting for 44.1% (47.7%) of new registrations.

Demand for commercial vehicles dampened by financial crisis and global recession

The effects of the international financial and economic crisis also had a detrimental effect on the sale of commercial vehicles in 2008. Global production of commercial vehicles had already been stagnant at the beginning of 2008. After significant growth in previous years, the European commercial vehicle sector followed suit, with the second half of the year producing more visible signs of weakness. At 431,000 (449,000) units, the number of new commercial vehicle registrations in Europe declined by 4.0% year on year. Within this context, stable demand for commercial vehicles in the Western Europe, a region in which new registrations remained largely unchanged year on year, proved insufficient when it came to offsetting the marked decline in commercial vehicle registrations in the East, which contracted by 21.1%. The US commercial vehicle market remained lackluster, with sales declining by a further 19.0% year on year to 323,000 (399,000) units.

Significant Events

Takeover of minority interests in Spain

Effective from March 7, 2008, ElringKlinger AG acquired the minority interests in Elring Klinger, S.A., Reus, Spain (49.0%) and in ElringKlinger Sealing Systems, S.L., Reus, Spain (10.0%), thus extending its ownership interest in both entities to 100%. Subsequently, ElringKlinger Sealing Systems, S.L., Reus, Spain, was merged into Elring Klinger, S.A., Reus, Spain, retrospectively effective from January 1, 2008.

Acquisition of the SEVEX Group, Switzerland

In the second quarter of 2008, ElringKlinger AG executed its takeover of the Swiss manufacturer of thermal and acoustic shielding components SEVEX AG, based in Sevelen, Switzerland, a company that now trades under the name of ElringKlinger Ab- schirmtechnik (Schweiz) AG. Alongside the Swiss parent company, ElringKlinger AG also acquired the US subsidiary SEVEX North America, Inc., Buford, and SEVEX Asia Co. Ltd. Suzhou, China. ElringKlinger AG attained control of the SEVEX Group on April 1, 2008.

The newly acquired entities were fully integrated within the existing manufacturing structures. At the same time, the level of automation within the area of production was significantly expanded. In order to rein back costs, ElringKlinger AG took over part of the administrative duties performed by ElringKlinger Abschirmtechnik (Schweiz) AG. Where appropriate, purchasing volumes were pooled for the purpose of reducing purchase prices through more extensive procurement quantities. Product development also benefited from the amalgamation of both entities due to the close relationship between underbody and engine shielding technology.
ElringKlinger AG increases stake in Marusan Corporation to 50%

In 2004, ElringKlinger AG and Marusan Corporation established ElringKlinger Marusan Corporation, a joint venture focusing on research and development as well as sales activities in Japan and other Asian markets. Prompted by the success in attracting new development projects, both companies decided to extend their collaborative efforts to the field of production. The existing company, ElringKlinger Marusan Corporation, was merged with Marusan Corporation and now operates as ElringKlinger Marusan Corporation.

Effective from May 1, 2008, ElringKlinger AG extended its interest in this entity from 10% to 50%, thus strengthening its position within the Asia market.

Sales and Earnings Performance

Weak second half prompts 2.2% decline in annual sales

Due to the unexpectedly severe downturn in the global economy, particularly over the course of the fourth quarter of 2008, ElringKlinger AG was unable to secure the growth in sales generated during the first nine months of the year. The protracted weakness of the North American automobile market and the slump in new car registrations in Europe proved too severe, as a result of which neither new product ramp-ups nor the relative stability of the Asian markets were able to offer sufficient offsetting stimulus. In total, sales receded by 2.2% to EUR 387.7 (396.3) million. On this basis, ElringKlinger AG was not in a position to achieve its original goal of expanding sales by approx. 5% in 2008.

International sales markets continued to gain in importance over the course of 2008. The share of sales generated by ElringKlinger AG in non-domestic markets increased slightly year on year to 60.3% (59.7%).

Original Equipment bears the brunt of market downturn

As a result of the steep decline in demand for new cars experienced within the European market over the course of the second half, coupled with the continued downsizing of production figures by US vehicle manufacturers, the Original Equipment business area operated by ElringKlinger AG was unable to match its 2007 sales performance. Sales in the original equipment business area was down 3.9% on the previous year, reaching EUR 296.3 (308.4) million. Thus, Original Equipment business accounted for 76.4% (77.8%) of total sales.

Owing to the extensive share of the market held by the company, the decline in automobile production figures in the second half of the year had a more pronounced effect on the Cylinder-Head Gaskets division than on other product groups within ElringKlinger AG. Despite the more dynamic production ramp-up of new higher-performance gaskets featuring coined stopper systems, the company was unable to counterbalance the decline in the number of units requested by customers as part of their delivery schedules. As a result, sales revenue within this area was significantly down on last year’s figure. Having said that, ElringKlinger AG secured a number of development contracts for the new generation of turbo-charged petrol engines with direct injection.

Both the Specialty Gaskets and the Shielding Technology division recorded slight growth in sales in the period under review. The trend towards designing increasingly fuel-efficient small-displacement engines with turbocharging (downsizing) had a positive effect on sales volumes within these two divisions, as did stricter global standards governing the reduction of emissions. In view of these developments, ElringKlinger AG supplied a larger quantity of thermal shielding components for exhaust tract applications. In the area of specialty gaskets, rising sales volumes of transmission control components for automatic transmissions as well as high-temperature gaskets for turbochargers contributed to revenue streams.

The Elastomer Technology/Modules division of ElringKlinger AG generated moderate organic growth thanks to the introduction of weight-reduced plastic modules. Significant ramp-ups in the area of plastic cam covers and end-shield covers had a positive effect on sales revenue.

Despite its well-positioned product portfolio, ElringKlinger AG was unable to escape the encroaching market downturn which became increasingly severe in the second half of 2008. By contrast, earnings performance within the Original Equipment segment was adversely affected in the fourth quarter in particular.
Record sales in the Aftermarket

The Aftermarket business area also experienced a slight decline in demand over the course of the second half of 2008. Additionally, in the wake of the financial crisis, in many markets access to credit became increasingly difficult for customers served by the Aftermarket business unit, a situation which proved detrimental to spare-parts business. Despite this, the Aftermarket business unit remained largely immune to the significant decline experienced in the automotive industry. Sales revenue generated within the Aftermarket business unit of ElringKlinger AG rose by 4.7% to a record high of EUR 87.1 (83.2) million in 2008.

Alongside the continued improvements to product availability in the markets, the expansion of this segment’s portfolio proved pivotal when it came to driving growth in the period under review. Within this context, it should also be noted that the advanced age of motor vehicles of nine years on average had a positive impact on demand for aftermarket products. Among the fastest growing markets were Eastern Europe, Germany and Northern Africa.

Industrial Parks and Services

Rental income from Industrial Parks located in Ludwigsburg and Idstein fell to EUR 4.3 (4.7) million in 2008. The decline by EUR 0.4 million was attributable to the relocation of a commercial tenant formerly based in Idstein.

High commodity prices and increasing energy costs

The purchase prices of key raw materials required by ElringKlinger AG gradually declined over the course of the year. Having said that, they still remain high when viewed from a long-term perspective.

The decline in commodity prices occurring over the course of the year had no positive effect on earnings so far, as many of the contracts are generally concluded with a minimum term of one year in order to provide a more solid basis for planning. ElringKlinger AG was unable to benefit from the significant decline in nickel-based alloy surcharges in 2008, as the company deploys derivative hedging instruments primarily for the purpose of securing – for the medium to long term – the price of nickel alloy surcharges associated with high-grade steel in order to restrict major fluctuations in purchase prices.

At the same time, revenues generated with scrap materials, which are closely aligned with the current prices quoted on the commodities futures exchanges, declined in the period under review, while suppliers of high-grade steel tend to pass on lower raw-material prices only after a certain period of time has elapsed.

Material-related expenses edged up slightly by 0.7% to EUR 181.6 (180.3) million. Material expense as a percentage of sales stood at 46.8% (45.5%).

Within this context, it should be noted that material-related expenses had been scaled back by EUR 7.2 million in fiscal 2007 thanks to the successful partial hedging of nickel requirements via derivative financial instruments. In 2008, by contrast, payments made for the purpose of commodity price hedging in connection with nickel alloy surcharges proved detrimental. As a result of cash settlements payable within this area, material expenses rose by EUR 3.3 million in the year under review.

Slight increase in personnel expenses as a percentage of sales

Staff costs rose by EUR 0.5 million to EUR 95.0 (94.5) million in the year under review. As a result of the decline in sales, personnel expenses as a percentage of sales revenue increased to 24.5% (23.8%) at ElringKlinger AG.

Owing to the significant level of capacity utilization in production during the first half of the year and more extensive staffing levels, staff costs for the annual period as a whole moved slightly above the previous year’s figure. In addition, collective wage settlements and the expansion of HR capacity within the area of research and development prompted a hike in salaries and wages. This was contrasted with the reduction in vacation and flextime surpluses accumulated by employees.

More pronounced increase in depreciation and amortization expense

Amortization of intangible fixed assets and depreciation of tangible fixed assets, i.e. property, plant and equipment, rose by EUR 3.8 million to EUR 38.3 (34.5) million. This was attributable chiefly to the substantial investments made within the area of plant and machinery in 2007 and 2008. The higher levels of systematic depreciation associated with
Depreciation/amortization in relation to sales rose to 9.9% (8.7%). Depreciation/amortization also includes unscheduled write-downs attributable to the transfer of non-taxable reserves amounting to EUR 4.7 (3.8) million.

Other operating income
Other operating income rose by EUR 5.5 million to EUR 34.2 (28.7) million in 2008. The year-on-year increase was driven by income generated from the reversal of provisions amounting to EUR 5.5 (2.2) million and gains from the disposal of assets in the amount of EUR 0.9 (0.2) million. Other operating income also included income from the reversal of the special tax-allowable reserve amounting to EUR 4.3 (0.0) million and gains of EUR 6.1 (1.5) million from currency fluctuations.

Insurance benefits in connection with the fire at ElringKlinger’s factory in Runkel, which occurred in 2007, led to additional non-recurring exceptional income of EUR 1.8 million in 2008. In fiscal 2007, exceptional income from insurance reimbursements had amounted to EUR 14.3 million in total.

Significant increase in other operating expenses
In total, other operating expenses rose by EUR 20.1 million to EUR 81.9 million in the period under review.

This was attributable mainly to the recognition of provisions for the negative fair values of commodities-related hedging transactions in an amount totaling EUR 15.9 million. ElringKlinger AG uses derivative instruments for the purpose of hedging prices over the medium and long term, particularly with regard to the nickel alloy mark-up payable in the case of high-grade steel, as well as restricting major fluctuations associated with purchase prices. These hedging transactions resulted in provisions for derivative risks, reflecting the significant fall in the nickel price as at the reporting date of December 31, 2008.

Other operating expenses also included expense items totaling EUR 1.9 (0.3) million not attributable to the reporting period, which relate to the disposal of plant and equipment as well as bad-debt losses. The negative impact of foreign currency losses, mainly as a result of loans granted to subsidiaries, amounted to EUR 10.8 (1.5) million.

Higher interest expense
Loans taken out primarily in connection with company acquisitions and capital expenditure on property, plant and equipment resulted in higher interest expense, which rose by EUR 4.4 million to EUR 7.9 million in 2008. Currency-related write-downs of EUR 1.6 (1.7) million in connection with loans to subsidiary companies had an adverse effect on the net interest result. In total, net interest expense stood at EUR 6.8 (2.1) million, a deterioration of EUR 4.7 million compared to fiscal 2007.

Lower income from affiliated companies
In light of the visible downturn in revenues and earnings at some of ElringKlinger AG’s subsidiary companies over the course of the second half of 2008, and for the purpose of strengthening the subsidiaries’ ability to finance their business activities with the help of internal resources, income from interests held in subsidiaries was reduced by EUR 5.7 million in the period under review. Income from affiliated companies totaled EUR 2.9 million in fiscal 2008. In response to the less favorable business climate facing the automotive sector as a whole and the marked decline in vehicle production in the NAFTA region, ElringKlinger AG performed a EUR 8.0 million write-down of the carrying amount of its investment in the subsidiary Elring Klinger México, S.A. de C.V., Toluca, Mexico. In the previous fiscal year, net investment income had included a total amount of EUR 4.5 million in write-downs offset with write-ups of investment carrying amounts.

As a result of the factors outlined above, net investment income from affiliated companies for 2008 stood at minus EUR 5.1 (4.1) million, i.e. EUR 9.2 million down on the previous year’s figure.

Income from ordinary activities
Due to the decline in sales and the exceptional factors outlined above, income from ordinary activities fell by 65.6% year on year, down from EUR 68.7 million to EUR 23.6 million.

High tax rate
As a result of lower income from ordinary activities and a 15% reduction in the corporation tax rate, income taxes were down EUR 12.2 million on last year’s figure and amounted to EUR 12.4 (24.7) million in to-
The provision recognized in consideration of contingent losses associated with onerous contracts attributable to the above-mentioned commodity hedging for alloy surcharges is not deductible for tax purposes. The same applies to the write-down in connection with the carrying amount of investments in the Mexican subsidiary. As a result, the tax rate for the AG stood at 53.4% in 2008, compared to a tax rate of just 36.6% in 2007.

**Decline in net income**

The significant tax charges resulted in a disproportionately large reduction in net income, which fell by EUR 32.6 million to EUR 10.9 (43.5) million. Against this backdrop, ElringKlinger AG was unable to achieve its original goal of increasing net income at a faster rate than revenue growth.

**Dividend proposal**

After allocation of EUR 2.3 (16.7) million to other revenue reserves, net retained earnings, i.e. distributable profit, for ElringKlinger AG as at December 31, 2008, amounted to EUR 8.6 million. With the consent of the Supervisory Board, the Management Board will propose to the Annual General Meeting a dividend of EUR 0.15 (EUR 0.47 adjusted for comparability, having taken into account the 1:3 stock split in 2008) per share. The proposed dividend takes account of the decline in net income and the challenging conditions currently experienced within the industry as a whole.

**Net assets**

With an equity ratio of 38.2% (51.1%), ElringKlinger AG’s position in terms of assets and liabilities remained solid. The balance sheet total rose by EUR 114.3 million to EUR 577.8 (463.5) million. This significant year-on-year increase was attributable to extensive capital expenditure on property, plant and equipment as well as the company acquisitions discussed earlier.

As at December 31, 2008, intangible fixed assets amounted to EUR 1.4 (1.3) million, making up just 0.2% of total assets.

Due to the substantial investments made in buildings, equipment and tools over the course of the first half in particular, tangible fixed assets rose by EUR 21.7 million to EUR 176.1 (154.4) million.

Driven by acquisitions, the carrying amount of financial assets increased by EUR 71.1 million to EUR 225.3 (154.2) million. This significant increase was due to investments attributable to the purchase of the remaining interests in the Spanish subsidiary from the co-owner, the acquisition of the former SEVEX Group and the increase in the stake held in ElringKlinger Marusan Corporation, Japan, as well as loans granted to affiliated companies. By contrast, write-downs of investment carrying amounts stood at EUR 8.0 (4.5) million.

Fixed assets rose by EUR 93.0 million to EUR 402.9 (309.9) million. On this basis, non-current assets accounted for 69.7% (66.9%) of total assets, up on last year’s figure.

As at December 31, 2008, current assets attributable to ElringKlinger AG were EUR 21.4 million higher than in the previous year, amounting to EUR 174.8 (153.4) million.

At the end of the reporting period, inventories were slightly down on last year’s figure. At EUR 19.6 (20.6) million, raw materials, consumables and supplies remained below last year’s figure, as the overall procurement volumes in the fourth quarter of 2008 were scaled back promptly in response to the market downturn. By contrast, as a result of market-specific circumstances finished goods and merchandise rose by EUR 5.3 million, while work in progress fell by EUR 2.2 million.

As at the reporting date, trade receivables receded to EUR 43.3 (55.2) million as a result of lower sales revenue in the final quarter of 2008. In parallel, amounts receivable from affiliated companies rose by EUR 28.2 million, totaling EUR 43.9 (15.7) million at December 31, 2008. The increase in receivables from affiliated companies was attributable indirectly to the acquisition of the SEVEX Group as well as additional loans granted to entities in which ElringKlinger holds an interest.

Due to the dividend payment of EUR 26.9 million for fiscal 2007 and the decline in net income in 2008, ElringKlinger AG’s equity receded to EUR 220.9 (236.8) million.
The decline in the equity ratio by 12.9 percentage points to 38.2% (51.1%) was attributable primarily to the reduction in equity and the larger amount of borrowings taken on for the purpose of financing investments in property, plant and equipment as well as corporate acquisitions. The return on equity (income from ordinary activities in relation to average equity of the AG) contracted to 10.3% (30.3%).

As at December 31, 2008, total provisions were up EUR 1.6 million on last year’s figure, having risen to EUR 73.7 (72.1) million. Provisions accounted for as at December 31, 2008, included other provisions totaling EUR 33.7 million, compared with EUR 31.3 million in 2007. This figure includes the provision of EUR 15.9 million required in connection with commodity price hedging for alloy surcharges. This effect is partially offset by the reduction in obligations relating to personnel as well as the reversals of warranty provisions that are no longer applicable and the reduction of provisions concerning buildings renovation.

Due to an increase in benefit rights for entitled staff, an amount of EUR 0.9 (0.7) million was allocated to pension provisions. As at December 31, 2008, provisions for taxes were down EUR 1.7 million to EUR 1.7 (3.4) million.

ElringKlinger AG increased its bank borrowings by EUR 136.9 million to EUR 235.0 (98.1) million in 2008, mainly for the purpose of financing its acquisitions over the course of the year and funding its more expansive investment activities. Trade payables fell by EUR 6.7 million to EUR 14.4 (21.1) million at the end of December 2008, prompted by less extensive purchasing activities in the fourth quarter. In total, liabilities rose by EUR 132.7 million to EUR 281.5 (148.8) million. Their share of the balance sheet total was 48.7%, compared to 32.1% in 2007.

Financial Position

Cash flow from operating activities
Cash flow from operating activities fell from EUR 70.8 million a year ago to EUR 52.7 million in 2008. The operating cash return (cash flow from operating activities in relation to sales) of ElringKlinger AG contracted to 13.6% (17.9%) in 2008.

The decline in cash flow from operating activities was due primarily to the reduction in net income by EUR 32.6 million. By contrast, depreciation and amortization rose year on year to EUR 46.3 (40.1) million. The decline in trade receivables and other assets by EUR 1.4 million in 2008, as opposed to an increase of EUR 15.6 million in fiscal 2007, had a positive influence on cash flow from operating activities.

In response to lower volumes requested by customers as part of their production scheduling, ElringKlinger AG scaled back its inventories of raw materials, consumables and supplies in the fourth quarter of 2008, in addition to reducing the number of machines and tools purchased. As a result, liabilities fell by EUR 4.1 (increase of 7.5) million.

Capital expenditure driven by acquisitions
ElringKlinger AG invested a total of EUR 140.9 (76.2) million over the course of 2008. As outlined above, the significant increase in capital expenditure was attributable mainly to corporate acquisitions.

Elsewhere, ElringKlinger AG focused its investment spending on the expansion of production capacity for the start-up of new products as well as streamlining measures within the area of production workflow.

At EUR 60.3 (63.0) million, expenditure on buildings and land, machinery, equipment and tools almost matched the substantial figure posted a year ago.

ElringKlinger AG invested EUR 0.7 (0.7) million in intangible assets, primarily in connection with software licenses.

The investment ratio – related to property, plant and equipment, including tools, as well as intangible assets as a percentage of sales – stood at 15.7% (16.1%), which is substantial when viewed across an extended period of time. Thus, the cash outflow in connection with investments, before acquisitions, was only slightly less than in fiscal 2007, a year in which investment spending had been significant.

ElringKlinger AG invested EUR 2.2 million in the refurbishment and extension of its office space at its headquarters in Dettingen/Erms.
Within the area of Cylinder-head Gaskets several assembly lines were expanded during the first half of 2008 in preparation for new projects launched within this division. The division bought two stamping systems with belt units, a coating unit as well as laser-welding machines, in addition to implementing streamlining investments to extend the level of automation on its assembly lines.

The Specialty Gaskets division further expanded its expertise within the area of exhaust technology and purchased an additional stamping system, a continuous flow drier and test stand equipment. ElringKlinger AG expanded its manufacturing unit for transmission control systems at its Runkel plant for the purpose of producing new transmission control components for automatic transmissions.

At the company site in Langenzenn, ElringKlinger AG completed construction work on a logistics and manufacturing facility and expanded production by introducing two new complete assembly lines for shielding components.

The Elastomer Technology/Modules division invested in the completion of new production premises for weight-reduced plastic parts at the company site in Dettingen/Erms. ElringKlinger AG bought two assembly lines required for the production of plastic cam covers. A new cleaning and coating unit was purchased for metal-elastomer products.

Within the New Business Areas division, which underwent further expansion during 2008, investments were centered around machinery and test stand technology for the purpose of raising the level of automation in bipolar plate and fuel cell stack production. The company also purchased laboratory equipment and testing systems for start-up projects within the area of battery technology, the emphasis being on the development of bipolar plates and separators for bipolar rechargeable batteries. Additional funds were also directed at optimizing the first prototype system within the area of diesel particulate filters.

**Cash outflow for acquisitions**

The full takeover of the Spanish subsidiary as well as in particular the acquisition of the former SEVEX Group in Switzerland and the expansion of the company’s stake in Marusan Corporation resulted in an outflow of EUR 81.0 (12.8) million for financial assets. At EUR 140.9 (76.2) million, net cash used in investing activities was therefore significantly higher than in the previous year.

Operating free cash flow (cash flow from operating activities less cash flow from investing activities) stood at minus EUR 88.2 (-5.4) million, primarily due to the aforementioned acquisitions and investments in property, plant, equipment and tools.

**Cash flow from financing activities**

Cash flow from financing activities amounted to EUR 89.2 (5.3) million in 2008. This was attributable to the increase in bank loans by EUR 136.9 million, which were taken out primarily for the purpose of financing corporate acquisitions and, in part, for funding the investments discussed earlier.

Furthermore, the company’s subsidiaries were furnished with additional loans and time deposits of EUR 20.8 million in total, which resulted in an outflow of funds in the same amount at ElringKlinger AG.

At December 31, 2008, cash and cash equivalents amounted to EUR 1.1 (0.2) million.

**Procurement**

International procurement for the ElringKlinger Group as a whole was managed by the Central Purchasing department of ElringKlinger AG, based in Dettingen/Erms, Germany. The main tasks involved integrating acquired enterprises within the procurement system of ElringKlinger and further expanding the company’s international supplier structure. The significant reduction in volumes requested by customers as part of their production scheduling over the course of the second half of 2008 called for prompt action in terms of adjusting the company’s purchasing volumes and inventory management.

**Signs of turnaround in commodity costs**

Looking back over an extended period of time, the cost of raw materials remained at an elevated level in 2008, and together with surging energy prices this factor continued to place pressure on ElringKlinger AG during the first nine months of the fiscal year.
The principal raw materials used by ElringKlinger AG were high-grade steel or steel alloys, aluminum, aluminized steel and carbon steel as well as polymer granules.

Around 30% of the overall procurement volume at ElringKlinger AG was attributable to high-grade steel and carbon steel. The company managed to stabilize the basic price paid for high-grade steel by redistributing the overall volume of procured steel among existing suppliers and by introducing a new supplier of steel. In order to reduce costs and optimize logistics workflow, the Central Purchasing department at ElringKlinger AG re-allocated to European-based suppliers steel deliveries formerly made by suppliers in North America for plants located in Europe.

The price of high-grade steel alloy surcharges more than halved over the course of fiscal 2008, particularly in the case of nickel-based alloys. In view of the dramatic fluctuations in nickel prices experienced during 2007, with highs of up to USD 54,000 per ton, ElringKlinger AG again arranged forward contracts to secure its commodity prices in 2008. As a result, the company was unable to benefit from the unexpected plunge in market prices within the area of alloy surcharges, which became increasingly evident in the second half of the year.

On the other hand, ElringKlinger AG largely avoided the industry-wide increase in prices for carbon steel towards mid-2008, which rose by as much as 30% at times, thanks to long-term contracts arranged in advance. Despite these measures, the company had to contend with a price hike of up to 15%.

The acquisition of the Swiss shielding component manufacturer sEVEX led to a significant increase in the volume of aluminum required by the ElringKlinger Group. At the same time, however, ElringKlinger AG managed to achieve cost savings by pooling the overall procurement volumes for aluminum. The significant price-related pressure exerted on customers in the period under review was alleviated somewhat by the decline in market prices for aluminum.

The rise in oil prices prompted an increase by up to 10% in purchase prices for polymer granules and other intermediate plastics required by ElringKlinger AG for its operations within the area of elastomer technology/modules. Polymer granules accounted for 4% of ElringKlinger AG’s total purchasing volume, while rubber had a share of around 3%.

**Higher energy prices**

Due to more expansive production volumes in the first half, the ElringKlinger AG’s energy requirement in 2008 was higher than in the previous year. Higher energy prices led to an increase in the cost of energy by around 22%. There was evidence to suggest a fall in prices as the real economy weakened towards the end of the year.

Starting from a substantial base, market prices for electricity continued to surge over the course of 2008. Having said that, ElringKlinger AG managed to cushion the rise in electricity prices by means of long-term supply contracts concluded at the end of 2007.

**Reduction in purchasing volume**

The overall purchasing volume of ElringKlinger AG, which encompasses raw materials, consumables and supplies as well as investments in buildings and plant together with traded goods for independent aftermarket activities, fell by 6.8% in 2008 to EUR 254.8 (273.5) million. The year-on-year decline was attributable to the significant reduction in inventory levels in the fourth quarter of 2008 in response to the downturn in the company’s sales markets.

**Expansion of global supplier structures**

A year ago, the company implemented measures to broaden the company’s supply base in Asia as part of a program aimed at expanding capacity levels within the Group. In 2008, additional suppliers within this region underwent qualification, with procurement activities being extended to other Asian countries. These measures were directed by the Central Purchasing department of ElringKlinger AG.

In order to scale back costs and meet the more extensive requirements for aluminum following the takeover of the sEVEX Group, the Central Purchasing department also entered into agreements with new suppliers in Turkey and Venezuela.
Continued focus on research and development

In view of the current market climate, expenditure relating to operating activities and investment projects has come under close scrutiny. Having said that, ElringKlinger AG accepts no compromise when it comes to investing in the future and channeling funds into research and development. In pursuing a targeted approach aimed at driving forward existing activities and establishing new fields of business centered around core issues facing today’s automotive industry – the reduction of emissions and fuel consumption, together with the development of alternative propulsion technologies – the company is committed to laying suitable foundations for it to emerge from the current crisis in a stronger position.

At the same time, the automobile industry is now at a technological crossroads, with a call for new and, above all, affordable solutions in areas such as propulsion systems. ElringKlinger AG is of the firm belief that the demands placed on automotive suppliers will become more prominent as time progresses. Within this context, customers will be particularly eager to secure the services of high-caliber specialists for highly complex technological solutions, the emphasis being on collaborating closely with manufacturers as strategic development partners.

ElringKlinger AG stepped up its research and development efforts in 2008, increasing its expenditure within this area by EUR 3.9 million to EUR 33.1 (29.2) million. As at December 31, 2008, 244 (232) staff members of ElringKlinger AG were employed in research and development. On this basis, ElringKlinger AG invested 8.5% (7.4%) of its sales revenues in research and development.

In order to protect the company’s technological know-how and intellectual property and to benefit from synergies between the individual divisions, ElringKlinger continued to concentrate all R&D activities in the Group at ElringKlinger AG’s domestic facilities. Within this context, the competence centers within ElringKlinger AG were responsible for delivering the principal research and development services for the Group as a whole.

New applications in the areas of cylinder-head gaskets and specialty gaskets

Development projects within the area of cylinder-head gaskets were driven by the trend towards higher specific power and peak pressure ratings in new engines. Automobile manufacturers have placed their focus on engine downsizing in order to meet stricter environmental regulations implemented by many governments around the globe. As a consequence, they are introducing increasingly smaller, efficient gasoline engines with forced-induction supercharging and direct injection.

Within the area of cylinder-head gaskets, ElringKlinger AG developed a new elastomer coating with enhanced stability, which further improves the performance and service life of the sealing system at high pressures and temperatures. The company also designed a number of gasket applications for the new generation of smaller, forced-induction gasoline engines and developed them to start-of-production level. Serial production has already commenced in the case of coined segment stoppers designed to deliver a more uniform distribution of the compressive forces.

Development activities in the Specialty Gaskets division were mainly centered around sealing solutions for turbochargers. The focus was on new concepts for particularly heat-resistant alloys and efforts to optimize the gasket geometry within the in- and outlet as well as the interior casing of the turbocharger. Within this context, the objective was to increase both performance and durability at elevated temperatures of around 1,000 degrees Celsius.

In 2008, ElringKlinger AG also introduced a state-of-the-art test stand technology for the purpose of performing complex calculations and endurance testing on behalf of its customers. ElringKlinger AG is today recognized as one of the world’s premier suppliers of turbocharger sealing rings capable of withstanding high temperatures.

SCR module for cars

As a result of new environmental regulations such as Euro 6, vehicle manufacturers are having to scale back the level of nitrogen oxide emissions by significant margins. This also applies to direct-injection gasoline engines. Based on the solution already in production for commercial vehicles, the Specialty
Gaskets and Shielding Technology divisions joined forces with a German car manufacturer and developed a combined module that seals and shields (thermal/mechanical) SCR (Selective Catalytic Reduction) direct-injection systems used in automobiles.

**Innovative transmission products**
Over the course of 2008, the Transmissions unit set up by ElringKlinger and gradually expanded by the company in recent years focused its work on the integration of screen structures used for the filtration of particles occurring in automatic transmission control systems. Among the innovations were micro-bead gaskets for transmission control systems, which help to increase the operational efficiency of automatic transmissions.

**Complete solutions in shielding technology**
Following the takeover of the former SEVEX Group, the emphasis of development activities over the course of the year was on complete shielding solutions for engines and underbodies, specifically the exhaust tract.

In collaboration with a German vehicle manufacturer, ElringKlinger AG also developed a pioneering multifunctional shielding system with an integrated exhaust manifold gasket for thermal and acoustic shielding. Due to the reduction of thermal radiation losses, the engine and the exhaust cleaning system achieve the optimal operating temperature faster, as a result of which improvements were made with regard to HC und NOx exhaust emissions and fuel consumption.

Based on current planning, ElringKlinger AG expects to roll out a mechanical/thermal shielding module for tank systems in 2010.

**Elastomer Technology/Modules focuses on low-weight solutions**
The emphasis of R&D activities within the area of Elastomer Technology/Modules was on weight-reduced plastic modules with integrated sealing systems. The overall weight of components can be reduced by replacing metal-based parts with thermoplastics; this in turn helps to reduce fuel consumption.

Among the solutions to emerge from the development pipeline was a new plastic oil pan module for commercial-vehicle engines. Capable of withstanding extremely high mechanical stresses, it features a range of integrated functions such as an oil suction pipe with filter sieve, an oil dipstick retention unit as well as an oil release screw and sealing components.

Other development projects within the area of elastomer technology/modules included new oil pan designs for transmission units as well as an intake manifold made of plastic. In the period under review, ElringKlinger AG also developed elastomer-coated shift pistons for automatic and dual-clutch transmission systems, which help to reduce the time interval between gear changes; this solution is now ready for serial production.

**New Business Areas**

**Diesel particulate filter**
In 2008, ElringKlinger AG pushed ahead with its efforts to take its proprietary diesel particulate filter concept another step closer to start of production. With the help of a new production process, which has been patented worldwide, development engineers at ElringKlinger AG managed to improve the general design scope of the filter’s channel geometry. This contributes to enhanced filter performance, as well as providing the basis for smaller, lighter components and reduced exhaust back pressure.

Over the course of the year, the company performed extensive test runs and made improvements to the pilot system set up at the turn of 2008 for the purpose of producing the first series of prototypes. The main focus here was on automating and optimizing the manufacturing process associated with ElringKlinger AG’s newly developed production line.

Within this context, it should be noted that both competitive forces and price-related pressure are becoming increasingly evident within the area of diesel particulate filters. With this in mind, ElringKlinger is now also looking to incorporate a new catalytic coating within the filter, thus facilitating filter regeneration. The specific properties of the ElringKlinger filter design are such that nanotechnology has been identified as a suitable coating method. The rationale behind this approach is to differentiate the company within the competitive arena by offering an end-to-end solution.
Fuel cell technology
ElringKlinger AG again filed a number of important patents and intellectual property rights in 2008, thus further strengthening its formidable market position within this key field of future technology.

Significant progress was made with regard to the development and production of complete high-temperature fuel cell stack modules. In combination with a reformer, the SOFC (Solid Oxide Fuel Cell) stacks are capable of transforming energy sources such as diesel or biogas into electrical energy, creating hardly any emissions in the process. ElringKlinger AG’s development pipeline currently includes a fuel cell auxiliary unit which is designed to supplement electricity supply in commercial vehicles. So-called APUs (Auxiliary Power Units) are used for the purpose of generating electricity for air-conditioning systems and on-board electrical devices which have to remain operational when a truck’s engine is switched off. ElringKlinger AG has also identified attractive fields of application for the SOFC stack in recreational vehicles and boats. Additionally, this solution is suited to stationary applications within the area of combined power and heat generation in the home. The company already has an advanced development project in place within this area.

ElringKlinger AG also produces bipolar plates for PEM (Proton Exchange Membrane) low-temperature fuel cells. One of the main projects in this area involved optimizing the bipolar plate design for fuel cell stacks to be deployed in the drive train. Significant progress was made with regard to hydrophilic coating and integral sealing. ElringKlinger AG further improved its production process for the purpose of manufacturing larger quantities of samples and is currently reviewing various methods that are suitable for serial production.

Battery technology
Drawing on its proven expertise within the area of fuel cell technology, in 2008 ElringKlinger AG – working in collaboration with a battery manufacturer – launched a program aimed at developing initial product concepts for batteries. The development team is currently working on components for bipolar lead-acid batteries to be used primarily in micro- and mild-hybrid vehicles. ElringKlinger AG is focusing on bipolar lead battery technology, which involves stacking the individual cells in order to improve the battery’s performance compared to conventional rechargeable battery technology within cost structures that are commercially viable. Compared to conventional batteries, the internal resistance in the bipolar version is lower, which contributes to an improved current density. This increases battery dynamics. ElringKlinger Kunststofftechnik developed bipolar plates made of ethylene tetrafluoroethylene (ETFE) for this application. The new bipolar plates are to be launched for the first time in an electric city van produced by a Dutch developer.

Development project solar thermal power plant
ElringKlinger AG has been applying expertise gained within the field of material structures and production processes as part of its development work on diesel particulate filters to a development project focused on solar thermal power plant technology. Within this area, engineers are currently working on ceramic components. In addition, ElringKlinger AG has developed sealing systems for Stirling engines used in parabolic-reflector power plants. Production of the first prototypes is currently underway.

Own R&D pipeline generates organic growth
Over the course of 2008, ElringKlinger AG cemented its position with a number of new product developments in its core field of business as well as by stepping up its efforts in the New Business Areas division with a strong focus on “Going for Green” projects, the aim being to return to solid organic growth once the current market crisis has been overcome – with new products emerging from the company’s own R&D pipeline.

Employees
Qualified, dedicated and motivated employees play a pivotal role in ElringKlinger AG’s operations. Indeed, this element forms an essential part of the corporate philosophy drawn up by an ElringKlinger working group and presented at a special information event.

Higher staffing levels
The average headcount within ElringKlinger AG rose from 1,657 in 2007 to 1,732 in 2008, prompted mainly by significant production output in the first half of the year. At December 31, 2008, the number of people employed at sites operated by ElringKlinger AG was 1,737 (1,711), a year-on-year increase of 1.5%. Creating and maintaining jobs is an entrepre-
neurial duty embraced by ElringKlinger AG. Having said that, stable economic conditions must be considered an essential prerequisite for decisions taken within this area. Against the backdrop of sluggish sales markets in the fourth quarter of 2008, ElringKlinger AG reduced staff flexitime accounts and vacation days. Furthermore, temporary employment contracts were not extended, a policy which will remain in place for the foreseeable future. The rate of staff fluctuation at ElringKlinger AG was 0.6% (0.3%) in 2008.

**Staff motivation and commitment**

The success of ElringKlinger AG within the commercial arena hinges upon the expertise, creativity, precision and, above all, the dedication of its employees. The increase in the number of suggestions put forward by staff for the purpose of improving the company’s operations attests to the commitment shown within this area; more than half of the 265 recommendations submitted were put into action. Employees who are able to identify with the company are of immense importance to ElringKlinger AG. Within this context, it should be noted that the average time of service at the three German locations currently stands at 13 years, which is well above the German average of 4 to 6 years. As in the previous year, average time off work due to illness was 11.0 days per employee, significantly lower than the industry average.

**Personalized training**

ElringKlinger is committed to opening up personal opportunities for its staff members in the form of HR training and development. The extent of such measures is determined on the basis of staff appraisal and qualification meetings organized annually. As part of these meetings, employees are given feedback on their own performance. At the same time, personal development programs are defined by those involved, tailored closely to the individual requirements of each employee.

**Nurturing talent**

As in the past, ElringKlinger AG again placed great emphasis on actively promoting talent, providing first-class vocational training programs for young people. For this purpose, the company offered a comprehensive range of commercial and technical training courses as well as degree programs based on the dual system of on-the-job training and Berufsakademie studies. In 2008, ElringKlinger AG provided training for 70 apprentices, thus maintaining the high level of vocational training organized in the previous year. Vocational trainees accounted for 4.0% of the total workforce at parent-company level, unchanged year on year.

**Participating in the company’s success**

In recognition of their successful contribution in fiscal 2007, all employees at ElringKlinger AG received a special gratuity of EUR 1,350 in 2008.

**Compensation Report**

**Compensation structure for members of the Management Board**

Contracts for members of the Management Board are drawn up by the Supervisory Board’s Personnel Committee, negotiated with the respective members of the Management Board and concluded following approval by the entire Supervisory Board. The level of compensation is reviewed by the Personnel Committee at predefined intervals and adjusted where necessary.

Management Board compensation is made up of fixed and variable elements. The variable components are made up of a short-term component, which relates to Group earnings before taxes, and a long-term component that was formerly measured on the basis of growth in enterprise value (value enhancement bonus) but is now based on share price appreciation (stock appreciation bonus).

The value enhancement bonus was determined each year on the basis of changes in the enterprise value of the ElringKlinger Group, as calculated by the company’s tax adviser and reviewed by the auditor. Each member of the Management Board had the option to postpone payment of this value enhancement bonus once or several times, albeit not beyond the end of the respective member’s current contractual term. As a result, the annual bonus was calculated retroactively in line with the increase or decrease in value in the year of payment compared to the base year. The annual bonus could not exceed an amount equal to double the fixed annual salary. As regards the Management Board contracts extended as from February 1, 2008 (Dr. Stefan Wolf and Karl Schmauder), and January 1, 2009 (Theo Becker), the value enhancement bonus has been replaced by stock appreciation rights, which are determined on the basis of share price performance. Holders of stock appre-
association rights are entitled to a cash-settled payment. Stock appreciation rights are not furnished with any entitlements to shares in ElringKlinger AG. They have a term of three years and are granted in annual tranches at February 1, 2008, February 1, 2009, and February 1, 2010 (Dr. Stefan Wolf and Karl Schmauder) as well as January 1, 2009, January 1, 2010, and January 1, 2011 (Theo Becker). The grant price is the average share price of the last sixty stock exchange trading days prior to the grant date. The number of stock appreciation rights is determined on the basis of fixed remuneration payable to the individual Management Board member as well as the level of the grant price. The amount to be remunerated is calculated as the difference between the redemption price, which is also calculated as an average of the last sixty stock exchange trading days, and the grant price. A payment is made only when the share price of ElringKlinger AG has increased at a higher rate than the smoothed index containing the ElringKlinger stock, but at least by 25%. A provision is recognized in consideration of expected future obligations. Remuneration per tranche is limited to the amount of annual fixed salary payable.

Members of the Management Board have a right to a pension, provided that their contract has expired, or they have reached 65 years of age and started to receive a statutory pension, or in the event of occupational disability. This pension entitlement amounts to 2% of the last monthly fixed salary prior to leaving the company for each completed year of service, not to exceed 45%.

Additionally, the members of the Management Board are entitled to a company car.

Members of the Management Board do not receive compensation for their activity as members on the supervisory bodies of subsidiaries and affiliated companies.

Compensation structure for members of the Supervisory Board
The compensation structure for Supervisory Board members remained unchanged compared with last year.

In accordance with the recommendations of the Corporate Governance Code, compensation is comprised of a fixed component and a variable component, the latter being calculated on the basis of Group earnings before taxes in the financial year ended.

The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on June 1, 2006. In addition, remuneration is paid for membership in committees of the Supervisory Board.

In accordance with the recommendations of the Corporate Governance Code, the role of the Supervisory Board chairman and that of his deputy were taken into account when determining the level of compensation. The Chairman of the Supervisory Board receives two times and the Deputy Chairman one-and-a-half times the compensation paid to other Supervisory Board members.

Details of share capital and disclosure of potential takeover obstacles (Section 289 (4) of the German Commercial Code (HGB))
The nominal capital of ElringKlinger AG as at December 31, 2008, remained unchanged at EUR 57,600,000 and, following the stock split executed in 2008, is divided into 57,600,000 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

The Management Board is not aware of any restrictions or agreements between shareholders concerning voting rights or the transfer of shares.

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as at December 31, 2008, are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Elgarta GmbH, Basel</td>
<td>10.02%</td>
</tr>
<tr>
<td>Elrena GmbH, Basel</td>
<td>10.07%</td>
</tr>
<tr>
<td>Lechler Beteiligungs GmbH, Ludwigsburg</td>
<td>10.15%</td>
</tr>
<tr>
<td>Walter H. Lechler, Stuttgart</td>
<td>Total of 25.001% (of which 10.13% is attributable under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))</td>
</tr>
</tbody>
</table>
No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

The number of Management Board members is determined by the Supervisory Board (Section 7 of the Articles of Association). The appointment and removal of Management Board members is performed in accordance with Sections 84 and 85 of the German Stock Corporation Act (Aktiengesetz – AktG). The Articles of Association contain no regulations that could be considered non-compliant with the provisions set out by law as regards the conditions applicable to the appointment or removal of Management Board members.

As stipulated by Section 179 of the Stock Corporation Act in conjunction with Section 20 of the Articles of Association, all amendments to the Articles of Association require a resolution of the Annual General Meeting with a three-quarters majority.

The Management Board is not authorized to buy back company shares. However, subject to the approval of the Supervisory Board, it is authorized to increase the nominal capital in the period up to July 15, 2010, through the issue of new shares for cash contributions on one or more occasions by up to EUR 28,800,000. The conditions applying to such a capital increase are established by the Management Board with the approval of the Supervisory Board (Section 4 no. 3 of the Articles of Association).

ElringKlinger AG has not entered into any agreements containing a change-of-control provision that would apply in the event of a takeover bid.

There are no compensation agreements with members of the Management Board or employees in the event of a takeover bid.

Quality and Environmental Management

ElringKlinger AG feels duty-bound to handle scarce resources such as energy and water in a responsible manner, as well as avoiding and reducing CO₂ emissions and waste, and maintaining occupational safety. For this purpose, quality and environmental management officers were employed at all company sites in 2008. These staff members are responsible for ensuring that environmental, quality and labor guidelines are complied with in the areas of emission control, waste separation, hazardous goods and water management as well as occupational safety and fire protection.

By initiating targeted improvements on a regular basis, the teams responsible for environmental, quality and occupational safety management at ElringKlinger AG made a contribution to the company’s commercial success in 2008.

Environmental awareness in production

The production processes at all sites operated by ElringKlinger AG were regularly audited, assessed and improved with regard to their compatibility with environmental standards and the efficient use of resources.

Expansion of quality management

ElringKlinger AG further optimized its quality indicators with the help of continuous improvement processes implemented within the area of quality management. As a supplier to the automotive industry, ElringKlinger has to subject its externally sourced materials and bought-in parts to rigorous quality testing. With this in mind, ElringKlinger suppliers have been firmly integrated within the quality management system on the basis of regular audits and specific information processes. These elements also form an integral part of the Company Code drawn up by ElringKlinger. Suppliers are obliged to meet the applicable environmental protection regulations and laws in all areas and processes, including the new European Union Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). In 2008, the majority of suppliers (99%) to ElringKlinger AG held ISO 9001:2000 certifications. Over 41% of the company’s suppliers were certified in accordance with TS 16949:2002 and 50% had an ISO 14001-compliant environmental management system.

Occupational safety and health protection

Occupational safety and health protection are of central importance to ElringKlinger AG. The company organizes training seminars on a regular basis, with the express purpose of reducing the number of job-related accidents and raising awareness among em-
employees of the importance of taking an even more conscientious approach to work. Within this area, the company will draw up and implement a occupational safety policy, to be followed by a company standard based on the new Occupational Health and Safety Assessment Series (OHSAS) standard 18001.

Report on Opportunities and Risks

Risk management system
ElringKlinger AG has established an effective risk management systems for the purpose of identifying risk at an early stage. By monitoring markets, customers and suppliers on a continual basis and maintaining well-developed controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities as they arise.

A key component of the risk management system installed by the company is regular reporting (at least once per quarter) on the part of the respective management teams at ElringKlinger’s domestic and foreign subsidiaries and divisions, the emphasis being on providing information relating to developments in all areas that are of relevance to the company and that may affect the business activities or, in particular, the future of ElringKlinger AG as a going concern. This reporting system involves identifying all risks and subsequently drafting recommendations with regard to risk provisioning or protection.

The Management Board assesses the aggregated risk and reports its findings to the Supervisory Board regularly and comprehensively. Another important aspect of the centralized risk and quality management system deployed at ElringKlinger AG is that of tracking the implementation of measures defined by the company.

ElringKlinger AG considers risk management to be an all-embracing concept that encompasses not only the identification and assessment of risk, as outlined above, but also includes a system of preventive measures and contingency planning. The efficacy of this system became apparent when a production building at the company’s plant in Runkel was damaged by fire back in April 2007. Thanks to measures initiated with immediate effect, ElringKlinger managed to avoid more extensive production stoppages and thus limit the overall damage caused to the company and its customers.

Alongside regular reporting, the risk management system includes assessments of the individual areas operated by ElringKlinger AG as well as audits of its subsidiaries. These assessments are conducted by an independent auditor. The rationale behind the appointment of external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed and areas of potential improvement are highlighted.

In fiscal 2008, audits conducted within ElringKlinger AG encompassed the areas of aftermarket sales, finance/controlling and information technology as well as the Runkel plant. Additionally, audits were carried out at Elring Klinger Motortechnik GmbH, Elring Klinger México S.A. de C.V. (Mexico), Elring Parts Ltd. (United Kingdom) and Changchun ElringKlinger Ltd. (China). Furthermore, a consulting firm specializing in materials management was appointed for the purpose of conducting a precautionary analysis of processes and workflow as regards the potential risk exposure to white-collar crime. Similar assessments covering other divisions have already been commissioned.

All audits showed that both internal requirements and statutory regulations had been met. The recommendations submitted with regard to potential areas for optimization were put in place or are to be implemented in the future.

Risks

Market and sales risks
As an automotive supplier, ElringKlinger AG is governed by trends within the automobile industry and the business performance of its customers. In general, ElringKlinger AG’s business is influenced by a downturn in the market as a whole and a decline in volumes sold by manufacturers.

The economic climate deteriorated increasingly over the course of 2008. Within this context, the economic slump became more pronounced at a global level from the third quarter of 2008 onwards. There is a risk that the financial and credit crises will impact on the real economy to an even greater extent than it already has, thus further restricting consumer spend-
ing. Within this respect, the underlying risk for ElringKlinger AG is that vehicle sales, particularly in the United States but also increasingly in Europe, may contract even further. Additionally, the risk of a further dramatic downturn in the automobile industry has also become tangible in the emerging markets. Automotive sales may be further buffeted by the limited financing options now available to potential buyers in many markets around the globe.

The severe and protracted downturn in the number of vehicles sold may ultimately result in further production downsizing on the part of manufacturers, which would have a knock-on effect on suppliers. The cancellations of orders recorded in recent months and the reduction in volumes requested by customers as part of their production scheduling have gone far beyond the normal level of fluctuation seen within these areas, as a result of which future sales planning for ElringKlinger AG is becoming less transparent. A further reduction in the level of capacity utilization within the area of production may have an adverse effect on sales and earnings performance at ElringKlinger AG, which in turn would necessitate adjustments to internal production capacities and structures. ElringKlinger has drawn up action plans that can be rapidly implemented if deemed necessary.

**Customer risks**

As a result of the difficulties experienced by some customers with regard to sales volumes and earnings, ElringKlinger AG has been exposed to a greater risk of customers defaulting on payments. In a small number of cases, the insufficient commitment of customers to complete payments has meant that accounts are being settled significantly later than specified by the company’s terms and conditions. In order to limit the negative impact on working capital, ElringKlinger has decided to further intensify its receivables management. ElringKlinger AG considers the risk of total default by customers to be limited, as vehicle production is usually continued even in the case of insolvency, albeit possibly on the basis of smaller unit volumes, reduced staffing levels and adjusted structures. Even in the event of an insolvency of a major customer, the anticipated loss associated with bad debts currently lies within the single-digit million range. Despite the challenging business climate, the majority of customers currently remain committed to settling their accounts on time.

In recent years, the company has managed to reduce its dependency on the three largest automobile customers by broadening its client base within the international motor vehicle industry and by expanding its sales with other automotive suppliers. However, a significant proportion of sales is still generated via these three customers.

**Pricing risks**

It is impossible to rule out that the significant level of pressure exerted by manufacturers and the pressures existing within the competitive arena will become more pronounced if the crisis affecting vehicle sales deepens. ElringKlinger AG addresses the issue of price erosion by deploying state-of-the-art production technology and lean cost structures, the objective being to use cost savings and productivity gains to its advantage and offset at least part of the price demands made by customers. Owing to further consolidation within the automotive supply industry as a result of the current crisis, relations between vehicle manufacturers and their suppliers are expected to change, a situation which is also likely to create acceptable structures when it comes to pricing.

**Currency risks**

Currency risks are attributable mainly to financing activities as well as to deliveries made to subsidiaries in foreign currencies.

From ElringKlinger AG’s perspective, there is a risk associated with fluctuations in the key Group currencies in relation to the euro. The principal currencies for ElringKlinger are the US dollar, the Canadian dollar, the Swiss franc, the Mexican peso, the Japanese yen and the Brazilian real.

In 2008, ElringKlinger AG hedged 100% of the currency risks associated with the Canadian dollar and 50% in the case of the Mexican peso by means of foreign exchange forward contracts.

In fiscal 2008, loans denominated in Swiss francs were taken out for the purpose of financing payments in connection with the acquisition of the former SEVEX Group. In view of this, movements in the EUR/CHF exchange rate might in future contribute to more significant fluctuations in net income. The objective is to minimize this risk by scaling back CHF-denominated financial liabilities on a regular basis with the help of profit distributions from ElringKlinger Abschirmtechnik (Schweiz) AG.
Financing risks
Potentially, the crisis within the financial markets may result in more restrictive loan policies being implemented by banks. In turn, this may lead to a marked deterioration in the terms and conditions attached to loan and refinancing agreements, in addition to making new transactions more difficult than in the past. For ElringKlinger AG the risk emanating from this scenario is that the overall scope for entrepreneurial activity, e.g. in the case of acquisitions or more substantial investments in buildings, plant and machinery, will be restricted.

ElringKlinger AG has established more room for maneuver and secured favorable credit agreements by extending the term of its loans or by restructuring short-term financing agreements into long-term contracts. In addition, the company has been working in closer collaboration with regional “Sparkasse” savings banks as well as “Volks- und Raiffeisen” cooperative banks.

In parallel, ElringKlinger has been offered follow-up financing by the major commercial banks.

With an equity ratio of 38.2%, substantial reserves and a positive cash flow, ElringKlinger AG has established tangible advantages over its competitors in terms of its financing capabilities in the current climate.

ElringKlinger AG finances its subsidiaries in the form of short-term time deposits as well as on the basis of long-term loans. In some cases, the loans are provided in the currency of the subsidiary, as a result of which the currency risk remains with ElringKlinger AG and can be centrally managed.

In light of the most recent developments in fiscal 2009, there may be the need for more substantial funds on the part of ElringKlinger AG’s subsidiaries, particularly within the North American market.

Wage cost risks
Wages and materials are the principal cost factors for ElringKlinger AG.

Should the downturn experienced within the international vehicle markets become more pronounced, there is a risk that the cost-of-sales base may no longer be financially viable in relation to sales. If this were to eventuate, additional adjustments to the company’s manufacturing structures would be necessary. ElringKlinger AG can respond to such events by turning to flexible employment and production models. Additionally, the company can implement other temporary measures such as an expansion or extension of short-time working within the areas affected in order to mitigate risks associated with wage costs.

In addition to the first stage of the collective pay increase on February 1, 2009, and the one-off payment made in the fourth quarter of 2008 on the basis of a collective agreement, the planned increase in wages effective from May 1, 2009, may have an adverse effect on ElringKlinger AG’s profitability and international competitiveness, particularly against the backdrop of an extremely weak automotive sector and the significant proportion of staff employed in Germany.

In view of this, the company is considering whether it could make use of the option to postpone the collective wage increase by seven months in order to be able adjust its cost base in line with sluggish market conditions as quickly as possible and thus ultimately secure jobs for its core workforce as much as possible for the time being.

Supplier risks
The sudden downturn experienced within the automotive industry, together with the concomitant reduction in volumes and the increasingly difficult terms and conditions associated with refinancing in the banking sector, also poses a risk for suppliers to ElringKlinger AG. ElringKlinger AG addresses the risk coming from supplier default by sourcing raw materials and merchandise from several suppliers. The regular supplier audits conducted by the company provide a solid basis for comprehensive risk assessment covering the full range of suppliers. These audits also include an evaluation of financing capability and sustainability.

In the majority of cases, the company’s supply base for key raw materials consists of large international corporations. In view of the supplier structure established by ElringKlinger AG, the risk of default has been greatly restricted. Risk has also been mitigated by the increasing internationalization of purchasing activities and the qualification of additional suppliers.
Legal risks
ElringKlinger AG addresses its exposure to legal risks by recognizing appropriate provisions in its annual accounts. In contrast with the previous year, there were no other significant risks in the period under review.

Risks associated with derivative transactions
ElringKlinger does not enter into speculative transactions. Derivatives are generally used solely for the purpose of mitigating the aforementioned risks. Derivative hedging instruments are used in order to mitigate interest rate risks and hedge receivables denominated in Canadian dollars and Mexican pesos. ElringKlinger processes a significant volume of high-grade steels. These include alloy surcharges, primarily for nickel, which as an exchange-listed metal is susceptible to price fluctuations. ElringKlinger utilizes derivative financial instruments for the purpose of partially hedging alloy-surcharge costs taken into account when calculating component prices. Hedging involves a price corridor, i.e. a collar, that includes the average used for the purpose of cost calculations. If the exchange price of nickel moves beyond the upper end of this collar, ElringKlinger receives a settlement payment. If, by contrast, the nickel price recedes beyond the lower end of the collar, ElringKlinger is obliged to pay a premium.

Market opportunities
The introduction of government-backed programs aimed at stimulating new vehicle sales, such as the environmental incentive paid in Germany to new car buyers when they scrap their old vehicle, as well as the enactment of widely debated vehicle taxation rules based on CO2 could lead to a tangible increase in the demand for new vehicles.

If the negative impact of the financial crisis on the automobile industry can be contained, there is every chance that the US and European car markets will begin to recover in the second half of 2009, particularly given the extremely low level of new registrations now reached within the automobile sector. At present, the number of cars being scrapped in the US is higher than the volume of new vehicle registrations. In the medium term the high average age of used vehicles, which currently exceeds seven years in the United States and stands at nine years in Germany, may prompt a more visible rise in demand for new vehicles. Having said that, there is as yet no clear evidence to suggest a significant upturn in demand for new cars within the market as a whole.

At the same time, the slump in vehicle sales in North America and the realignment strategy pursued by US car manufacturers have opened up opportunities for ElringKlinger AG. Customers in the United States in particular are increasingly opting for vehicles with small to medium-sized engines, such as those already being produced in Europe by their local subsidiaries. ElringKlinger AG is strongly represented in this engine segment, with components being supplied by all divisions within the company.

Acquisitions
ElringKlinger AG is of the strong belief that the current climate within the automotive supply industry will force companies out of the market, as a result of which the rate of consolidation within this sector is likely to become more dynamic. The crisis has put significant downward pressure on the market value of companies, and thus the potential acquisition price payable for such enterprises has also plummeted. This scenario has unlocked a number of attractive long-term opportunities for corporate takeovers. Having said that, financing has become increasingly difficult and the general terms and conditions attached to loan agreements are now less favorable than in the past. Additionally, predicting the future direction of the market has become more challenging, and on this basis the opportunities outlined above have to be put into perspective.

Should an opportune moment present itself, ElringKlinger AG may consider the option of purchasing other companies, e.g. for the purpose of acquiring new technologies or supplementing its existing technology portfolio.

Financing
Against the backdrop of the current market crisis, ElringKlinger AG has noticed that customers are placing greater emphasis on the economic strength and financing capabilities of their suppliers and are including them in the overall decision-making process. In addition to delivering the required technological expertise, it has become increasingly important for suppliers to be able to finance new development projects in the long term as partners to vehicle manufacturers. At the same time, they have to be in a position to make the requisite investments within the area of production. This represents an opportu-
nity for ElringKlinger AG to secure additional contracts, roll out new product developments faster than its competitors and position itself as one of the long-term winners to emerge from the current phase of industry consolidation.

Technology and climate change
There has been a widening debate concerning the impact of global climate change. As a result, legislation governing the level of permissible emissions has become increasingly strict throughout Europe and North America, but also in key emerging markets throughout Asia.

The growing demands placed on the automotive industry by such regulations have opened up attractive opportunities for ElringKlinger AG to position itself even more favorably and capture additional market share by drawing on the strengths of its product portfolio, which is designed to make a considerable contribution to the reduction of CO₂ emissions and fuel consumption.

Furthermore, ElringKlinger AG has been witnessing a growing trend among vehicle manufacturers to enter into long-term strategic development and production partnerships with specialist technology leaders within the supply sector, such as ElringKlinger AG.

ElringKlinger AG has also identified additional potential when it comes to establishing new product areas and moving into new segments of the market. What is more, the company disposes of a well-developed technology pipeline in the field of alternative drive solutions, e.g. within the area of fuel cell technology and components for hybrid propulsion systems in vehicles. In the medium term, these areas have the potential to generate significant revenue contributions for the Group.

Cost of materials
In recent years the automotive supply industry has been adversely affected by the high cost of energy and – when viewed over an extended period of time – the extreme surge in commodity prices. At the same time, companies have been unable to pass on to their customers the full extent of these price hikes. With the speculative bubble in the commodity market having burst and demand ebbing away within the real economy as the global downturn takes hold, ElringKlinger AG predicts that purchase prices for key materials needed by the company, such as polymer granules, carbon steels and aluminum, will begin to relax. Against this backdrop, ElringKlinger AG believes there is a chance that the pressure on its cost of sales will be alleviated in 2009. Having said that, this factor alone is likely to be insufficient in terms of fully offsetting the adverse earnings effects from the decline in sales volumes.

In order to secure and guarantee acceptable purchase prices for raw materials – particularly for nickel used as an alloy in high-grade steel – ElringKlinger AG deploys derivative hedging instruments. The negative fair values for the commodities-based derivatives may result in provisions in consideration of contingent losses associated with onerous contracts (i.e. pending transactions). For fiscal 2008 as a whole, provisions required in connection with long-term commodity price hedging of high-grade steel alloy surcharges amounted to approx. EUR 15.9 million. While these provisions have an adverse effect on current earnings, they will guarantee more favorable procurement prices in the medium term. Given the reduction in current value and the low price of nickel as at December 31, 2008, ElringKlinger AG does not anticipate any significant risks attributable to commodity price hedging for fiscal 2009.

Assessment of aggregated risk
Due to the dramatic contraction seen within the passenger and commercial vehicle markets and the more difficult conditions that this has created, ElringKlinger AG is currently having to operate within an extremely challenging market environment. Compared to the previous fiscal year, the associated risks have become more pronounced. However, at present there is no evidence of risk which, either by itself or in combination with other risks, is likely to jeopardize the future of ElringKlinger AG as a going concern.

The company is positioned solidly in financial terms and has a broad base of new products and technologies. Should the current slump in sales persist in the medium term, structural and personnel-related adjustments will be necessary for the purpose of protecting earnings. As regards its competitive position in relation to other suppliers, ElringKlinger AG has identified a clear opportunity for the company to emerge reinvigorated from the current phase of severe recession and consolidation within its industry.
Report on Expected Developments

Outlook – Market and Sector

Global economy faces exceptional circumstances
Since the beginning of 2009 the global economy has been in recession. The crisis within the financial and credit markets has now also engulfed the real economy, leading to a severe downturn at a global level. Against this backdrop, forecasts for global growth have been revised downwards significantly in recent months. The Word Bank now expects the global economy to shrink by 1.0 to 2.0% in 2009.

Germany’s gross domestic product is expected to plunge by 2.5% in 2009.

Data published for the eurozone as a whole suggests a decline in GDP by 2.0%. At the same time, most of the Eastern European economies, which had been generating more dynamic growth up to now, are expected to contract in 2009. Russia’s gross domestic product is forecast to drop by 0.7%.

The US economy was the first to be affected by the global financial and credit crisis, and it remains in the doldrums in terms of its domestic real estate market and the slump in consumer demand. The North American economy is expected to contract by 1.6%.

ElringKlinger AG anticipates that the global economic downturn will also tighten its grip on Asia. In view of the severe decline in exports, Japan’s economy is projected to contract by 2.6% – the country’s deepest recession since the Second World War.

The Chinese market is also likely to lose its momentum. The forecast for 2009 suggests that China’s gross domestic product will grow by 6.7%, which is significantly lower than the average growth rate recorded in recent years. Faced with a marked decline in production output within the industrial sector, India’s economic growth will be much less buoyant than in the previous year, reaching a comparatively meager 5.1% in 2009. Despite this outlook, China and possibly also India are expected to recover at a faster rate than the industrialized economies in the West, as both countries have been less severely impacted by the financial crisis.

The driving force that was Latin America is also likely to stall in 2009. However, despite the signs of a looming crisis and evidence to suggest that the economy will become more fragile, Brazil’s forward momentum in terms of GDP is expected to weaken rather than going into reverse. Here, economic growth for 2009 is forecast to reach 1.8%.

At present it is virtually impossible to predict the extent to which the string of government-led stimulus programs will contribute to economic improvement in the short term. If the programs aimed at kick-starting economic growth take effect quickly, ElringKlinger AG believes there is every chance that the economy as a whole will stabilize in the second half of the year, which would also brighten the prospects for automobile markets.

Global financial and economic crisis weighs heavily on automobile markets
The automotive industry as a whole is facing a difficult year. The dramatic downturn affecting economies around the globe is likely to exert even more pressure on automobile markets in 2009, compounded by the prospect of a further contraction in demand for passenger and commercial vehicles, particularly in the first half of the year.

Indeed, the volume of cars and light commercial vehicles sold may decline by a further 10% in 2009. For the first time in many years, the emerging countries are also expected to experience a visible contraction in market activity. Therefore, looking ahead to 2009, it is unlikely – in contrast to the performance of previous years – that the growth markets of Brazil, Russia, India and China will be able to offset the slump in growth seen in the US and Europe.

Within this context, ElringKlinger AG anticipates that domestic demand for passenger vehicles will continue to slide after enjoying a relatively stable spell in 2008. On the other hand, the German automobile market may receive fresh impetus from the newly introduced environmental incentive package, as part of which consumers receive a government-funded rebate if they scrap a used vehicle that has been in service for at least nine years and replace it with a new car. Germany’s new law governing vehicle taxation, which comes into force on July 1, 2009, and combines the previous taxation system based on engine size with a new CO2-based component, will finally provide consumers with a more reliable basis
for their future purchasing decisions. Original forecasts suggested that new car registrations in Germany may continue to fall to 2.9 million units in 2009. However, in view of the more encouraging signs emanating from the domestic auto market, which has been buoyed by the government-led scrapping program, the trend within this area might in fact be less severe than anticipated.

In 2009, Europe as a whole is expected to see automobile sales decline at a rate of 16.0 to 21.0%. In January, the number of new vehicles registered was down 27.0%. This was attributable not only to the protracted weakness in sales within the high-volume Western European markets of Italy, the UK and above all Spain but also to trends within the Eastern European vehicle markets, which were unable to emulate the solid sales performance recorded last year.

Europe’s second-largest auto market, Russia, is likely to experience a severe slump in sales within the car and commercial vehicle segments. On the back of an 18.3% fall in domestic vehicle sales in January 2009 compared with the same month a year ago, Russia is expected to see a decline of 20.0% in new vehicle registrations for 2009 as a whole. Within this context, the prospects for foreign manufacturers operating within the Russian automobile market have also been adversely affected by the increase in tariffs on imported vehicles effective from January 11, 2009. This situation is compounded by new challenges facing potential buyers when it comes to vehicle financing.

As a result of the severe impact that the economic recession has had on the automotive industry as a whole, the US market is likely to experience a further decline in demand for automobiles of around 13.0 to 18.0% in 2009. On this basis, auto sales in the US may fall to below 11.0 million units. In January 2009, the number of cars sold in the US actually fell by 37.1%. As regards the North American market, however, ElringKlinger AG may in fact benefit from the growing demand trend in the US towards smaller vehicles with more fuel-efficient, charged engines, similar to those sold in Europe.

Latin America will also see a decline in the number of new vehicles registered in 2009. The Brazilian market for new automobiles is projected to contract by 3.8%.

The current slowdown in the global economy has also affected vehicle demand in Japan and the growth regions of Asia. Estimates suggest that Japan will suffer a continued slide in auto sales in 2009 – down approx. 5.9%.

China is also likely to experience weaker demand for cars, at least in 2009. Car sales are projected to be 7.4% down on last year’s figure. In India, consumer demand for new vehicles declined significantly towards the end of 2008. As a result, auto sales may contract by as much as 9.0% in 2009.

**Cyclical downturn impacts on commercial vehicle business**

The outlook for commercial vehicle markets is equally bleak in 2009. Demand in both Western and Eastern Europe in particular has slumped in response to the global economic malaise. What is more, the Western European commercial vehicle segment is caught in a cyclical downturn, which looks set to have a particularly strong impact on medium-sized and heavy-goods vehicles. The key commercial vehicle markets within the three well-established regions are expected to be faced with a marked decline in demand.

Purchases brought forward in response to stricter emission standards may help to stabilize the noticeable downward trend within the US truck market in recent years.

After several years of buoyant growth, the emerging markets of Latin America and Asia are also likely to experience a more pronounced dip.

**Prospect of gradual stabilization in second half of 2009**

ElringKlinger anticipates that the automobile markets will start to gradually improve over the course of the second half of 2009. Programs aimed at stimulating the economy as well as government-backed measures to support demand in the automobile market may bring about a moderately progressive phase of recovery with regard to global vehicle sales. The fact that US vehicle sales have now contracted to a level last seen in the mid-1960s and the number of scrapped vehicles has advanced beyond the figure of new registrations would also appear to lend some support to the notion that the market will pick up in the medium term. Having said that, there is a possibility that it may take until 2012...
before global vehicle production returns to a figure of around 70 million units – i.e. to the pre-crisis level.

**Outlook – Company**

Despite its strong technological position, ElringKlinger AG will not be able to escape the effects of a protracted weakness in its key sales markets and major segments such as the commercial vehicle market.

If the general business climate deteriorates any further in 2009, ElringKlinger AG cannot rule out a slump in auto sales by as much as 20 to 25% within the European and North American vehicle markets, which are of particular importance to the company.

**Adjustments to capital expenditure in preparation for further decrease in demand**

Capital expenditure on property, plant and equipment (excluding tools) is to be reduced from EUR 40.2 million in 2008 to EUR 15 - 20 million in 2009. This significant reduction is attributable to capacity adjustments in response to current market weakness. Against this backdrop, investments aimed at expansion within the area of production buildings or production space are not required in 2009. Furthermore, as planned, ElringKlinger AG is scaling back its investment volume to a more normal level after two years of relatively substantial expenditure on streamlining and expansion measures for new products. Insofar as they are not considered essential in competitive terms, planned construction and optimization measures will be reviewed and, in some cases, postponed. By contrast, ElringKlinger AG intends to make no compromises when it comes to research and development, as it is precisely within this area – and the new products emerging from this pipeline – that the company endeavors to differentiate itself from its competitors.

**Cost reduction program initiated**

In view of the continued downturn seen within international vehicle markets, ElringKlinger AG has launched a comprehensive cost reduction program for the purpose of stabilizing its earnings performance. The potential savings from this program are estimated to be in excess of EUR 5 million in 2009. In general, the company will not be extending temporary employment contracts. If demand structures fail to stabilize over the course of the year, ElringKlinger AG will increase the scope of short-time work or extend the duration of these measures. Additionally, the company plans to make use of the option incorporated in the last collective-wage agreement, which specifies that the second phase of the wage increase of 2.1% scheduled for May 2009 may be postponed by seven months. Should the current downturn in sales volumes persist over an extended period of time, structural adjustments, including personnel-related measures, would be unavoidable.

ElringKlinger AG anticipates that additional cost streamlining will be achieved with the help of savings in the area of material- and equipment-related expenses as well as through process optimization. The decline in commodity and material prices recorded for the first time in years is beginning to have a positive medium-term effect on the overall cost situation.

**Visible decline in order intake**

The sudden slump in demand for automobiles in the fourth quarter of 2008 is reflected in the direction taken by incoming orders. In many areas of its customer base, ElringKlinger AG recorded a decline in the actual number of units requested as part of client production scheduling. These cutbacks went far beyond the normal rates of fluctuation seen within this area. In 2008, ElringKlinger AG was faced with an order intake of minus 19.0%. Incoming orders amounted to EUR 331.7 (409.3) million in this period. Order backlog at ElringKlinger AG also trended lower, falling to EUR 120.1 (169.7) million as at December 31, 2008.

**Forecast:**

**Sales and Earnings Position 2009 and 2010**

Since the fourth quarter of 2008, the global vehicle markets have been in a situation that provides little scope for forward planning. The relatively good basis for planning that existed until now has been eroded mainly by the significant fluctuation – both upward and downward – in the volumes requested by vehicle manufacturers as part of their forward production scheduling as well as adjustments to orders by customers.

Owing to the historically exceptional market circumstances, the issuance of forecasts remains extremely
difficult. Against the backdrop of the global recession and the considerable uncertainties as to the short- and medium-term future of the automotive sector, ElringKlinger AG is therefore making preparations for several different scenarios for 2009.

These range, in the best case, from matching the revenue and earnings figures of fiscal 2008 under the assumption that the global automobile markets recover significantly by the beginning of the second half of 2009 to the scenario of a decline in vehicle production within the Northern American and European markets by a further 20 to 25%, coinciding with a contraction of vehicle sales within the emerging markets. Should this latter scenario eventuate, ElringKlinger AG cannot rule out a decline in fiscal 2009 sales revenue by up to 20% as well as a further reduction in the result from ordinary activities. This includes sales revenues from scheduled product ramp-ups.

In the first two months of 2009 the markets declined at a significantly more pronounced rate than previously assumed as part of the negative scenario. In January vehicle sales in Europe contracted by more than 25%, while the US saw a decline of 37%. The fall in vehicle production figures was even more extensive. If, viewed over the annual period as a whole, vehicle sales remain at the extremely low level seen in the first two months of 2009, the company cannot rule out the possibility of a further contraction of sales and earnings.

Due to the significant fall in production output throughout most of the customer base – as a result of extended factory vacations and the scheduled reduction of working hours – ElringKlinger AG is predicting much weaker business performance in the first two quarters of 2009 than in the second half of 2009. Predominantly due to the fact that car sales more often than not came from built-up OE stock, the degree of capacity utilization at ElringKlinger AG was affected negatively in the first months of 2009. An upturn in the automobile market is not anticipated until the second half of 2009 or the year 2010.

Within this challenging market environment, it has become evident that in addition to technological expertise, financial strength and a solid equity base are now increasingly important when it comes to acquiring new customer projects and development contracts. ElringKlinger AG has the opportunity to benefit from this trend and enhance its competitive position. Offering a range of products designed to reduce fuel consumption and CO₂ emissions, the company considers itself well positioned to again generate organic sales revenue of a minimum of 5% per annum and, at the very least, proportionate growth in net income in the medium term once the current crisis is over. For 2010, ElringKlinger AG anticipates that it will be in a position to exceed its fiscal 2009 figures both in terms of sales revenue and net income.

Calculated on the basis of current targets, the financial position of ElringKlinger AG should remain largely unchanged in 2009.

The earnings performance of ElringKlinger AG in 2008 was adversely affected by the exceptional factors discussed above as well as the sudden slump suffered by automotive markets around the globe. This, in turn, impacted on cash flows. Fiscal 2009 is likely to see a decline in cash flow from operating activities. By contrast, fiscal 2010 should produce operating cash flow in excess of that posted in 2009.

If the economic malaise deepens any further and the situation within the financial markets deteriorates, the demand for loans at the subsidiary companies of ElringKlinger AG may become more pronounced in 2009 and 2010.

A large proportion of the overall financing requirement of ElringKlinger AG has already been covered by existing bank credit lines or follow-up financing.
Events after the Reporting Date

On March 4, 2009, Deutsche Börse announced that it had decided to include ElringKlinger’s stock in the MDAX index effective from March 20, 2009. Prior to this, the company had been listed in the SDAX for a period of five years.

Beyond this, there were no other events of material importance to ElringKlinger after the end of the reporting date for fiscal 2008.

Dettingen/Erms, March 26, 2009

The Management Board

Dr. Stefan Wolf

Theo Becker

Karl Schmauder

Responsibility Statement according to §§ 264(2) sentence 3 and 289(1) sentence 5 HGB (German Commercial Code)

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements of the AG give a true and fair view of the assets, liabilities, financial position and profit or loss of the AG, and the management report includes a fair review of the development and performance of the business and the position of the AG, together with a description of the principal opportunities and risks associated with the expected development of the AG.

Dettingen/Erms, March 26, 2009

Dr. Stefan Wolf

Theo Becker

Karl Schmauder
We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the ElringKlinger AG, Dettingen/Erms for the business year from January 1 to December 31, 2008. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company’s management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the ElringKlinger AG in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company’s position and suitably presents the opportunities and risks of future development.

Stuttgart, March 26, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly: KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft Wirtschaftsprüfungsgesellschaft)

Dr. Kursatz
Wirtschaftsprüfer

Gloß
Wirtschaftsprüferin