New dimensions

Whether the focus is on the combustion engine or e-mobility, ElringKlinger is one of just a handful of suppliers in the world that develop technologically sophisticated components for all drive systems – for conventional combustion engines optimized by downsizing as well as for hybrid and electric vehicles using battery-powered electric motors or fuel cells. With its acquisition of the Hug Group, ElringKlinger has now added a third dimension to its business model – that of exhaust gas purification.

As a development partner and original equipment manufacturer with a global presence, we supply cylinder-head and specialty gaskets, plastic housing modules, shielding components for engine, transmission and exhaust systems, exhaust gas purification technology as well as battery and fuel cell components to almost all of the world’s vehicle and engine manufacturers. To round off our portfolio, the ElringKlinger Kunststofftechnik supplies products made of high-performance PTFE plastics also to manufacturers outside the automotive industry. We harness our innovative strengths to achieve the company’s goals of environmentally compatible mobility and profit-driven growth. These efforts are supported by our committed workforce of almost 6,200 people at 41 ElringKlinger Group locations worldwide.
### ElringKlinger AG Balance Sheet

as at December 31, 2011

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Dec. 31, 2011 EUR k</th>
<th>Dec. 31, 2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible fixed assets</td>
<td>2,942</td>
<td>987</td>
</tr>
<tr>
<td>Tangible fixed assets</td>
<td>224,823</td>
<td>200,968</td>
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<tr>
<td>Long-term financial assets</td>
<td>359,030</td>
<td>256,640</td>
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<tr>
<td></td>
<td>586,795</td>
<td>458,595</td>
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<td>Current Assets</td>
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<tr>
<td>Inventories</td>
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<td>Receivables and other assets</td>
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<td>Cash in hand, bank balances, and checks</td>
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<tr>
<td></td>
<td>212,857</td>
<td>215,764</td>
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<tr>
<td>Prepaid and deferred expenses</td>
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<td>298</td>
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<tr>
<td></td>
<td>800,032</td>
<td>674,657</td>
</tr>
<tr>
<td>LIABILITIES AND SHAREHOLDERS’ EQUITY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
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<tr>
<td>Share capital</td>
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<td>63,360</td>
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<tr>
<td>Capital reserve</td>
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<td>120,827</td>
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<tr>
<td>Revenue reserves</td>
<td>212,137</td>
<td>174,991</td>
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<td>Retained earnings</td>
<td>37,146</td>
<td>22,176</td>
</tr>
<tr>
<td></td>
<td>433,470</td>
<td>381,354</td>
</tr>
<tr>
<td>Provisions</td>
<td></td>
<td></td>
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<tr>
<td>Provisions for pensions</td>
<td>56,060</td>
<td>53,347</td>
</tr>
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<td>Provisions for taxes</td>
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<td>1,136</td>
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<tr>
<td>Other provisions</td>
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<td>24,159</td>
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<td></td>
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<td>78,642</td>
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<td>Liabilities</td>
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<td>Deferred income</td>
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<td>247</td>
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<td>Deferred tax liabilities</td>
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<td>930</td>
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<td></td>
<td>800,032</td>
<td>674,657</td>
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</table>
ElringKlinger AG Income Statement
for the period from January 1 to December 31, 2011

<table>
<thead>
<tr>
<th></th>
<th>2011 EUR k</th>
<th>2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>438,136</td>
<td>382,583</td>
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<tr>
<td>Change in inventories of finished goods and work in progress</td>
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<td>3,535</td>
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<td>Other own work capitalized</td>
<td>12,952</td>
<td>9,515</td>
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<tr>
<td>Other operating income</td>
<td>51,662</td>
<td>26,239</td>
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<td>Cost of materials</td>
<td>-221,665</td>
<td>-171,967</td>
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<td>Personnel expenses</td>
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<td>-103,410</td>
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<tr>
<td>Amortization and depreciation on intangible fixed and tangible fixed assets</td>
<td>-36,957</td>
<td>-34,999</td>
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<tr>
<td>Other operating expenses</td>
<td>-64,836</td>
<td>-67,963</td>
</tr>
<tr>
<td>Income from affiliated entities</td>
<td>24,936</td>
<td>25,284</td>
</tr>
<tr>
<td>Net interest result</td>
<td>-8,722</td>
<td>-8,592</td>
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<tr>
<td><strong>Income from affiliated entities</strong></td>
<td><strong>98,071</strong></td>
<td><strong>60,225</strong></td>
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<tr>
<td>Extraordinary expense</td>
<td>-1,073</td>
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<tr>
<td>Taxes on income</td>
<td>-22,591</td>
<td>-10,160</td>
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<tr>
<td>Other taxes</td>
<td>-115</td>
<td>-164</td>
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<tr>
<td><strong>Net income</strong></td>
<td><strong>74,292</strong></td>
<td><strong>36,481</strong></td>
</tr>
<tr>
<td>Transfer to other revenue reserves</td>
<td>-37,146</td>
<td>-14,305</td>
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<tr>
<td><strong>Retained earnings</strong></td>
<td><strong>37,146</strong></td>
<td><strong>22,176</strong></td>
</tr>
</tbody>
</table>
ElringKlinger AG Notes to the Financial Statements for the year 2011

General information

The financial statements of ElringKlinger AG, Dettingen/Erms, are prepared in accordance with the provisions of the German Stock Corporation Act (Aktiengesetz, “AktG”) and the German Commercial Code (Handelsgesetzbuch, “HGB”) that apply for large-sized corporations.

The income statement was prepared in accordance with the total cost method.

In order to provide clarity and transparency of the presentation, the financial statements were prepared with figures shown in thousand euros (EUR k), and items in the balance sheet and the income statement were combined, with these amounts itemized in the notes. In addition, supplementary explanations have been provided for all annotations included in the notes.

The financial year is the calendar year.

With effect from January 1, 2011, ElringKlinger Spezialdichtungen GmbH (formerly Burgmann Automotive GmbH), Eurasburg, was merged in its entirety with ElringKlinger AG, with all rights and obligations, by way of acquisition. Since January 1, 2011, all of ElringKlinger Spezialdichtungen GmbH’s activities and transactions have been carried out for the account of ElringKlinger AG. ElringKlinger AG exercised the option provided under § 24 German Transformation Act (Umwandlungsgesetz, “UmwG”) to roll the carrying value of ElringKlinger Spezialdichtungen GmbH over during the merger. In this context, the Company realized a loss of EUR 1,073 k on the merger; this amount was recognized under extraordinary profit or loss.

Accounting policies

Fixed assets

Additions to purchased intangible fixed assets, as well as fixed assets and long-term financial assets are recognized at acquisition or manufacturing cost. In addition to the costs directly attributable to production, manufacturing cost also includes production overheads and indirect material, as well as the appropriate amortization and depreciation.

The new option to capitalize internally generated intangible fixed assets provided under BilMoG was not used. Therefore, research and development cost was expensed in full in the period incurred.

Assets with finite useful lives are depreciated using the straight-line method applied over their expected useful lives.

Movable property acquired or manufactured through December 31, 2009, was initially depreciated using the declining-balance method and then later using the straight-line method. Additions subsequent to January 1, 2010, are depreciated on a straight-line basis over the expected useful lives.
Since January 1, 2008, the provisions under § 6 (2) and (2a) of the German Income Tax Act (Einkommensteuergesetz, “EStG”) are applied in accounting for low-value assets in accordance with HGB. Movable items of finite-lived fixed assets which are independently usable are recognized as operating expenses in the amount of their acquisition or manufacturing cost in the year they are acquired, manufactured or put into service, if, after deduction of any input tax amounts, the cost does not exceed EUR 150 for the individual asset. Each year, a collective item within the meaning of § 6 (2a) EStG is recorded for low-value assets with acquisition or manufacturing costs exceeding EUR 150 but less than EUR 1,000, less any input tax. Each annual collective item is depreciated over a period of five years. The early disposal of operating assets does not reduce the carrying amount of this collective item.

Shares in affiliated companies and long-term equity investments are recognized at the lower of cost or market value. Loans are recognized at their nominal value. If necessary or permissible, impairments are recognized. For shares in affiliated companies and long-term equity investments, annual impairment tests determine the appropriate amount of impairment to be recognized. These impairment tests reflect the capitalized earning value calculated on the basis of the mid-term budgets of each respective shareholding and under the assumption of a perpetual annuity subsequent to the last mid-term planning period. An impairment is recognized if the carrying amount exceeds the resulting capitalized earnings value.

If the reasons for impairments charged in previous periods no longer apply, these charges are reversed to a maximum amount of historical cost less accumulated depreciation.

Long-term securities are recognized at the lower of cost or market value.

Current assets

Inventories are recognized at acquisition or manufacturing cost under application of simplified measurement options in accordance with the principle of lower of cost or market value. Raw materials, supplies and consumables as well as merchandise are measured at their average acquisition cost. In certain cases, agreed values are used.

Work in progress and finished goods are measured based on manufacturing cost. Manufacturing cost includes elements from § 255 (2) HGB which must be capitalized. These are recognized in the event of declining sales prices. Valuation allowances are made to account for impairment from obsolescence and poor quality and to account for lower net realizable values.

In the majority of cases, the customers acquire beneficial ownership of tools. The tools are recognized under inventories until the transfer of beneficial ownership.

Receivables and other assets are recognized at nominal value. Valuation allowances are recognized for individual risks identified for receivables and other assets. The general credit risk is taken into account through a lump sum valuation allowance.

Cash on hand and bank balances are measured at nominal value.

Payments made before the balance sheet date are recognized as prepaid expenses if they represent an expense for a certain time after the balance sheet date.
Equity

Share capital is recognized at its par value.

Provisions and liabilities

Pension obligations are measured as of December 31, 2011, according to actuarial principles by means of the projected unit credit method. The 2005 G Heubeck mortality tables are used as the biometrical basis for calculation. The average market interest rate of the past seven years is applied as the actuarial interest rate assuming a remaining term of 15 years. In addition to this, salary and pension trends are applied, as are age and gender-specific fluctuation probabilities.

Provisions for obligations arising from partial retirement schemes are recognized according to the block model. Provisions for partial retirement are measured on the basis of an annual actuarial interest rate of 3.81% and the 2005 G mortality tables established upon actuarial principles by Dr. Klaus Heubeck. Provisions for partial retirement were recognized for partial retirement contracts agreed as of the balance sheet date, as well as potential future contracts. They include benefit increases and the Company’s settlement obligations which have expired as of the balance sheet date.

Provisions are established for all recognizable risks for expected losses and uncertain liabilities and are measured according to prudent business judgment and taking into account price and cost increases.

In the previous year, expected losses from onerous contracts were measured based on the three-year plan. Beginning with the 2011 financial year, these are determined based on the order backlog.

Provisions due in more than one year are discounted using the average market interest rate of the past seven years corresponding to their remaining term.

Existing plan assets that are exempt from attachment by all other creditors and that serve exclusively to settle liabilities from post-employment benefit obligations or similar long-term liabilities are offset against the related liabilities. Accordingly, related expenses and income are offset. Existing plan assets are recognized at fair value.

Liabilities are recognized at their settlement amount.

Receipts prior to the balance sheet date are recognized as prepaid income if they represent earnings for a certain time after the balance sheet date.

Foreign currency items and currency translation

Receivables and payables in foreign currency are measured at the middle spot rate at the balance sheet date. For receivables and payables due in more than one year, measurement of foreign currency is carried out in accordance with the historical cost convention or the imparity principle.
Deferred taxes

Deferred taxes are recognized at a tax rate of 27.5% for the temporary and semi-permanent differences arising between the carrying amounts of assets, liabilities, prepaid expenses and deferred income compared with their respective tax bases. If necessary, tax loss carryforwards are also taken into account. Deferred tax assets and liabilities are offset against each other. If an overall deferred tax asset results, this is not recognized in accordance with the option under § 274 (1) sentence 2 HGB.

Expenses and income arising from the change of deferred tax carrying amounts are reported separately in the income statement under the heading “Taxes on income” and amounted to EUR 7,825 k as of the balance sheet date.

Deferred taxes are calculated on the basis of an effective tax rate of 27.5% (15.8% for the corporate tax rate including solidarity surcharge and 11.7% for municipal trade income tax) which is expected to arise when the differences are reduced. The tax rate for municipal trade income tax is determined on the basis of the average municipal trade income tax rate of 334%.

Balance sheet disclosures

Fixed assets

The statement of changes in fixed assets of the ElringKlinger AG and the schedule of shareholdings are shown on the following pages.

In addition to shares in affiliated companies and long-term equity investments, long-term financial assets include loans and securities.

Additions to shares in affiliated companies are primarily the result of acquisitions of companies, capital increases and acquisitions of minority interests in affiliated companies. Write-downs for expected permanent impairment were made to the carrying amount of affiliated companies in the amount of EUR 4,671 k. Write-downs were reversed in the amount of EUR 6,548 k for the shares in affiliated companies and long-term equity investments.
Changes in fixed assets
in the financial year 2011

<table>
<thead>
<tr>
<th>Acquisition or manufacturing cost</th>
<th>Jan. 1, 2011 EUR k</th>
<th>Addition from merger of ErlingKlinger Spezialdichtungen GmbH EUR k</th>
<th>Additions EUR k</th>
<th>Reclassifications EUR k</th>
<th>Disposals EUR k</th>
<th>Dec. 31, 2011 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intangible fixed assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchased industrial and similars rights and assets, and licences</td>
<td>19,002</td>
<td>354</td>
<td>2,385</td>
<td>261</td>
<td>207</td>
<td>21,795</td>
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<tr>
<td>Advance payments</td>
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<td></td>
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<td>354</td>
<td>2,516</td>
<td>59</td>
<td>207</td>
<td>21,930</td>
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<tr>
<td><strong>Tangible fixed assets</strong></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Property and buildings</td>
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<td>7,369</td>
<td>10,580</td>
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<td>Technical equipment and machines</td>
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<td>11,015</td>
<td>9,858</td>
<td>22,765</td>
<td>13,587</td>
<td>311,100</td>
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<td>Other equipment, operating and office equipment</td>
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<td>2,272</td>
<td>9,137</td>
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<td>Advance payments and fixed assets under construction</td>
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<td></td>
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<td></td>
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<tr>
<td>Shares in affiliated companies</td>
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<td>Loans to affiliated companies</td>
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<td>Other long-term equity investments</td>
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<td>11,466</td>
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<tr>
<td>Non-current securities</td>
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<td>Other loans</td>
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Accumulated amortisation and depreciation

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<th></th>
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</thead>
<tbody>
<tr>
<td>18,221</td>
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<td>636</td>
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<td>0</td>
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<tr>
<td>18,221</td>
<td>326</td>
<td>636</td>
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<td>195</td>
<td>18,988</td>
<td>2,942</td>
<td>987</td>
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<tr>
<td>64,121</td>
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<tr>
<td>80,937</td>
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<td>0</td>
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<td>77,224</td>
<td>18,032</td>
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<td>0</td>
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<td>0</td>
<td>42,893</td>
<td>38,843</td>
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<td>0</td>
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<td>344,401</td>
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<td>200,968</td>
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<td>57</td>
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<td>51,223</td>
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<td>11,466</td>
<td>9,638</td>
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<td>621</td>
<td>625</td>
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<td>0</td>
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<td>0</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>25,530</td>
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<td>4,671</td>
<td>6,548</td>
<td>0</td>
<td>57</td>
<td>23,596</td>
<td>359,030</td>
<td>256,640</td>
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<tr>
<td>389,439</td>
<td>7,259</td>
<td>41,628</td>
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<td>44,793</td>
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<td>586,795</td>
<td>458,595</td>
</tr>
</tbody>
</table>
# Schedule of Shareholdings and Scope of Consolidation

as of December 31, 2011

<table>
<thead>
<tr>
<th>Name of company</th>
<th>Domicile</th>
<th>Capital share in %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Parent company</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ElringKlinger AG</td>
<td>Dettingen/Erms</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Shares in affiliated companies (fully consolidated in the consolidated financial statements)</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH</td>
<td>Dettingen/Erms</td>
<td>100.00</td>
</tr>
<tr>
<td>ElringKlinger Motorentechnik GmbH</td>
<td>Idstein</td>
<td>92.86</td>
</tr>
<tr>
<td>ElringKlinger Logistic Service GmbH</td>
<td>Rottenburg/Neckar</td>
<td>96.00</td>
</tr>
<tr>
<td>ElringKlinger Kunststofftechnik GmbH</td>
<td>Bietigheim-Bissingen</td>
<td>74.50</td>
</tr>
<tr>
<td>Hug Engineering GmbH</td>
<td>Magdeburg</td>
<td>66.67</td>
</tr>
<tr>
<td>Hummel-Formen GmbH</td>
<td>Lenningen</td>
<td>90.00</td>
</tr>
<tr>
<td>Hummel-Formen Kunststofftechnik GmbH</td>
<td>Lenningen</td>
<td>90.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Foreign</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ElringKlinger Abschirntechnik (Schweiz) AG</td>
<td>Sevelen (Switzerland)</td>
<td>100.00</td>
</tr>
<tr>
<td>Hug Engineering AG</td>
<td>Swizerland</td>
<td>66.67</td>
</tr>
<tr>
<td>Elring Klinger (Great Britain) Ltd.</td>
<td>Redcar (United Kingdom)</td>
<td>100.00</td>
</tr>
<tr>
<td>Oigra Meillor s.r.l.</td>
<td>Settimo Torinese (Italy)</td>
<td>100.00</td>
</tr>
<tr>
<td>Hug Engineering S.p.A.</td>
<td>Milan (Italy)</td>
<td>33.42</td>
</tr>
<tr>
<td>Technik-Park Helipert Kft.</td>
<td>Kecskemét-Kádafalva (Hungary)</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring Parts Ltd</td>
<td>Gateshead (United Kingdom)</td>
<td>90.00</td>
</tr>
<tr>
<td>Elring Klinger, S.A.U.</td>
<td>Reus (Spain)</td>
<td>100.00</td>
</tr>
<tr>
<td>ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.</td>
<td>Bursa (Turkey)</td>
<td>100.00</td>
</tr>
<tr>
<td>ElringKlinger Meillor SAS</td>
<td>Nantiat (France)</td>
<td>100.00</td>
</tr>
<tr>
<td>Codinox Beheer B.V.</td>
<td>Enschede (Netherlands)</td>
<td>6.67</td>
</tr>
<tr>
<td>HURO Supermold S.R.L.</td>
<td>Timisoara (Rumania)</td>
<td>76.50</td>
</tr>
<tr>
<td>HURO Invest S.R.L.</td>
<td>Timisoara (Rumania)</td>
<td>90.00</td>
</tr>
<tr>
<td>ElringKlinger Canada, Inc.</td>
<td>Leamington (Canada)</td>
<td>100.00</td>
</tr>
<tr>
<td>ElringKlinger North America, Inc.</td>
<td>Plymouth, Michigan (USA)</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring of North America, Inc.</td>
<td>Branchburg, New Jersey (USA)</td>
<td>100.00</td>
</tr>
<tr>
<td>ElringKlinger USA, Inc.</td>
<td>Buford (USA)</td>
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</tr>
<tr>
<td>Hug Engineering Inc.</td>
<td>Austin (USA)</td>
<td>66.67</td>
</tr>
<tr>
<td>Elring Klinger México, S.A. de C.V.</td>
<td>Toluca (Mexico)</td>
<td>100.00</td>
</tr>
<tr>
<td>EKASER, S.A. de C.V.</td>
<td>Toluca (Mexico)</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring Klinger do Brasil Ltda.</td>
<td>Piracicaba (Brazil)</td>
<td>100.00</td>
</tr>
<tr>
<td>Elring Gaskets (Pty) Ltd.</td>
<td>Johannesburg (South Africa)</td>
<td>51.00</td>
</tr>
<tr>
<td>ElringKlinger Automotive Components (India) Pvt. Ltd.</td>
<td>Ranjangaon (India)</td>
<td>100.00</td>
</tr>
<tr>
<td>Changchun ElringKlinger Ltd.</td>
<td>Changchun (China)</td>
<td>88.00</td>
</tr>
<tr>
<td>ElringKlinger China, Ltd.</td>
<td>Suzhou (China)</td>
<td>100.00</td>
</tr>
<tr>
<td>ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.</td>
<td>Qingdao (China)</td>
<td>74.50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Shares in joint ventures (included in the consolidated financial statements using proportionate consolidation)</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ElringKlinger Korea Co., Ltd.</td>
<td>Changwon (South Korea)</td>
<td>50.00</td>
</tr>
<tr>
<td>ElringKlinger Marusan Corporation</td>
<td>Tokyo (Japan)</td>
<td>50.00</td>
</tr>
<tr>
<td>Taiyo Jushi Kakoh Co., Ltd.</td>
<td>Tokyo (Japan)</td>
<td>50.00</td>
</tr>
<tr>
<td>Marusan Kogyo Co., Ltd.</td>
<td>Tokyo (Japan)</td>
<td>23.45</td>
</tr>
</tbody>
</table>

---

1. 100 units local currency (LC) as of balance sheet date
2. ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of consolidated subsidiaries
3. Subsidiary of HUG Engineering AG
4. Subsidiary of Hummel-Formen GmbH
5. Subsidiary of ElingKlinger Kunststofftechnik GmbH
6. Subsidiary of ElringKlinger Marusan Corporation
<table>
<thead>
<tr>
<th>Statutory accounts Equity in LC k</th>
<th>Statutory accounts Profit/Loss in LC k</th>
<th>Local currency</th>
<th>Exchange rate on closing date</th>
<th>Statutory accounts Equity in EUR k</th>
<th>Statutory accounts Profit/Loss in EUR k</th>
<th>Most recent financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>44</td>
<td>0</td>
<td>EUR</td>
<td>1.0000</td>
<td>44</td>
<td>0</td>
<td>31.12.2011</td>
</tr>
<tr>
<td>941</td>
<td>769</td>
<td>EUR</td>
<td>1.0000</td>
<td>941</td>
<td>769</td>
<td>31.12.2011</td>
</tr>
<tr>
<td>42,995</td>
<td>11,860</td>
<td>EUR</td>
<td>1.0000</td>
<td>42,995</td>
<td>11,860</td>
<td>31.12.2011</td>
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<tr>
<td>787</td>
<td>58</td>
<td>EUR</td>
<td>1.0000</td>
<td>787</td>
<td>58</td>
<td>31.12.2011</td>
</tr>
<tr>
<td>2,932</td>
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<td>1.0000</td>
<td>2,932</td>
<td>295</td>
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<tr>
<td>780</td>
<td>271</td>
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<td>271</td>
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<tr>
<td>7,775</td>
<td>2,388</td>
<td>GBP</td>
<td>119.5172</td>
<td>9,292</td>
<td>2,854</td>
<td>31.12.2011</td>
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<tr>
<td>5,549</td>
<td>795</td>
<td>EUR</td>
<td>1.0000</td>
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<tr>
<td>410</td>
<td>171</td>
<td>EUR</td>
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<td>171</td>
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<tr>
<td>1,946,318</td>
<td>84,130</td>
<td>HUF</td>
<td>0.3197</td>
<td>6,222</td>
<td>269</td>
<td>31.12.2011</td>
</tr>
<tr>
<td>8,758</td>
<td>-249</td>
<td>EUR</td>
<td>1.0000</td>
<td>8,758</td>
<td>-249</td>
<td>31.12.2011</td>
</tr>
<tr>
<td>31,528</td>
<td>-4,197</td>
<td>EUR</td>
<td>1.0000</td>
<td>31,528</td>
<td>-4,197</td>
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<tr>
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<td>424</td>
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<tr>
<td>4,432</td>
<td>1,724</td>
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<td>1,724</td>
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<tr>
<td>30,508</td>
<td>12,847</td>
<td>CAD</td>
<td>75.8035</td>
<td>23,126</td>
<td>9,738</td>
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<tr>
<td>1,866</td>
<td>199</td>
<td>USD</td>
<td>77.3276</td>
<td>1,443</td>
<td>154</td>
<td>31.12.2011</td>
</tr>
<tr>
<td>2,282</td>
<td>255</td>
<td>USD</td>
<td>77.3276</td>
<td>1,764</td>
<td>198</td>
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<tr>
<td>15,024</td>
<td>-1,777</td>
<td>USD</td>
<td>77.3276</td>
<td>11,618</td>
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<td>31.12.2011</td>
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<tr>
<td>321,237</td>
<td>51,334</td>
<td>MXN</td>
<td>5.3333</td>
<td>17,775</td>
<td>2,840</td>
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<tr>
<td>35,987</td>
<td>6,154</td>
<td>MXN</td>
<td>5.3333</td>
<td>1,991</td>
<td>341</td>
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<tr>
<td>74,166</td>
<td>9,241</td>
<td>BRL</td>
<td>41.4302</td>
<td>30,727</td>
<td>3,829</td>
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<tr>
<td>8,547</td>
<td>1,585</td>
<td>ZAR</td>
<td>9.5454</td>
<td>816</td>
<td>151</td>
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<tr>
<td>4,990,930</td>
<td>-295,310</td>
<td>INR</td>
<td>1.4580</td>
<td>72,769</td>
<td>-4,306</td>
<td>31.03.2011</td>
</tr>
<tr>
<td>12,965</td>
<td>2,458</td>
<td>CNY</td>
<td>12.2797</td>
<td>1,592</td>
<td>302</td>
<td>31.12.2011</td>
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<tr>
<td>5,301,012</td>
<td>649,886</td>
<td>KRW</td>
<td>0.0667</td>
<td>3,535</td>
<td>433</td>
<td>31.12.2011</td>
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<tr>
<td>4,688,820</td>
<td>202,656</td>
<td>JPY</td>
<td>0.9993</td>
<td>46,855</td>
<td>2,025</td>
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</tr>
<tr>
<td>371,231</td>
<td>1,368</td>
<td>JPY</td>
<td>0.9993</td>
<td>3,710</td>
<td>14</td>
<td>31.12.2011</td>
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<tr>
<td>645,517</td>
<td>19,141</td>
<td>JPY</td>
<td>0.9993</td>
<td>6,451</td>
<td>191</td>
<td>31.12.2011</td>
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</table>
## Current assets

### Inventories

<table>
<thead>
<tr>
<th></th>
<th>Dec. 31, 2011 EUR k</th>
<th>Dec. 31, 2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials, consumables and supplies</td>
<td>16,807</td>
<td>14,544</td>
</tr>
<tr>
<td>Work in progress</td>
<td>12,542</td>
<td>5,409</td>
</tr>
<tr>
<td>Finished goods and merchandise</td>
<td>50,537</td>
<td>38,094</td>
</tr>
<tr>
<td>Advance payments</td>
<td>3,368</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>83,254</strong></td>
<td><strong>58,047</strong></td>
</tr>
</tbody>
</table>

### Receivables and other assets

<table>
<thead>
<tr>
<th></th>
<th>Dec. 31, 2011 EUR k</th>
<th>Dec. 31, 2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td>63,840</td>
<td>57,054</td>
</tr>
<tr>
<td>Receivables from affiliated companies</td>
<td>37,671</td>
<td>32,406</td>
</tr>
<tr>
<td>Receivables from other long-term investees and investors</td>
<td>4,359</td>
<td>4,911</td>
</tr>
<tr>
<td>Other assets</td>
<td>23,351</td>
<td>7,693</td>
</tr>
<tr>
<td></td>
<td><strong>129,221</strong></td>
<td><strong>102,064</strong></td>
</tr>
</tbody>
</table>

Of the receivables from affiliated companies, EUR 16,827 k (p.y. EUR 14,846 k) concern financial transactions, while the remainder are trade receivables. As in the previous year, receivables from long-term investees and investors relate exclusively to transactions arising from the exchange of goods and services.

Of the other assets, EUR 2,934 k (p.y. EUR 3,409 k) have a remaining term of more than one year. As in the previous year, all other receivables and other assets are due in less than one year.

In connection with a warranty claim, ElringKlinger AG and the customers concerned agreed to the payment of EUR 24.4 million in a compensation agreement. The warranty claim related to gas-kets delivered in early 2008. A portion totaling EUR 17.4 million had already been paid in 2011. The remaining amount is spread across the years 2012 and 2013. This payment is offset by receivables in the same amount from our insurer, of which EUR 10.0 million had already been settled in July 2011. Settlement of the remaining amount claimed has not yet occurred. ElringKlinger has filed suit. ElringKlinger assumes that the receivable will be paid in full.
Equity

During the 2011 financial year, equity developed as follows:

The nominal capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2011 and is divided into 63,359,990 registered shares, each entitled to a single vote. The nominal capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the nominal capital. Profit shall be distributed in accordance with § 60 AktG in connection with § 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company’s nominal capital by issuing new shares for cash contributions on one or more occasions up to a total of EUR 23,040,010.00 by May 25, 2015. The conditions of the capital increase are determined by the Management Board with the approval of the Supervisory Board (§ 4 no. 3 of the Articles of Association). Shareholder subscription rights may be excluded in order to remove fractional amounts from the subscription right if new shares are issued at a price not significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to § 186 (3) sentence 4 AktG, do not represent more than 10% of the nominal capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The Management Board already exercised the latter option in full in 2010 to authorize a capital increase under the exclusion of subscription rights with the approval of the Supervisory Board.

The amount of EUR 37,146 k was transferred from net income for 2011 to other revenue reserves.

As of December 31, 2011, revenue reserves consist of a statutory reserve amounting to EUR 3,013 k (p.y. EUR 3,013 k) and other revenue reserves of EUR 209,124 k (p.y. EUR 171,978 k).

Retained earnings developed as follows:

| Retained earnings as of December 31, 2010 | 22,176 |
| Profit distribution for 2010 | -22,176 |
| Profit brought forward | 0 |
| Net income for 2011 | 74,292 |
| Transfer to other revenue reserves | -37,146 |
| Retained earnings as of December 31, 2011 | 37,146 |
The measurement of plan assets related to partial retirement in accordance with § 268 (8) HGB results in a theoretical restriction on distribution in the amount of EUR 41 k (fair value of the plan assets of EUR 817 k less acquisition cost of the plan assets amounting to EUR 776 k). Sufficient distributable reserves are available.

**Provisions**

Provisions for pensions

As of the balance sheet date, pension obligations which must be covered by provisions exist in the amount of EUR 56,060 k (p.y. EUR 53,347 k). Pension provisions are measured according to the projected unit credit method by applying an interest rate of 5.14% (p.y. 5.15%) in accordance with the 2005 G mortality tables by Dr. Klaus Heubeck. In addition, the calculation is based on assumptions of a 2.0% income trend (p.y. 2.0%), a 0.5% career trend (p.y. 0.5%), a pension trend of 2.0% (p.y. 1.5%) for benefit entitlements and 1.5% (p.y. 2.0%) for current pensions and an average fluctuation of 1.0% (p.y. 1.0%).

Other provisions comprise:

<table>
<thead>
<tr>
<th></th>
<th>Dec. 31, 2011 EUR k</th>
<th>Dec. 31, 2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relating to employees</td>
<td>13,634</td>
<td>13,741</td>
</tr>
<tr>
<td>Warranty obligations</td>
<td>2,288</td>
<td>1,272</td>
</tr>
<tr>
<td>Expected losses from customer transactions</td>
<td>2,092</td>
<td>4,015</td>
</tr>
<tr>
<td>Litigation costs</td>
<td>660</td>
<td>655</td>
</tr>
<tr>
<td>Derivative risks</td>
<td>393</td>
<td>370</td>
</tr>
<tr>
<td>Other risks</td>
<td>8,125</td>
<td>4,106</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>27,192</strong></td>
<td><strong>24,159</strong></td>
</tr>
</tbody>
</table>

Provisions relating to employees include partial retirement obligations which must be covered by provisions in the amount of EUR 2,531 k. In accordance with § 246 (2) HGB, this provision was offset against plan assets in the amount of EUR 817 k. Plan assets were identified as the specific and pledged trust agreement which is protected from insolvency covering asset transfer, reimbursement and agency between ErlingKlinger AG and ErlingKlinger Treuhänder e.V. and ErlingKlinger Mitarbeitertreuhänder e.V. dated March 3, 2005. The fair value of plan assets amounts to EUR 817 k at the balance sheet date with acquisition costs of EUR 776 k. Fair value of the plan assets is based on the measurement of the investment at its price at the balance sheet date. Income from plan assets (EUR 6 k) is offset against expenses from the provision for partial retirement.

Other risks mainly comprise outstanding purchase invoices of EUR 3,376 k (p.y. EUR 1,572 k), outstanding payments for tools amounting to EUR 1,353 k (p.y. EUR 0 k) and credit notes amounting to EUR 1,000 k (p.y. EUR 1,200 k).
Liabilities

<table>
<thead>
<tr>
<th></th>
<th>Total amount as of Dec. 31, 2011 EUR k</th>
<th>thereof with a remaining term of</th>
<th>thereof with a remaining term of</th>
<th>thereof with a remaining term of</th>
<th>thereof with a remaining term of</th>
<th>thereof with a remaining term of</th>
<th>thereof with a remaining term of</th>
<th>thereof with a remaining term of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>up to one year EUR k</td>
<td>from one up to five years EUR k</td>
<td>more than five years EUR k</td>
<td>of which secured EUR k</td>
<td>Total amount as of Dec. 31, 2010 EUR k</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities due to banks</td>
<td>188,775</td>
<td>82,592</td>
<td>104,899</td>
<td>1,284</td>
<td>15,301</td>
<td>154,762</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments received on account of orders</td>
<td>270</td>
<td>270</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>22,599</td>
<td>22,599</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>19,680</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities to affiliated companies</td>
<td>10,842</td>
<td>10,801</td>
<td>41</td>
<td>0</td>
<td>0</td>
<td>370</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other liabilities</td>
<td>46,626</td>
<td>28,337</td>
<td>18,289</td>
<td>0</td>
<td>0</td>
<td>38,584</td>
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<tr>
<td></td>
<td>269,112</td>
<td>144,599</td>
<td>123,229</td>
<td>1,284</td>
<td>15,301</td>
<td>213,484</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

EUR 15,301 k (p.y. EUR 16,021 k) of liabilities due to banks are secured by land charges on operating property. With the exception of the customary reservation of title until the purchase price payment with respect to trade payables, the other liabilities are unsecured.

Liabilities to affiliated companies relate to financial transactions in the amount of EUR 10,215 k (p.y. EUR 370 k) and current trade payables in the amount of EUR 627 k (p.y. EUR 0 k).

Other liabilities consist of EUR 1,193 k (p.y. EUR 1,259 k) related to tax and EUR 342 k (p.y. EUR 353 k) related to social security charges.
Deferred tax liabilities

Deferred tax liabilities in the amount of EUR 8,754 k (p.y. EUR 930 k) result from the total differences arising between the carrying amounts and tax bases of fixed and current assets, including prepaid expenses and deferred income. Deferred taxes are measured using a tax rate of 27.5%. Differences between the carrying amounts and the tax bases resulting in a deferred tax liability are due mainly to:
  • Tangible fixed assets
  • Special tax-allowable reserves

Differences which result in deferred tax assets are due mainly to pension provisions and other provisions. Offsetting the deferred tax assets against the deferred tax liabilities results in a net liability.

Income statement disclosures

Sales revenue

Breakdown by geographical markets

<table>
<thead>
<tr>
<th>Area</th>
<th>2011 EUR k</th>
<th>2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>162,847</td>
<td>135,994</td>
</tr>
<tr>
<td>Europe</td>
<td>190,353</td>
<td>167,113</td>
</tr>
<tr>
<td>Asia</td>
<td>34,735</td>
<td>33,953</td>
</tr>
<tr>
<td>NAFTA</td>
<td>33,604</td>
<td>30,678</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>16,597</td>
<td>14,845</td>
</tr>
<tr>
<td>Total sales revenue</td>
<td>438,136</td>
<td>382,583</td>
</tr>
</tbody>
</table>

Broken down by Segments, sales revenue of EUR 332,760 k (p.y. EUR 282,261 k) relate to Original Equipment, EUR 102,226 k (p.y. EUR 95,760 k) to Aftermarket and EUR 3,150 k (p.y. EUR 4,562 k) to Industrial Parks.

Other operating income

Other operating income includes EUR 33,136 k (p.y. EUR 3,853 k) in prior-period income. This is comprised mainly of EUR 28,202 k (EUR 1,328 k) in income from disposals of fixed assets, EUR 4,907 k (p.y. EUR 873 k) in income from the reversal of provisions and EUR 27 k (p.y. EUR 1,652 k) in income from the reduction of valuation allowances. The sale of the Ludwigsburg industrial park makes up EUR 27,689 k of the income from disposals of fixed assets.
In addition, other operating income consists primarily of licensing income of EUR 5,743 k (p.y. EUR 4,232 k), government grants of EUR 3,697 k (p.y. EUR 3,115 k), currency translation gains of EUR 3,447 k (p.y. EUR 8,231 k) and income from the disposal of machinery of EUR 151 k (p.y. EUR 731 k).

### Cost of materials

<table>
<thead>
<tr>
<th>2011 EUR k</th>
<th>2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenses for raw materials, supplies and for merchandise</td>
<td>200,482</td>
</tr>
<tr>
<td>Expenses for purchased services</td>
<td>21,183</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>221,665</td>
</tr>
</tbody>
</table>

### Personnel expenses

<table>
<thead>
<tr>
<th>2011 EUR k</th>
<th>2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages and salaries</td>
<td>95,103</td>
</tr>
<tr>
<td>Social security charges and expenses for retirement pensions</td>
<td>20,081</td>
</tr>
<tr>
<td>– of which, for retirement pensions –</td>
<td>(3,629)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>115,184</td>
</tr>
</tbody>
</table>

### Depreciation and amortization

Depreciation and amortization amounted to EUR 36,957 k (p.y. EUR 34,999 k), and included depreciation of tangible fixed assets and amortization of intangible fixed assets. EUR 2,363 k (p.y. EUR 0 k) was recognized in financial year 2011 for impairment of fixed assets.

### Other operating expenses

Other operating expenses included EUR 1,904 k (p.y. EUR 1,091 k) in prior-period items relating to the disposal of fixed assets (EUR 1,688 k; p.y. EUR 900 k) and defaults on receivables (EUR 216 k; p.y. EUR 191 k). Currency translation losses amounted to EUR 3,476 k (p.y. EUR 14,882 k).

### Income from affiliated entities

<table>
<thead>
<tr>
<th>2011 EUR k</th>
<th>2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from affiliated companies and long-term equity investments</td>
<td>23,059</td>
</tr>
<tr>
<td>Reversals of write-downs on long-term financial assets</td>
<td>6,548</td>
</tr>
<tr>
<td>Write-downs of long-term financial assets</td>
<td>(4,671)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>24,936</td>
</tr>
</tbody>
</table>
EUR 23,011 k (p.y. EUR 18,958 k) of income from long-term equity investments was derived from affiliated companies. The reversals of write-downs on long-term financial assets were related to affiliated companies (EUR 4,720 k; p.y. EUR 8,876 k) and long-term investees or investors (EUR 1,828 k; p.y. EUR 476 k). As in the previous year, write-downs on long-term financial assets were related entirely to affiliated companies (EUR 4,671 k; p.y. EUR 3,026 k).

### Net interest result

<table>
<thead>
<tr>
<th></th>
<th>2011 EUR k</th>
<th>2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from other securities and long-term loans</td>
<td>1,560</td>
<td>1,110</td>
</tr>
<tr>
<td>Other interest and similar income</td>
<td>576</td>
<td>1,060</td>
</tr>
<tr>
<td>Reversals of write-downs on loans</td>
<td>0</td>
<td>219</td>
</tr>
<tr>
<td>Write-downs of loans</td>
<td>0</td>
<td>-57</td>
</tr>
<tr>
<td>Interest and similar expenses</td>
<td>-10,858</td>
<td>-10,924</td>
</tr>
<tr>
<td><strong>Net interest result</strong></td>
<td><strong>-8,722</strong></td>
<td><strong>-8,592</strong></td>
</tr>
</tbody>
</table>

Net interest result includes income from loans of long-term financial assets to affiliated companies in the amount of EUR 1,540 k (p.y. EUR 1,008 k), interest income from affiliated companies in the amount of EUR 340 k (p.y. EUR 756 k) and interest expense to affiliated companies in the amount of EUR 321 k (p.y. EUR 301 k). Expenses from the unwinding of discounts on provisions amounted to EUR 3,716 k (p.y. EUR 2,816 k).

### Extraordinary expenses

Extraordinary expenses in 2011 included the EUR 1,073 k loss resulting from the merger of EiringKlinger Spezialdichtungen GmbH. In the previous year, extraordinary expenses resulted from the first-time adoption of the German Accounting Law Modernization Act (Bilanzrechtsmodernisierungsgesetzes, "BiMoG").

### Taxes on income

Taxes on income included EUR 58 k in prior-period income (less prior-period expenses). In the previous year, prior-period expenses (less prior-period income) amounted to EUR 98 k. Taxes on income include deferred tax expenses of EUR 7,825 k (p.y. EUR 24 k). This increase was attributable to the application of §6b ESTG in relation to the gain on the sale of the Ludwigsburg industrial park.

### Other taxes

Other taxes included prior-period tax income of EUR 84 k (p.y. EUR 15 k).
Contingent liabilities

As in the previous year, there are no contingent liabilities arising from the issue or transfer of bills of exchange. Contingent liabilities did exist in connection to guarantees and performance bonds (EUR 15,625 k; p.y. EUR 9,622 k), of which EUR 15,602 k related to affiliated companies (p.y. EUR 9,622 k). Given the strong performance of the business, it is not currently considered likely that these contingent liabilities will be drawn upon.

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. There also exist obligations to pay the future receivables of suppliers of subsidiaries in the event that the subsidiaries fail to meet their payment obligations within a certain period. Given the strong performance of the subsidiaries, it is not currently considered likely that these contingent liabilities will be drawn upon.

Other financial commitments

In addition, there are financial commitments to subsidiaries in the amount of EUR 11,658 k (p.y. EUR 1,350 k). Moreover, there are no other financial commitments to affiliated companies.

The off-balance sheet transactions disclosed are not relevant in assessing the financial position of the Company.

As of the balance sheet date, there existed an obligation to pay a preliminary purchase price of EUR 1,200 k, taking into account the transfer of liabilities (EUR 1,800 k), due to the acquisition of ThaWa GmbH Thaler Warenautomaten, Thale, and AGD Group Entwicklungs- und Vertriebs GmbH, Gütersloh.
Other disclosures

**Number of employees**
The average number of employees during the year (excluding board members) was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>1,178</td>
<td>1,042</td>
</tr>
<tr>
<td>Salaried</td>
<td>642</td>
<td>583</td>
</tr>
<tr>
<td>Vocational trainees</td>
<td>68</td>
<td>68</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,820</strong></td>
<td><strong>1,625</strong></td>
</tr>
</tbody>
</table>

**Related-party disclosures**
Pursuant to §285 no. 21 HGB, transactions with related parties must be disclosed in the notes, unless they represent transactions between companies that are direct or indirect 100% shareholdings which are included in the Company’s consolidated financial statements.

The following transactions were entered into with companies which are not wholly-owned subsidiaries of ElringKlinger Group in financial year 2011:

<table>
<thead>
<tr>
<th></th>
<th>2011 EUR k</th>
<th>2010 EUR k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of goods</td>
<td>6,269</td>
<td>7,763</td>
</tr>
<tr>
<td>License fees</td>
<td>1,747</td>
<td>1,418</td>
</tr>
<tr>
<td>Services performed</td>
<td>1,414</td>
<td>1,325</td>
</tr>
<tr>
<td>Disposals of machinery and tools, and other revenues</td>
<td>1,746</td>
<td>3,456</td>
</tr>
<tr>
<td>Services received and other expenses</td>
<td>4,474</td>
<td>4,277</td>
</tr>
<tr>
<td>Transfer of selling expenses</td>
<td>331</td>
<td>0</td>
</tr>
<tr>
<td>Interest income</td>
<td>100</td>
<td>133</td>
</tr>
<tr>
<td>Interest expense</td>
<td>319</td>
<td>298</td>
</tr>
<tr>
<td>Loans granted as of the balance sheet date</td>
<td>11,670</td>
<td>4,607</td>
</tr>
<tr>
<td>Other receivables as of the balance sheet date</td>
<td>9,390</td>
<td>11,467</td>
</tr>
<tr>
<td>Loans received as of the balance sheet date</td>
<td>10,220</td>
<td>341</td>
</tr>
<tr>
<td>Other liabilities as of the balance sheet date</td>
<td>550</td>
<td>0</td>
</tr>
</tbody>
</table>
Furthermore:

• there is a cooperation agreement in force between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. Mr. Walter Herwarth Lechler is a shareholder in ElringKlinger AG and holds a significant interest in Lechler GmbH. ElringKlinger AG earned EUR 117 k during the reporting year (p.y. EUR 164 k). As in the prior year, there was no outstanding balance at the balance sheet date.

• there is a master supply agreement in force between Rich. Klinger Dichtungstechnik GmbH & CO. KG, Gumpoldskirchen, Austria, and companies of the ElringKlinger Group concerning the procurement of materials. Mr. Klinger-Lohr is a shareholder in ElringKlinger AG and has a significant interest in Rich. Klinger Dichtungstechnik GmbH & Co. KG. ElringKlinger AG procured EUR 2,410 k worth of materials under this agreement in 2011 (p.y. EUR 2,088 k). The outstanding balance as of the balance sheet date amounted to EUR 218 k (p.y. EUR 191 k).

• there is a master supply agreement in force between ElringKlinger AG and Klinger AG Egliswil, Switzerland, regarding the procurement of materials. Mr. Klinger-Lohr is a shareholder in ElringKlinger AG and member of the administrative board of Klinger AG Egliswil. ElringKlinger AG procured EUR 77 k worth of materials under this agreement in 2011 (p.y. EUR 106 k). As of the balance sheet date, there are no liabilities (p.y. EUR 15 k).

Derivative financial instruments

As of the balance sheet date on December 31, 2011, two financial derivatives (interest rate swaps) were in place which served to hedge interest rate risks.

Negative fair market values amounting to EUR 301 k (p.y. EUR 370 k) are classified as other provisions in the balance sheet.

Interest rate swaps serve to exchange the variable interest rate payments on obtained loans with fixed interest rate payments. The notional volume of both agreements is EUR 7,800 k. The interest rate swap agreements have maturities through May 30, 2013 and April 1, 2014.

All forward contracts are entered into with domestic financial institutions rated at least with “A” (by Standard & Poor’s ratings).

The bank-confirmed market values of the derivatives are computed using recognized mathematical methods and the market data available as of the balance sheet date (mark-to-market method).

Furthermore, ElringKlinger employs derivative financial instruments to hedge against commodity risks. As of the balance sheet date, forward contracts for electricity and gas have the following notional values, fair values, and carrying amounts:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity forward contract (supply years: 2012-2014)</td>
<td>13,726</td>
<td>-2,875</td>
<td>-</td>
</tr>
<tr>
<td>Gas forward contract (supply year: 2012)</td>
<td>1,487</td>
<td>-134</td>
<td>134</td>
</tr>
</tbody>
</table>

Provisions
As of the reporting date, the fair values match the market values; the market value is the difference between the contractually fixed price and the forward price as of the balance sheet date for the contractually fixed volumes at the reporting date per supply year.

The electricity forward contracts relate to onerous procurement contracts pertaining to payments which are not eligible for recognition. A provision for expected losses for this purpose may be recorded as a liability only if the opportunity to use or exploit the ordered payment completely or for the most part does not exist. Since ElringKlinger AG will use the electricity quantities it ordered in full, no provision for expected losses for electricity was recognized.

Financial derivatives are used to reduce risks stemming from nickel prices. As of the balance sheet date, there were two nickel hedging contracts for a total of 230 metric tons of nickel for the period from January to December 2012. The market value of one was EUR 64 k as of the balance sheet date, while the other had a market value of EUR -92 k. A provision for expected losses was recognized in the amount of the negative market value. The market values were determined using recognized mathematical methods and the market data available as of the balance sheet date (mark-to-market method).
Corporate bodies

**Supervisory Board**

Dr. Helmut Lerchner, Aichtal, Chairman

Corporate advisor

Governance roles:

a) DEUTZ AG, Cologne

Markus Siegers*, Altbach, Deputy chairman

Chairman of the Works Council of ElringKlinger AG

Gert Bauer*, Reutlingen

First General Representative and collector of IG Metall

Reutlingen, Tübingen

Governance roles:

a) Hugo Boss AG, Metzingen
b) BIKOM GmbH, Reutlingen

Armin Diez*, Lenningen

Divisional Director of Cylinder-head Gaskets and E-Mobility at ElringKlinger AG

Pasquale Formisano*

Vaihingen an der Enz

Set-up engineer

Chairman of the Works Council of ElringKlinger Kunststofftechnik GmbH

Dr. Margarete Haase, Cologne (since May 31, 2011)

Member of the executive board of DEUTZ AG, Cologne

Governance roles:

a) Fraport AG, Frankfurt am Main

ZF Friedrichshafen AG, Friedrichshafen (since January 1, 2012)

b) DEUTZ (Dalian) Engine Co. Ltd., Dalian, China

Dr. Rainer Hahn, Stuttgart (until May 31, 2011)

Former member of the management board of

Robert Bosch GmbH, Stuttgart

Governance roles:

a) Robert Bosch GmbH, Stuttgart

Bosch Rexroth AG, Stuttgart

b) TÜV SÜD Gesellschafterausschuss GbR, Munich

TÜV SÜD e. V., Mannheim

Karl Uwe van Husen, Waiblingen

Managing Director

Governance roles:

a) Schaltbau Holding AG, Munich (until June 9, 2011)
Dr. Thomas Klinger-Lohr, Egliswil, Switzerland
Chairman of the board of Betal Netherland Holding B.V., Rotterdam, Netherlands
Governance roles:
b) Klinger Ltd., Perth, Australia (until January 17, 2012)
   Klinger S.p.A., Mazzo di Rho (MI), Italy (until January 17, 2012)
   Saidi S.A., Madrid, Spain (until January 17, 2012)
   Klinger AG Egliswil, Egliswil, Switzerland
   Uni Klinger Ltd., Mumbai, India

Walter Herwarth Lechler, Stuttgart
Managing Partner of Lechler GmbH, Metzingen
Governance roles:
b) Lechler Inc., St. Charles, USA
   Lechler Ltd., Sheffield, United Kingdom
   Lechler India Pvt. Ltd., Thane, India
   Lechler Kft, Kecskemét, Hungary (until May 10, 2011)
   Lechler France S.A., Montreuil, France (until April 29, 2011)
   Lechler AB, Hagfors, Sweden (until February 25, 2011)
   Lechler SA, Wavre, Belgium (until March 11, 2011)
   Lechler S.A., Madrid, Spain (until May 5, 2011)
   ELEX India Pvt. Ltd., Thane, India

Paula Monteiro-Munz*, Grabenstetten
Deputy chairwoman of the Works Council of ElringKlinger AG

Manfred Strauß, Stuttgart
Managing Partner of M&S messebau und service GmbH, Neuhausen a.d.F.
Governance roles:
b) Pro Stuttgart Verwaltungs GmbH, Stuttgart,
   Pro Stuttgart Verkehrsverein, Stuttgart

Gerhard Wick*, Geislingen a.d. Steige
Union secretary for IG Metall, head of district, Baden-Württemberg district

* Employee representative
a) membership in supervisory boards to be established by law within the meaning of § 125 AktG
b) membership in analogous domestic and foreign supervisory boards within the meaning of § 125 AktG
Remuneration of the Supervisory Board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 619 k (p.y. EUR 501 k) in the reporting period. In addition, travel expenses in the amount of EUR 1 k (p.y. EUR 0 k) were reimbursed.

Total remuneration of the Supervisory Board is distributed among the individual supervisory board members as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Helmut Lerchner</td>
<td>48,000</td>
<td>50,000</td>
<td>54,000</td>
<td>39,003</td>
<td>102,000</td>
<td>89,003</td>
</tr>
<tr>
<td>Markus Siegers</td>
<td>25,000</td>
<td>25,500</td>
<td>42,105</td>
<td>23,196</td>
<td>67,105</td>
<td>48,696</td>
</tr>
<tr>
<td>Walter Herwarth Lechler</td>
<td>28,000</td>
<td>30,000</td>
<td>27,000</td>
<td>25,558</td>
<td>55,000</td>
<td>55,558</td>
</tr>
<tr>
<td>Gert Bauer</td>
<td>18,000</td>
<td>19,000</td>
<td>27,000</td>
<td>19,502</td>
<td>45,000</td>
<td>38,502</td>
</tr>
<tr>
<td>Armin Diez</td>
<td>18,000</td>
<td>16,333</td>
<td>27,000</td>
<td>11,874</td>
<td>45,000</td>
<td>28,207</td>
</tr>
<tr>
<td>Pasquale Formisano</td>
<td>14,000</td>
<td>12,333</td>
<td>27,000</td>
<td>11,874</td>
<td>41,000</td>
<td>24,207</td>
</tr>
<tr>
<td>Dr. Margarete Hasse</td>
<td>8,833</td>
<td>0</td>
<td>15,750</td>
<td>0</td>
<td>24,583</td>
<td>0</td>
</tr>
<tr>
<td>Dr. Rainer Hahn</td>
<td>4,167</td>
<td>15,000</td>
<td>11,250</td>
<td>19,502</td>
<td>15,417</td>
<td>34,502</td>
</tr>
<tr>
<td>Karl Uwe van Husen</td>
<td>26,000</td>
<td>27,000</td>
<td>27,000</td>
<td>19,502</td>
<td>53,000</td>
<td>46,502</td>
</tr>
<tr>
<td>Dr. Thomas Klinger-Lohr</td>
<td>18,000</td>
<td>18,000</td>
<td>27,000</td>
<td>19,502</td>
<td>45,000</td>
<td>37,502</td>
</tr>
<tr>
<td>Paula Monteiro-Munz</td>
<td>18,000</td>
<td>16,333</td>
<td>27,000</td>
<td>11,874</td>
<td>45,000</td>
<td>28,207</td>
</tr>
<tr>
<td>Manfred Rupp</td>
<td>0</td>
<td>3,500</td>
<td>0</td>
<td>7,628</td>
<td>0</td>
<td>11,128</td>
</tr>
<tr>
<td>Manfred Strauß</td>
<td>14,000</td>
<td>15,000</td>
<td>27,000</td>
<td>19,502</td>
<td>41,000</td>
<td>34,502</td>
</tr>
<tr>
<td>Gerhard Wick</td>
<td>13,000</td>
<td>12,333</td>
<td>27,000</td>
<td>11,874</td>
<td>40,000</td>
<td>24,207</td>
</tr>
<tr>
<td><strong>Total amount</strong></td>
<td><strong>253,000</strong></td>
<td><strong>260,332</strong></td>
<td><strong>366,105</strong></td>
<td><strong>240,391</strong></td>
<td><strong>619,105</strong></td>
<td><strong>500,723</strong></td>
</tr>
</tbody>
</table>

Variable remuneration shown reflects the expense for which provisions have been recognized, based on the provisional consolidated income before taxes prepared in accordance with IFRS for 2011.

The difference between the provision for variable remuneration for the financial year 2010 and the actual amounts paid out was EUR 5,932. This amount was paid out to the members of the Supervisory Board on a pro rata basis and is included under variable remuneration.

Management Board

Dr. Stefan Wolf, Leinfelden-Echterdingen, Chairman

responsible for all Group companies and the corporate functions of Finance, Controlling, Legal Affairs, Personnel, IT, Investor Relations and Corporate Communications, as well as the Aftermarket and Industrial Parks divisions
Theo Becker, Metzingen  
responsible for the Cylinder-head Gaskets, Specialty Gaskets, Plastic Housing Modules/Elastomer Technology, Shielding Technology, E-Mobility, Tooling Technology divisions and the corporate functions of Quality and Environment, Materials Management and the ElringKlinger AG plants

Karl Schmauder, Hülben  
responsible for Original Equipment Sales and New Business Areas

**Governance roles in supervisory boards and other supervisory bodies**

Dr. Stefan Wolf is a member of the board of directors of Micronas Semiconductor Holding AG, Zürich, member of the supervisory board of Fielman AG, Hamburg, and chairman of the supervisory board of Norma Group AG, Maintal

Karl Schmauder is chairman of the advisory board of e-mobil BW GmbH, Stuttgart and Advisory Board member of Steiff Beteiligungs-GmbH, Giengen

### Remuneration of the Management Board

Total remuneration of the Management Board in financial year 2011 amounted to EUR 2,263 k (p.y. EUR 1,921 k). This is composed of a fixed component of EUR 865 k (p.y. EUR 823 k) and a variable component of EUR 1,398 k (p.y. EUR 1,098 k). The variable component is made up of short-term performance-related remuneration amounting to EUR 1,288 k (p.y. EUR 966 k) and EUR 109 k (p.y. EUR 132 k) of performance-related remuneration with long-term incentive effects. The long-term performance-related remuneration relates to stock appreciation rights.

Total remuneration of the Management Board is distributed among the individual Management Board members as follows:

<table>
<thead>
<tr>
<th></th>
<th>fixed remuneration (prior year) EUR</th>
<th>Short-term performance-based remuneration (prior year) EUR</th>
<th>Long-term performance-based remuneration (prior year) EUR</th>
<th>Total amount (prior year) EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Stefan Wolf</td>
<td>355,744 (330,106)</td>
<td>552,070 (413,806)</td>
<td>39,658 (52,812)</td>
<td>947,472 (796,724)</td>
</tr>
<tr>
<td>Theo Becker</td>
<td>251,535 (251,341)</td>
<td>368,046 (275,871)</td>
<td>39,483 (40,054)</td>
<td>659,064 (566,581)</td>
</tr>
<tr>
<td>Karl Schmauder</td>
<td>257,816 (241,975)</td>
<td>368,047 (275,871)</td>
<td>30,110 (40,054)</td>
<td>655,973 (557,900)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>865,095 (823,422)</td>
<td>1,288,163 (965,548)</td>
<td>109,251 (132,235)</td>
<td>2,262,509 (1,921,205)</td>
</tr>
</tbody>
</table>
Short-term variable remuneration reflects expenses for which provisions have been recognized, calculated as a percentage of the average consolidated income before taxes over the last three years. In addition, the differences between provisions recognized as of December 31, 2010 and the amounts actually paid in 2011 are included. For the stock appreciation rights, the fair value as of the grant date is used.

Stock appreciation rights refer to a right to a cash settlement, not, however, for shares of ElringKlinger AG. The currently outstanding stock appreciation rights are granted in five annual tranches, beginning on February 1, 2008 and January 1, 2009, respectively. Beginning in 2010, the maturity of the tranches extends from three to four years. The strike price is the average stock price of the last 60 trading days prior to the grant date. The number of stock appreciation rights is calculated based on the fixed remuneration of the respective board member and the strike price. The cash payment to be granted is calculated based on the difference between the exercise price, which is also calculated as an average of the stock price over the last 60 trading days, and the strike price. A payment occurs only in the event that the share price of ElringKlinger AG increases more than the smoothed index in which the stock is listed, but at least by 25%. The payment per tranche is limited to the fixed salary amount for the year.

Provisions are recognized in order to cover the estimated future obligation. The fair value of the obligation is determined based on the Cox-Ross-Rubinstein model using current market parameters. The volatility of the share price (47.5%), the MDAX index (27.8%), and a correlation of 60.2% were determined over a three-year period. The provision is accrued pro rata temporis over the vesting period and is assessed on every balance sheet date and again on the exercise date. Changes in the fair value are recognized in net income. The option model also includes dividend payments planned by the Management Board.

For financial year 2011, the following data arose:

<table>
<thead>
<tr>
<th>Tranches</th>
<th>Tranche 2008</th>
<th>Tranche 2009</th>
<th>Tranche 2010</th>
<th>Tranche 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of issue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of outstanding stock appreciation rights (not yet exercisable)</td>
<td>0</td>
<td>108,754</td>
<td>49,090</td>
<td>32,501</td>
</tr>
<tr>
<td>Number of lapsed stock appreciation rights</td>
<td>20,341</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Average strike price (EUR)</td>
<td>24.63</td>
<td>6.95</td>
<td>15.68</td>
<td>24.83</td>
</tr>
<tr>
<td>Average remaining time to maturity in years</td>
<td>0</td>
<td>0.06</td>
<td>2.04</td>
<td>3.04</td>
</tr>
<tr>
<td>Value of stock appreciation rights held by members of the Management Board</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>December 31, 2011 (EUR k)</td>
<td>0</td>
<td>771</td>
<td>103</td>
<td>21</td>
</tr>
<tr>
<td>December 31, 2010 (EUR k)</td>
<td>32</td>
<td>412</td>
<td>75</td>
<td>0</td>
</tr>
<tr>
<td>December 31, 2009 (EUR k)</td>
<td>28</td>
<td>74</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>December 31, 2008 (EUR k)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Additions to pension provisions for members of the Management Board amounted to EUR 1,985 k (p.y. EUR 845 k) and are related to Dr. Stefan Wolf in the amount of EUR 578 k (p.y. EUR 262 k), Theo Becker in the amount of EUR 558 k (p.y. EUR 213 k), and Karl Schmauder in the amount of EUR 849 k (p.y. EUR 370 k).

Provisions for pensions and remuneration for former members of the Management Board

Provisions of EUR 11,075 k (p.y. EUR 11,269 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 868 k (p.y. EUR 868 k) during the 2011 financial year.

Auditors’ fees are not disclosed, as these disclosures are made in the notes to consolidated financial statements in which the Company is included.
Information pursuant to § 160 (1) no. 8 AktG

As of the balance sheet date 2011, the following long-term equity investments existed and were announced pursuant to § 21 (1) German Securities Trading Act (WpHG).

1. Voting rights notification
BlackRock, Inc., New York, U.S.A., notified us pursuant to § 21 (1) WpHG that the percentage of voting rights in our company fell below the threshold of 3% on September 7, 2011 and amounted to 2.97% (1,881,443 voting rights) on that day.
Of those voting rights, 2.97% (1,881,443 voting rights) are attributed to it pursuant to § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG.
BlackRock Financial Management, Inc., New York, U.S.A., notified us pursuant to § 21 (1) WpHG that the percentage of voting rights in our company fell below the threshold of 3% on September 7, 2011 and amounted to 2.97% (1,881,443 voting rights) on that day.
Of those voting rights, 2.97% (1,881,443 voting rights) are attributed to it pursuant to § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG.
BlackRock Holdco 2, Inc., Wilmington, Delaware, U.S.A., notified us pursuant to § 21 (1) WpHG that the percentage of voting rights in our company fell below the threshold of 3% on September 7, 2011 and amounted to 2.97% (1,881,443 voting rights) on that day.
Of those voting rights, 2.97% (1,881,443 voting rights) are attributed to it pursuant to § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG.

2. Voting rights notification
ElringKlinger received the following notification on November 2, 2010:
In the name of and on behalf of FIL Investments International, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21 (1) WpHG of the following:
On 25 October 2010 FIL Investments International fell below the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Investments International held 2.98% of the voting rights in ElringKlinger AG arising from 1,887,166 voting rights.
All voting rights in ElringKlinger AG were attributed to FIL Investments International pursuant to section 22 (1) sent. 1 no. 6 WpHG.

3. Voting rights notification
ElringKlinger received the following notification on November 2, 2010:
In the name of and on behalf of FIL Limited, Hamilton HMCX, Bermuda we hereby notify you pursuant to section 21 (1) WpHG of the following:
On 25 October 2010 FIL Limited fell below the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Limited held 2.98% of the voting rights in ElringKlinger AG arising from 1,887,166 voting rights.
All voting rights in ElringKlinger AG were attributed to FIL Limited pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG.
4. Voting rights notification
ErlingKlinger received the following notification on November 2, 2010:
In the name of and on behalf of FIL Investment Management Limited, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21 (1) WpHG of the following:
On 25 October 2010 FIL Investment Management Limited fell below the threshold of 3% of the voting rights in ErlingKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Investment Management Limited held 2.98% of the voting rights in ErlingKlinger AG arising from 1,887,166 voting rights.
All voting rights in ErlingKlinger AG were attributed to FIL Investment Management Limited pursuant to section 22 (1) sent. 1 no. 6 in connection with sent. 2 WpHG.

5. Voting rights notification
ErlingKlinger received the following notification on 10/28/2010:
In the name of and on behalf of FIL Holdings Limited, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21 (1) WpHG of the following:
On 25 October 2010 FIL Holdings Limited fell below the threshold of 3% of the voting rights in ErlingKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Holdings Limited held 2.98% of the voting rights in ErlingKlinger AG arising from 1,887,166 voting rights.
All voting rights in ErlingKlinger AG were attributed to FIL Holdings Limited pursuant to section 22 (1) sent. 1 no. 6 WpHG in connection with sent. 2 WpHG.

6. Voting rights notification
Correction of our announcement on October 12, 2010
ErlingKlinger received the following notification from Lechler GmbH on October 13, 2010:
Notification pursuant to § 21 WpHG – correction
We hereby notify you pursuant to § 21 (1) WpHG that the percentage of voting rights in ErlingKlinger AG, Dettingen/Erms fell below the threshold of 10% on October 7, 2010 and amounted to 9.449% (5,987,000 voting rights) on this day.
Of these voting rights, 0.358% (227,000 voting rights) are attributed to us in accordance with § 22 (1) sentence 1 no. 1 WpHG.

7. Voting rights notification
ErlingKlinger received the following notification from Klaus Lechler Beteiligungs-GmbH on October 13, 2010:
Voting rights notifications pursuant to § 21 (1) WpHG
Notifying parties:
1. Eroca AG, Basel, Switzerland
2. Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany
3. KWL Beteiligungs-GmbH, Ludwigsburg, Germany
4. PAUL LECHLER STIFTUNG gGmbH, Ludwigsburg, Germany
5. Elrena GmbH, Basel, Switzerland
6. Stiftung Klaus Lechler, Basel, Switzerland
We, Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG in our own name and in the name and on behalf of the following companies as follows:

1. Eroca AG
   The percentage of voting rights of Eroca AG in ElringKlinger AG fell below the threshold of 10% on October 7, 2010 and amounted to 9.20% (5,832,136 voting rights) on this day.

2. Klaus Lechler Beteiligungs-GmbH
   The percentage of voting rights of Klaus Lechler Beteiligungs-GmbH in ElringKlinger AG fell below the threshold of 10% on October 7, 2010 and amounted to 9.22% (5,838,736 voting rights) on this day.
   Of these voting rights, 9.20% (5,832,136 voting rights) are attributed to Klaus Lechler Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 no. 1 of the WpHG.
   The voting rights attributable to Klaus Lechler Beteiligungs-GmbH are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG:
   - Eroca AG.

3. KWL Beteiligungs-GmbH
   The percentage of voting rights of KWL Beteiligungs-GmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day.
   Of these voting rights, 9.22% (5,838,736 voting rights) are attributed to KWL Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 9.18% (5,815,944 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.
   The voting rights attributable to KWL Beteiligungs-GmbH are held by the following companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG:
   - Eroca AG,
   - Klaus Lechler Beteiligungs-GmbH.
   The voting rights attributable to KWL Beteiligungs-GmbH are held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
   - Elrena GmbH.

4. PAUL LECHLER STIFTUNG gGmbH
   a) The percentage of voting rights of PAUL LECHLER STIFTUNG gGmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 19.58% (12,406,060 voting rights) on this day.
   Of these voting rights, 9.22% (5,838,736 voting rights) were attributed to PAUL LECHLER STIFTUNG gGmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 9.18% (5,815,944 voting rights) were attributed in accordance with § 22 (2) sentence 1 WpHG.
   The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH were held by the following companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG:
   - Eroca AG,
   - Klaus Lechler Beteiligungs-GmbH,
   - KWL Beteiligungs-GmbH.
The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH were held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
- Elrena GmbH.

b) The percentage of voting rights of PAUL LECHLER STIFTUNG gGmbH in ElringKlinger AG exceeded the threshold of 20% on October 11, 2010 and amounted to 20.72% (13,126,990 voting rights) on this day.
Of these voting rights, 9.77% (6,187,573 voting rights) are attributed to PAUL LECHLER STIFTUNG gGmbH in accordance with § 22 (1) sentence 1 WpHG and an additional 9.77% (6,188,037 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.
The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH are held by the following companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG:
- Eroca AG,
- Klaus Lechler Beteiligungs-GmbH,
- KWL Beteiligungs-GmbH.

The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH are held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
- Elrena GmbH.

5. Elrena GmbH
The percentage of voting rights of Elrena GmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day.
Of these voting rights, 0.02% (14,000 voting rights) are attributed to Elrena GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 9.22% (5,838,736 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.
The voting rights attributable to Elrena GmbH are held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
- Eroca AG.

6. Stiftung Klaus Lechler
The percentage of voting rights of Stiftung Klaus Lechler in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day.
Of these voting rights, 9.18% (5,815,944 voting rights) are attributed to Stiftung Klaus Lechler in accordance with § 22 (1) sentence 1 WpHG and an additional 9.22% (5,838,736 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.
The voting rights attributable to Stiftung Klaus Lechler are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG:
- Elrena GmbH.
The voting rights attributable to Elrena GmbH are held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
- Eroca AG.
8. Voting rights notification
ElringKlinger received the following notification from Lechler Beteiligungs-GmbH on October 13, 2010:
Voting rights notifications pursuant to § 21 (1) WpHG
Notifying parties:
1. Lechler Beteiligungs-GmbH, Stuttgart, Germany
2. INLOVO GmbH, Ludwigsburg, Germany
We, Lechler Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG in our own name and in the name of and on behalf of INLOVO GmbH as follows:

1. Lechler Beteiligungs-GmbH
The percentage of voting rights of Lechler Beteiligungs-GmbH in ElringKlinger AG fell below the threshold of 10% on October 7, 2010 and amounted to 9.23% (5,848,644 voting rights) on this day.

2. INLOVO GmbH
The percentage of voting rights of INLOVO GmbH in ElringKlinger AG fell below the threshold of 10% on October 7, 2010 and amounted to 9.23% (5,848,644 voting rights) on this day. Of these voting rights, 9.23% (5,848,644 voting rights) are attributable to INLOVO GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to INLOVO GmbH are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG:
- Lechler Beteiligungs-GmbH.

9. Voting rights notification
ElringKlinger received the following notification from Deutsche Bank AG on October 12, 2010:
Voting rights notification pursuant to § 21 (1) WpHG
Dear Sir or Madam:
We hereby notify you pursuant to § 21 (1) WpHG that the percentage of voting rights in ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms exceeded the thresholds of 3%, 5% and 10% on October 7, 2010 and amounted to 11.11% on this day. This corresponds to 7,037,037 no-par value registered shares (bearer shares).
The notification requirement pursuant to § 21 (1) WpHG is attributed to our joint lead management within the scope of the ElringKlinger AG capital increase entered in the commercial register on October 7, 2010.
We hereby also notify you pursuant to § 21 (1) WpHG that our share of voting rights in ElringKlinger AG fell below the thresholds of 10%, 5% and 3% on October 11, 2010 and now represents a percentage of voting rights of 0.12%. This corresponds to 74,118 no-par value registered shares (bearer shares).
10. Voting rights notification
Voting rights notification pursuant to § 21 (1) WpHG
ElringKlinger received the following notification from Walter Herwarth Lechler on May 14, 2010:
"I hereby notify you pursuant to § 21 (1) WpHG that my percentage of voting rights in ElringKlinger AG fell below the threshold of 25% on May 11, 2010 and amounted to 23.697% (13,649,420 voting rights) on this day.

Of these voting rights, 10.394% (5,987,000 voting rights) are attributed to me in accordance with § 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributable to me are held by the following companies that are controlled by me and each hold at least 3% or more of voting rights in ElringKlinger AG: Lechler GmbH, Metzingen.

11. Voting rights notification
In the name of and on behalf of Fidelity Funds SICAV, Luxembourg, we hereby notify you pursuant to § 21 (1) WpHG of the following:
On 06 November 2009 Fidelity Funds SICAV fell below the threshold of 3% of voting rights in ElringKlinger AG, Max-Eyth-Strasse 2, 72581 Dettingen/Erms, Germany. On that date, Fidelity Funds SICAV held 2.96% of the voting rights in ElringKlinger AG arising from 1,704,729 voting rights.

12. Voting rights notification
On December 16, 2008, ElringKlinger AG received the following notification
"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."

13. Voting rights notification
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."
14. Voting rights notification
We received the following notification on March 27, 2008:
Voting rights notification pursuant to § 21 (1) WpHG
We, Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG on behalf of Ms. Lieselotte Lechler as follows:
The percentage of voting rights of Ms. Lieselotte Lechler in ElringKlinger AG fell below the thresholds of 10%, 5% and 3% on March 20, 2008 and amounted to 0% (0 voting rights) on this day.

15. Voting rights notification
We received the following notification from 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.

16. Voting rights notification
As executor of the estate of Mr. Klaus Lechler, Mr. Gottfried Wunsch notified us pursuant to § 21 (1) WpHG on behalf of Ms. Lieselotte Lechler as follows:
Mr. Klaus Lechler died on April 1, 2007. As of this date, the voting interest of Mr. Klaus Lechler in ElringKlinger AG therefore fell below the thresholds of 20%, 15%, 10%, 5% and 3% and amounts to 0% on this day (0 voting rights).

17. Voting rights notification
ElringKlinger has received the following notification:
"Notification pursuant to § 21 para. 1 WpHG
The following notification is made in the names of Threadneedle Asset Management Limited and Threadneedle Asset Management Holdings Limited, both with registered seat in London, United Kingdom and in the name of Ameriprise Financial, Inc., USA.
Ameriprise Financial Inc. is the parent company of Threadneedle Asset Management Holdings Limited, which is the parent company of Threadneedle Asset Management Limited.
Please be advised that on 08 October 2007 the share of voting stocks of the above mentioned companies in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, went below the threshold of 3% of the total voting stocks of the company.
The percentage of voting rights of Threadneedle Asset Management Limited in ElringKlinger AG at 08 October 2007 amounted to 2.603% (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.
The percentage of voting rights of Threadneedle Asset Management Holdings Limited in ElringKlinger AG at 08 October 2007 amounted to 2.603% (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Holdings Limited pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG."
The percentage of voting rights of Ameriprise Financial, Inc. in ElringKlinger AG at 08 October 2007 amounted to 2,718% (521,799 shares). These voting rights are in their entirety attributable to Ameriprise Financial, Inc. pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG.

18. Voting rights notification

"Notification pursuant to § 21 para. 1 WpHG

The following notification is made in the name of Threadneedle Investment Services Limited, registered in London, United Kingdom.

Please be advised that on 02 October 2007 the share of voting stocks of the Threadneedle Investment Services Limited in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, went below the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Investment Services Limited in ElringKlinger AG at 02 October 2007 amounted to 2,992% (574,392 shares). These voting rights are in their entirety attributable to Threadneedle Investment Services Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

The following notification is made in the name of Threadneedle Investment Funds ICVC, registered in London, United Kingdom.

Please be advised that on 02 October 2007 the share of the voting stocks of the Threadneedle Investment Funds ICVC in ElringKlinger AG went below the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Investment Funds ICVC in ElringKlinger AG at 02 October 2007 amounted to 2.992% (574,392 shares). These voting rights are held by subfunds of Threadneedle Investment Funds ICVC.

19. Voting rights notification

ElringKlinger received the following voting rights notification:

Notification of voting rights (Stimmrechtsmitteilungen) pursuant to §§ 21, 22 WpHG

We, Prudential plc., London, United Kingdom, would like to make the following notification regarding the holding of voting rights held in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany according to § 21, 22 WpHG.

Notification of voting rights in our own name

Prudential plc. has fallen below the 3% threshold of § 21 para. 1 WpHG on 04 September 2007 and now holds 2,94% (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG.

It was attributed these 2,94% (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG pursuant to § 22 para. 1 sent. 1 no. 6 in connection with § 22 para. 1 sent. 2 WpHG.
20. Voting rights notification

ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, received the following notification pursuant to § 41 (2) and § 21 (1) WpHG from Elrena GmbH, Basel, Switzerland:

We, Elrena GmbH, Basel, Switzerland, notify you pursuant to § 41 (2) and § 21 (1) WpHG (as amended) in our own name and in the name of and on the behalf of Mr. Karl Uwe van Husen for the purpose of correction and supplement to notifications made in the past by the notifying parties as follows:

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) fell below the thresholds of 10% and 5% on September 4, 1997 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).

21. Voting rights notification

ElringKlinger AG, Dettingen/Erms, WKN 785602

Sale of shares

Reaching the 5% threshold

Dear Sir or Madam:

We hereby inform you that we sold a total of 224,410 ElringKlinger shares in the period between February 11, 2004 through January 14, 2005, thereby falling below the 5% threshold. Betal Netherland Holding B.V. now holds 479,990 ElringKlinger shares.

This notification is made pursuant to § 21 WpHG.

22. Voting rights notification

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

“We, Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany, notify you pursuant to § 41 (2) and § 21 (1) WpHG (as amended) in our own name and in the name of and on behalf of the following companies and Ms. Lieselotte Lechler for the purpose of correction and supplement to notifications made in the past by the parties on which notification is incumbent as follows:

Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany:

a) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG exceeded the thresholds of 5% and 10% on November 30, 2001 and amounts to 12.13% (582,012 voting rights) on this day. Of these voting rights, 12.13% (582,012 voting rights) were attributed to Paul Lechler Gesellschaft bürgerlichen Rechts in accordance with § 22 (1) sentence 1 no. 1 WpHG (essentially corresponding with § 22 (1) no. 2 WpHG as amended on November 30, 2001). The voting rights attributable to Paul Lechler Gesellschaft bürgerlichen Rechts were held by the following company that was controlled by it and holds 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 amounted to 12.13% (582,012 voting rights) on April 1, 2002. Of these voting rights, 12.13% (582,012 voting rights) were attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to § 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributable to Paul Lechler Gesellschaft bürgerlichen Rechts were held by the following company that was controlled by it and holds 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 fell below the thresholds of 10% and 5% on December 4, 2003 and has amounted to 0.00% (0 voting rights) since then.”
Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance on December 4, 2011 pursuant to § 161 AktG on the German Corporate Governance code and published it on the ElringKlinger AG website on December 4, 2011. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders. It will be published in the annual report as part of the corporate governance report.

Proposal for appropriation of profits

The Management Board and Supervisory Board will propose to the shareholders’ meeting to appropriate the retained earnings as of December 31, 2011 amounting to EUR 37,146 k as follows:

a) Distribution of a dividend of EUR 0.40 per share with dividend entitlement, plus a special dividend of EUR 0.18 as appropriate participation of the shareholders in the proceeds from the disposal of the Ludwigsburg industrial park in 2011
b) Transfer of EUR 397 k to other revenue reserves

Dettingen/Erms, March 15, 2012
Management Board

Dr. Stefan Wolf       Theo Becker       Karl Schmauder
ElringKlinger AG Management Report for the 2011 Financial Year

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Macroeconomic Conditions and Business Environment

Economic growth weakens at global level over 2011
In most regions of the world, the dynamic rate of economic growth seen in 2010 was maintained into the first few months of the new year. Despite high oil prices and the impact of the Japanese tsunami in March 2011, the global economy as a whole put in a robust performance in the first half of the year.

As the year continued, however, this picture was increasingly undermined by uncertainty on the capital markets about Europe’s financial stability and the weakening US economy. In particular, the peripheral states of Southern Europe found it increasingly difficult to obtain refinancing on the capital markets. Even some of the core eurozone states were affected in greater measure by the debt crisis. There was a marked deterioration in the indicators used to predict future economic activity at an early stage, and the outlook became more unsettled at the global level.

Nevertheless, global economic output rose by a total of 3.8% in 2011, although this growth was significantly lower than that of the previous year (5.2%). The rise was mainly attributable to the performance of the less indebted emerging markets in Asia as well as South America.

Eurozone supported by strong German economy
In 2011, Germany remained largely unscathed by the European debt crisis. Thanks in part to buoyant demand from Asia, the country was able to increase its balance of trade surplus by 12.0%. The labor market also remained solid, and strong demand from private households provided a healthy boost to the economy. Germany’s gross domestic product (GDP) rose by 3.0% in 2011.

As the year progressed, a combination of budget tightening and the debt crisis affecting some of the member states weighed more heavily on the eurozone as a whole. At the same time, the countries of Southern Europe faced a swift rise in their borrowing rates. Political uncertainty and austerity measures gradually undermined consumer spending and economic activity in Europe.

Growth in Spain and Italy was minimal over the year, and the economies of both Greece and Portugal contracted. Overall, the eurozone economy grew by 1.6%, although without the robust contribution of Germany the figure would have been considerably weaker.

By contrast, GDP growth in the countries of Eastern Europe was consistently positive. Russia’s economy expanded by 4.1% year on year thanks to strong domestic demand and high levels of investment.
Slow recovery in US economy – Latin America remains dynamic

Early 2011 was marked by weakness in the private household spending that underpins the US economy. This was caused by a difficult labor market situation, falling incomes and a substantial rise in the price of gasoline. Consumer confidence was also hit by the dispute over the raising of the country’s borrowing limit, the associated downgrading of its credit rating and an anemic real estate market.

The US economy gained some momentum in the second half of 2011 thanks to a combination of the Federal Reserve’s virtual zero-interest rate policy and some unconventional measures to ease monetary policy. There were significant increases in GDP over the final two quarters, and the labor market also showed signs of picking up. Overall, the United States was able to report moderate economic growth of 1.8% in 2011.

South America has now established a record of extremely dynamic growth stretching back over several years, especially in the area of private household spending. On the back of this performance, the region achieved a further increase in economic output in 2011. Brazil recorded a further increase in GDP, although South America’s biggest economy did not escape entirely unscathed from the impact of the global downturn. The country’s total economic output rose by 2.9%.

Global economy driven by Asia

Once again it was the emerging countries of Asia that acted as the main driver of the global economy. Despite some signs of weakening, the region’s economy nevertheless maintained its dynamic progress. GDP in China and India rose by 9.2% and 7.4% respectively. The ASEAN states (Indonesia, Malaysia, Philippines, Thailand and Vietnam) also reported an encouraging level of growth. Total output in this region was up 4.8%.

The Japanese economy suffered from the impact of the severe earthquake and tsunami in March 2011. In addition, serious damage was caused to Japan’s coastal production sites in Thailand by widespread flooding in the fourth quarter of 2011. The country’s export industry was also hit by the value of the yen, which was driven up in response to the European and US debt crisis. Against this background, it is hardly surprising that the Japanese economy contracted by 0.9% over the course of 2011.

Continued boom in demand for passenger cars

Aggregate global demand for passenger cars continued to rise in the year under review despite the unfavorable economic situation in some regions. Worldwide car sales rose by 6.0%. Vehicle production also ended the year substantially higher at 75.0 million cars and light trucks, an increase of 3.6% on what had already been a strong result in the previous year. The pace of growth slowed to some extent towards the end of the year.

This impressive global performance was primarily attributable to buoyant demand in Asia and a surprisingly healthy market in the United States. Nevertheless, reflecting the broader economic picture in different areas of the world, there were major variations in the industry’s regional performance. Passenger car sales declined in many parts of Western Europe. These included France, the United
Kingdom, Italy and Spain, i.e. four of the five biggest automotive markets in Europe. For the reasons given above, the Japanese vehicle market was also weak. By contrast, without exception the key automotive markets in the emerging countries all delivered positive results.

**German vehicle production sets new records**

2011 saw a year-on-year increase of 8.8% in new passenger car registrations in Germany. The figure rose to 3.2 (2.9) million. Export-fueled domestic production set a new record of 5.9 (5.6) million vehicles, a 5.7% rise on the previous year’s strong results. Three out of every four cars made in Germany were exported, predominantly to Asia and North America. The number of vehicles exported stood at 4.6 (4.2) million, equivalent to a rise of 6.5%.

**Car market in Western Europe down – Russia booming**

The excellent results achieved by the German automotive industry were not enough to make up for the downturn in other parts of Western Europe. New registrations in France, the continent’s second biggest automotive market, were down 2.1%. At the same time, the percentage downturn in Italy and Spain was in double-digit territory. The overall figure for new passenger car registrations in Western Europe was 12.8 (13.0) million, 1.3% down on the previous year.

Demand for passenger cars in Eastern Europe also fell. The number of new passenger car registrations stood at 0.8 (0.8) million, 2.9% lower than in 2010. By contrast, Russia continued to power ahead with an increase in new vehicle registrations of 38.7% to 2.7 (1.9) million.

**Upturn in US automotive market gathers pace toward year-end**

The automotive market was more buoyant in the United States than in Europe. Passenger car sales in 2011 were very robust despite the predominant weakness in the economy. Over the year as a whole, sales of passenger cars and light trucks rose by 10.3% year on year to reach 12.8 (11.6) million. The production figures of Japanese carmakers in North America were hit as a result of the temporary disruption to international supply chains in the wake of the tsunami. Despite this, US production figures for passenger cars and light trucks showed a year-on-year rise of 10.9% from 7.8 million to 8.7 million. The increase is even more impressive if one takes into account the fact that year-end inventories were relatively low. In North America as a whole (including Canada and Mexico), the number of passenger cars and light trucks produced in 2011 stood at 13.5 (12.2) million.

Demand for new vehicles in Brazil remained high. Passenger car sales rose by a further 2.9% from an already strong base to reach 3.4 (3.3) million.

**China – the world’s biggest automotive market**

Once again, the Asian markets proved their importance to the international automotive industry. In 2011, 14.5 million passenger cars were sold in China alone, an increase of 5.2% on the figure for 2010. If one includes light trucks in the Chinese total, the overall figure comes to 18.5 million vehicles, higher than the United States or Western Europe. Passenger car sales in India were up 6.0% year on year at 2.5 (2.4) million. Even though the extremely dynamic growth of recent years appears to be
dropping off from its highest level, demand for individual mobility in these countries remains buoyant. It is worth noting, for example, that car ownership in China still only lies at less than 5%.

Demand for passenger cars in Japan collapsed in the aftermath of the tsunami. Although sales recovered significantly over the rest of the year, new registrations for 2011 as a whole ended the year down 16.3% at 3.5 (4.2) million.

**Demand for commercial vehicles remains firm**

The upward trend in the global commercial vehicle business that began in 2010 continued into the year under review. Worldwide sales of heavy trucks in excess of 6 metric tons rose by 7% to 3.1 (2.9) million.

New truck registrations in Germany were given a major boost by the country’s healthy economic situation, as a result of which the figure for medium and heavy trucks rose by 21.2% to 156,571 (129,222). Truck sales in Western Europe also ended the year on a positive note, unlike the situation in the passenger car segment. The number of trucks sold in this region was up by an impressive 27.1% at 487,828 (383,772). With the exception of Greece and Portugal, there was an increase in new truck registrations in all the European states. The commercial vehicle segment delivered an even bigger improvement in Eastern Europe, where the figure for new truck registrations was up 69.7% on the previous year at 80,144 (47,227).

The United States also reported a significant rise in sales of heavy trucks (Class 8). At 171,425 (107,152), the number of vehicles sold in this category was up 60.0% on 2010. To a large extent, this upward trend was due to fleet operators bringing forward their purchases in advance of stricter new legislation on emissions.

Truck sales in Brazil and Russia also showed a double-figure increase in percentage terms. In China, by contrast, where smaller commercial vehicles are more popular, the state ended its subsidies for small buses. As a result, total sales of commercial vehicles fell by 9%.

**Overall assessment of economic and industry-specific situation**

Ultimately, the ElringKlinger Group was among those who benefited from the solid rate of economic growth generated at the global level in 2011. This was due to a further rise in vehicle demand – especially in emerging markets such as China and Brazil.

Fueled by dynamic growth in Asia, the significant upturn in German car production also had a positive impact on demand for ElringKlinger AG products. In 2011, ElringKlinger AG derived over 14% of its sales revenue from domestic carmakers.

ElringKlinger AG also benefited from the upswing in truck sales, with components for commercial vehicle engines and transmission systems making up around 11% of the company’s sales in 2011. ElringKlinger AG has built a new, fully automated production facility for plastic housing modules at its headquarters in Dettingen/Erms. When it begins operation in the first quarter of 2012, the new factory will allow ElringKlinger to boost its capacity and product portfolio in the truck segment.
Significant Events

ElringKlinger AG completed three acquisitions in 2011, thereby strengthening its market position through the consolidation of a key competitor, while also extending its business model to include the highly promising area of exhaust gas purification technology and securing significant expertise in the field of lightweight plastic design and technology relating to injection-molding tools.

Closing of transaction to acquire Metal Flat Gaskets business from Freudenberg
Following the initial announcement of the takeover in 2010, the transaction to acquire the Metal Flat Gaskets business from the Freudenberg Group, a competitor of ElringKlinger in the area of cylinder-head gaskets and metal-based specialty gaskets, was finally closed effective from January 1, 2011.

Among others, this unit also included Burgmann Automotive GmbH, based in Eurasburg, Germany. The name of this entity was changed to ElringKlinger Spezialdichtungen GmbH. Effective from January 1, 2011, this entity was merged into ElringKlinger AG; since then it has been operating as a plant of ElringKlinger AG. The Gelting-based plant mainly produces specialty gaskets.

Majority takeover of Swiss Hug Group
On April 5, 2011, ElringKlinger AG signed a purchase agreement for the takeover of 66.7% of the ownership interests in Hug, a Swiss company specializing in technology aimed at exhaust gas purification. In addition to its majority stake in Hug Engineering AG (formerly Hug Holding AG), Elsau, Switzerland, ElringKlinger also acquired a pro rata interest in Hug Filtersystems AG, Switzerland, as well as several sales companies operating at the international level. The transfer of ownership took place on May 11, 2011. The Hug Group was included within the scope of consolidation of the ElringKlinger Group retrospectively as of May 1, 2011.

In making this acquisition, ElringKlinger AG has extended its existing product portfolio to include exhaust gas purification technology. The core business activities of the Hug Group are centered around the development and manufacture of diesel particulate filters and exhaust gas purification systems for stationary and mobile applications. Operating within the ElringKlinger network, Hug Engineering AG will be focusing to an increasing extent on original equipment customers in the commercial vehicle sector. Combined with a coating material developed by ElringKlinger for the purpose of soot reduction, Hug diesel particulate filter systems are offered for trucks and off-road vehicles as well as for stationary units. The company has already secured its first major serial production contract to equip construction machinery with exhaust aftertreatment technology. The overall volume of this order is in the lower double-digit million euro range. Hug is to supply exhaust aftertreatment systems that will comprise both a diesel particulate filter and an SCR unit for the reduction of nitrogen oxides. After the reporting period, ElringKlinger AG acquired ThaWa GmbH Thaler Warenautomaten®, Thale, and AGD Group Entwicklungs- und Vertriebs GmbH, Gütersloh, for the purpose of reducing the level of foreign exchange risk at Hug (Events after the Reporting Period, page 101).
Focus on core business – Sale of Ludwigsburg industrial park
On August 30, 2011, ElringKlinger AG signed an agreement for sale of its Ludwigsburg industrial park (formerly Ziegelwerke Ludwigsburg) to the former occupant Andreas Stihl AG & Co. KG, Waiblingen.
The industrial park dated back to the real estate portfolio of the former parent company ZWL Grundbesitz- und Beteiligungs-AG; from a strategic perspective, it was no longer part of the core business of ElringKlinger. As the book value of the industrial park was lower than the proceeds from the sale, ElringKlinger AG recorded non-recurring other operating income of EUR 27.7 million in the Industrial Parks segment, which contributed to a higher operating result in the financial year. The company received EUR 34.0 million in cash from the sale. Effective from September 30, 2011, the Ludwigsburg industrial park is no longer recognized in the balance sheet of ElringKlinger AG.

Following the disposal of the Ludwigsburg industrial park, ElringKlinger AG still retains ownership of a property in Idstein/Taunus, Germany.

Additional expertise in lightweight engineering: acquisition of mold and tool manufacturer Hummel-Formen GmbH
On September 10, 2011, ElringKlinger AG concluded a purchase agreement for the purpose of acquiring a 90% interest in Hummel-Formen GmbH, Lenningen, Germany, a manufacturer of injection-molding tools used in plastics processing. Alongside Hummel-Formen GmbH, the group of companies includes Hummel-Formen Kunststofftechnik GmbH and two subsidiaries of Hummel-Formen GmbH in Romania.

Specializing in the manufacture of large-scale molds for injection tools used in the production of plastic parts, Hummel-Formen has established a unique selling proposition based on the combination of tooling, process development and component production. In acquiring a majority interest, ElringKlinger AG has reinforced its expertise with regard to tooling technology and expanded its knowledge in the field of lightweight engineering using plastics, also with regard to the processing of fiber-reinforced composites. The replacement of heavy metal parts with lightweight plastics is currently considered one of the key trends within the automotive industry when it comes to reducing fuel consumption and lowering CO₂ emissions. Furthermore, ElringKlinger has secured important process patents that are currently being filed. Additional know-how in these areas will provide ElringKlinger with a significant competitive advantage both in terms of technology and cost structures.
Internal Control Criteria

The Management Board of ElringKlinger AG primarily refers to financial control criteria as a significant basis for decision-making within the company. These indicators are included in the data set as fundamental components used for the purpose of providing an overall assessment of all issues and developments to be evaluated. Furthermore, the Management Board uses non-financial and performance indicators as a basis for its decision-making processes.

The financial control criteria are based primarily on sales and earnings performance. With regard to earnings, the principal indicators include earnings before interest and taxes (EBIT) and income from ordinary activities. All internal control criteria are planned, calculated and monitored for the Original Equipment, Aftermarket and Industrial Parks segments as well as for the divisions within each segment.

Additionally, the success of ElringKlinger AG divisions is measured and evaluated on the basis of return on capital employed (ROCE). For the purpose of determining ROCE, EBIT is divided by average capital employed. Capital employed includes shareholders’ equity, financial liabilities, provisions for pensions and non-current provisions such as anniversary and partial-retirement provisions. All organizational units have been given a clearly defined target of achieving a return on capital employed of at least 20.0% in the medium to long term. Variable compensation for the first managerial level below the Management Board is generally interlinked with the level of ROCE achieved.

The level of tied-up capital is significant in relation to investment decisions. Nevertheless, in order to be able to ensure a balanced approach to investment spending in the long term with regard to the divisions, the purchase value is always calculated at a rate of 50% within the context of internal computations of financial indicators and the measurement of the degree of target attainment regardless of the age of the machines and systems. This method provides the basis for a well-judged, appropriate and sensible investment approach.

The management information and control system applied by ElringKlinger AG also encompasses all significant indicators pertaining to financial management.

The focal points for planning and controlling are as follows:

- Liquidity
- Capital Structure: the target set is an equity ratio of 40%
- Potential market price risks from foreign exchange movements, interest rate changes and a rise in material costs
- Credit risks

A detailed explanation of the different elements of the financial management system, as well as the associated risks, is contained in the “Report on Opportunities and Risks” of this management report.
The Management Board accords great importance to the sustained development of the company. As regards non-financial and performance indicators, the Management Board primarily uses the following staff-related data and sustainability indicators – gathered on a regular basis – for the purpose of corporate management:

- Number of employees and change in headcount
- Average number of staff on sick leave
- Staff attrition rate
- Data on health and safety as well as the number of work-related accidents
- Energy consumption levels
- CO₂ emissions
- Quality indicators/assessments and product reject rates

Further information on non-financial performance indicators can be found in this management report in the sections entitled “Procurement”, “Sustainability”, “Research and Development”, “Employees” and “Report on Opportunities and Risks”.

All indicators measured by the company are regularly compared by means of benchmark analyses with those of other corporations within the industry and assessed accordingly, the emphasis being on corporations that are active within the capital markets.

Off-balance-sheet financing arrangements are only employed by ElringKlinger AG within the normal scope of business in the form of leasing.

Financial instruments are also only employed in the normal scope of business. They are monitored not only within each division but also centrally. The principles governing the use of derivative financial instruments are described in the risk report under the heading “Use of derivative instruments”. The nature and scope of the derivative instruments held as at December 31, 2011, are detailed under the heading “Derivative financial instruments” in the notes to the financial statements.

In summary, the key goals of the control and planning system operated by ElringKlinger AG are as follows: Firstly, profitable organic growth of the company over the long term and, secondly, above-average profitability calculated on the basis of the EBIT margin, as well as ROCE relative to the average figure within the automotive supply industry.

Sales and Earnings Performance

Revenue growth outpaces market performance

The continued strength of production output throughout the vehicle industry together with the introduction of new products had a positive impact on the overall sales performance of ElringKlinger AG in 2011. Sales revenue increased by 14.5% to EUR 438.1 (382.6) million.
The acquisition and subsequent retrospective merger of ElringKlinger Spezialdichtungen GmbH into ElringKlinger AG contributed EUR 9.4 million to sales.

Recording organic revenue growth of 12.0%, ElringKlinger AG significantly outpaced the overall rate of expansion in global automobile production.

Customer demand for components continued to pick up both in the passenger car sector and in the area of commercial vehicles. Consequently, the volumes requested by customers as part of their production scheduling over the course of the year significantly exceeded the quantities originally planned. At times, this resulted in peak-level production for the company.

**Domestic sales benefit from dynamic exports**
The car markets in the emerging economies of Asia and South America, but also in the United States, were among the most buoyant worldwide. ElringKlinger AG itself benefited only to a certain extent from the dynamic growth in car sales throughout these regions. This is due to the fact that business in these markets is handled largely by ElringKlinger AG’s subsidiaries and affiliates.

However, ElringKlinger AG benefited indirectly from buoyant export-based demand from Asia and the United States, which made a sizeable contribution to the robust upturn in domestic production output by German vehicle manufacturers. Against this favorable backdrop, sales revenue generated by ElringKlinger AG domestically in 2011 rose by 19.7% to EUR 162.8 (136.0) million.

**Proportion of foreign sales down slightly**
The Western and Eastern European markets also saw an upturn in their production output of passenger vehicles and engines compared to the figures recorded in 2010. However, growth within the international markets fell slightly short of the rate of expansion seen in the domestic market. Sales revenue generated abroad rose by 11.6% to EUR 275.3 (246.6) million. Correspondingly, the percentage share of foreign sales in relation to ElringKlinger AG’s total revenue declined slightly to 62.8% (64.5%).

**Dynamic growth in Original Equipment**
ElringKlinger AG managed to increase sales by 17.9% in the Original Equipment segment. Recording sales of EUR 332.8 (282.3) million, the Original Equipment segment thus saw its share of total revenue expand to 76.0% (73.8%).

Within this context, it should be noted that revenue attributable to the merger of ElringKlinger Spezialdichtungen GmbH into ElringKlinger AG was generated solely from sales within the area of Original Equipment.

The company benefited considerably from the trend towards downsized engine solutions implemented by virtually all vehicle manufacturers. This proved to be a significant driving force behind the consistently robust levels of demand for ElringKlinger components. ElringKlinger AG develops and produces metal flat gaskets and thermal-acoustic shielding components engineered specifically to meet the extreme pressure and temperature requirements associated with these systems.
The Cylinder-head Gaskets division captured additional market share relating to the new generation of downsized, direct-injection petrol engines. Sales revenue generated within the Cylinder-head Gaskets division rose by 14.9%.

The Specialty Gaskets divisions recorded similar growth. This area benefited in particular from growing customer demand for highly heat-resistant gaskets for turbocharger and exhaust system applications. Unit volumes were also increased significantly with regard to V-rings for turbochargers as well as control plates for the latest generation of automatic transmissions. Furthermore, the portfolio of mica exhaust gas seals, which are produced at the site in Gelting, was integrated within the Specialty Gaskets division. This contributed additional sales revenue of around EUR 8.6 million in 2011.

The Shielding Technology division recorded a slight downturn in revenue. However, this was attributable solely to the relocation of Shielding Technology operations formerly located at the Dettingen site of ElringKlinger AG. These products are now manufactured at the Swiss site in Sevelen by ElringKlinger Abschirmtechnik (Schweiz) AG. In some cases, the volumes requested by Western European vehicle manufacturers as part of their production scheduling were slightly down in this division.

The most dynamic rate of revenue growth in 2011 was generated by the Plastic Housing Modules/Elastomer Technology division. This was attributable primarily to the strong interest shown by customers in lightweight plastic modules for engine and transmission applications, which contribute significantly to CO₂ reduction due to the weight savings made within this area. ElringKlinger launched a number of new applications over the course of 2011. The introduction of cam covers made of an extremely light MuCell material as well as housing modules and shift pistons for transmission systems contributed additional revenue.

The E-Mobility division, meanwhile, generated its first sales revenue within the second year of commencing development activities. The series production ramp-up of cell contact systems used in lithium-ion batteries as well as tooling activities for ongoing development and prototype contracts produced sales revenue of EUR 4.5 million in 2011.

Aftermarket business particularly buoyant in non-domestic regions
The Aftermarket segment achieved particularly robust growth rates within the export markets. The "Elring – das Original“ brand is sold directly by ElringKlinger AG within the majority of foreign markets. These regions are supplied mainly from domestic production plants.

Sales revenue generated by the Aftermarket segment grew by 6.8% to EUR 102.2 (95.7) million in 2011. Despite the volatile political situation, the company managed to expand sales in the region of North Africa/Middle East in the period under review. Demand from Eastern European markets also increased markedly. This was offset to some extent by the significant reduction in the number of older vehicles not only in Germany but also in many other European markets. Within this context, the government scrappage schemes launched back in 2008/9 have had a considerable impact in terms of lowering the average age of vehicles on the road. This, in turn, has also had an effect on demand for spare parts. As a result, sales revenue generated in Germany was down on last year’s figure, despite additional market share captured within this area.
At the beginning of 2011, ElringKlinger AG closed the acquisition of Metallic Gaskets Nantiat SAS, Nantiat, France, as well as the Italian production company Oigra Meillor s.r.l., Turin, Italy. Both entities were formerly owned by the Freudenberg Group. This has allowed ElringKlinger to expand its range of Aftermarket products to include vehicles made by French and Italian manufacturers. The extended portfolio will offer additional growth potential in the medium term. Newly introduced turbocharger fitting and gasket kits also helped to generate additional demand. They will contribute an increasing share of sales revenue over the coming years.

In many cases, customers increased at very short notice the just-in-time volumes of components required as part of their production scheduling; this resulted in extremely high levels of capacity utilization at the German production sites of the ElringKlinger Group. Against this backdrop, the company was not always able to meet aftermarket demand quickly and fully with its own production as well as with volumes sourced externally.

In 2011, the share of Aftermarket in total sales generated by ElringKlinger AG fell to 23.3% (25.0%). The decline in the percentage of revenue from this segment was attributable primarily to the exceptionally strong growth rates achieved in Original Equipment and the additional revenue contributions from the takeover of Burgmann Automotive GmbH. These were also attributable to the Original Equipment segment.

Sale of Ludwigsburg industrial park lowers segment revenue
Revenue generated within the Industrial Parks segment was influenced mainly by the disposal of the properties in Ludwigsburg. Sales revenue reported as at December 31, 2011, includes rental income from the Ludwigsburg industrial park up to and including July 2011. In total, rental income from the industrial parks in Ludwigsburg and Idstein amounted to EUR 3.2 million in 2011. In 2010, rental income had totaled EUR 4.6 million.

Inventories up due to expanding production
The volume of units produced in 2011 was significantly higher than in the preceding year. Inventories rose by EUR 17.7 (3.5) million, i.e. at a much more pronounced rate compared to the previous year. This increase was driven in particular by changes to the treatment of tools. They became necessary following changes in the interpretation of supply contracts. In the majority of cases, the customers acquire the economic ownership of the tools. Until they are completed, the tools are accounted for as inventories and are subsequently recognized in profit or loss once the economic ownership has been transferred to the customer. This increase was also due in part to business within the Aftermarket segment. In view of the peak levels of production, some suppliers were unable to deliver on time or in the quantities required. As a result, ElringKlinger AG was faced with particularly high inventory levels with regard to gasket sets yet to be put together and packed.

Tool production prompts rise in work performed by the entity and capitalized
Work performed by the entity and capitalized rose by EUR 3.5 million to EUR 13.0 (9.5) million in 2011. This was attributable mainly to the in-house production of tools for prototyping as well as extensive production ramp-ups.
Higher personnel expense

In response to significant order intake and more expansive production output, the company stepped up its recruitment efforts in 2011. The number of people employed by ElringKlinger AG on average during the year rose by 11.5%. This was attributable largely to an essential expansion of capacity levels in production. Another contributory factor was the creation of many new jobs in the E-Mobility division. With the company having expanded substantially, additional specialist staff were also needed in the administrative areas. At the same time, ElringKlinger strengthened its sales team, which to some extent resulted in a surge in personnel expenses in 2011.

The wage increase of 2.7% for ElringKlinger AG staff employed under the collective bargaining agreement led to a noticeable increase in costs for the German sites. ElringKlinger AG brought the wage increase forward voluntarily by two months to February 1, 2011. This resulted in a corresponding increase in personnel expenses from this point onward.

The staff profit-sharing bonus agreed for fiscal 2010 was another cost driver. Employees at ElringKlinger AG received EUR 1,000 per person. This bonus was paid out in the second quarter of 2011. In total, this drove personnel expenses up by an additional EUR 1.9 million.

At times, the company had to operate at extremely high levels of capacity utilization, which led to quite significant additional costs. Many customers substantially increased their orders for just-in-time supply at very short notice, particularly in the second and third quarter. In view of this, in 2011 plant closures for the holiday period were shorter than originally planned or cancelled altogether. This resulted in extremely long machine operating times at sites operated by ElringKlinger AG, as well as overtime and extra shifts in production. As a consequence of high capacity utilization, holiday and flexitime provisions had to be expanded by an additional EUR 1.3 million.

In total, personnel expenses rose by 11.4% to EUR 115.2 (103.4) million in 2011. However, the percentage increase in personnel expenses was lower than the percentage growth in sales revenue achieved by ElringKlinger AG. The personnel expense ratio fell slightly to 26.3% (27.0%).

Cost of materials grow at a faster rate than sales

Average prices for the majority of commodities required by ElringKlinger AG continued to rise in 2011 relative to the previous year. This was prompted by the general expansion of the world economy. The surge in prices over the course of the first half of the year was particularly dynamic in the case of alloy surcharges, e.g. for nickel. The company was not able to pass on higher prices to its customers but partially.

It was not until mid-2011 that commodity prices, particularly alloy surcharges, gradually began to recede from their earlier peaks. The decline in prices was in anticipation of a potential downturn in the global economy in the wake of the sovereign debt and financial crisis. Whereas revenues generated by the company with scrap materials from discarded cut-outs tend to contract relatively quickly, the reduction in prices for alloy surcharges relating to high-grade steels procured by the company generally lags behind by several months.
In some cases the company had to operate at the top end of its capacity levels. Furthermore, it was frequently faced with unscheduled follow-up orders placed at very short notice by its customers. In combination, this resulted in a significant surge in costs in production and logistics. What is more, a number of extra deliveries were required. The additional materials needed for the completion of unscheduled follow-up orders had to be sourced at higher market prices.

In total, the cost of materials rose by 28.9% to EUR 221.7 (172.0) million. Thus, the percentage increase in the cost of materials was much more pronounced than the growth in sales revenue. This was also largely attributable to the changes in the interpretation of supply contracts for tools. This factor alone was responsible for the cost of materials rising by EUR 14.8 million. The cost-of-materials ratio (materials expense as a proportion of sales) thus rose to 50.6% (45.0%).

Dynamic investment activity reflected in depreciation and amortization

In continuing to invest in new production facilities and tangible fixed assets over the course of 2011, ElringKlinger AG again reaffirmed its commitment to positioning the company for growth. The substantial investments implemented in recent years were reflected in higher depreciation/amortization expense in 2011. For instance, the company invested, among things, in newly designed production systems for the manufacture of exhaust gas and turbocharger gaskets, as well as channeling investments into its E-Mobility division. As a substantial proportion of capital expenditure was directed at land and buildings, the overall increase in depreciation/amortization was relatively low.

Additionally, depreciation and write-downs of tangible fixed assets in 2011 included impairment losses* of EUR 2.4 million in respect of the surpluses resulting from the merger of Elring Klinger GmbH into the parent company ZWL Grundbesitz- und Beteiligungs-AG in 2000 (Notes, page 17). In total, amortization and depreciation of intangible fixed assets and tangible fixed assets increased by 5.7% to EUR 37.0 (35.0) million.

Other operating income buoyed by one-time income from divestment

Other operating income totaled EUR 51.7 (26.2) million, up EUR 25.5 million on the previous year’s figure.

The substantial year-on-year increase was attributable to the above-mentioned sale of the Ludwigsburg industrial park. This resulted in non-recurring income of EUR 27.7 million. Excluding this factor, other operating income would have been lower than in 2010.

Foreign exchange gains were EUR 4.8 million lower than in the previous year. They totaled EUR 3.4 (8.2) million and were attributable mainly to the loans granted by ElringKlinger AG to its subsidiaries.

Other operating income also included grants from government-funded programs for research and development projects within the area of E-Mobility. In 2011, ElringKlinger AG received EUR 3.7 (3.1) million in grants from these funds. In parallel with this inflow of funds, the company incurred expenses for research and development activities.
In the previous financial year, one-time other provisions of EUR 1.7 million had been created in response to a ruling of the German Federal Labor Court in December 2010 on the interpretation of the Framework Collective Pay Agreement (Auslegung der Bestimmungen des Entgeltrahmentarifabkommens – ERA). In 2011, the company was in a position to reverse this provision as at December 31, 2011, with recognition in profit/loss. Other operating income rose by a corresponding amount.

**Reduction in other operating expenses**

Other operating expenses fell to EUR 64.8 (68.0) million. This was attributable largely to foreign exchange effects. Foreign exchange losses were reduced by EUR 11.4 million, down to EUR 3.5 (14.9) million. They were mainly due to the valuation of loans granted by ElringKlinger AG to subsidiary companies.

The movement in the exchange rate between the euro and the Swiss franc (EUR/CHF) is of particular relevance to ElringKlinger AG, especially with regard to financing agreed in respect of the purchase consideration payable for the acquisition of the SEVEX Group in 2008, denominated in Swiss francs. In view of the continued appreciation of the Swiss franc relative to the euro, liabilities relating to the existing loan had to be revalued upwards in 2011, which exerted downward pressure on income. This specific situation resulted in foreign exchange losses of EUR 1.4 (8.9) million.

In the previous financial year, other operating expenses had also included non-recurring consulting and ancillary costs of EUR 2.6 million incurred in connection with the seasoned equity offering implemented in October 2010.

**Operating result before exceptional items up 36.1%**

The price of materials and the additional expenses incurred in connection with temporary overcapacity operations required at some sites of ElringKlinger AG, as outlined above, had an adverse effect on the operating result and partially offset the significant growth in sales revenue. Additionally, the company incurred significant lead costs in 2011 in connection with the ongoing expansion of the E-Mobility division.

One-time income from the disposal of the Ludwigsburg industrial park contributed EUR 27.7 million to the operating result. In total, ElringKlinger AG’s operating result rose by EUR 38.4 million to EUR 81.9 (43.5) million. Adjusted for the one-time gain from the sale of the industrial park, the operating result was EUR 54.2 million. This represents an increase of 24.6% compared to the prior-year figure.

**Income from affiliated companies largely unchanged**

Benefiting from higher levels of capacity utilization and a string of new projects, most of the subsidiaries recorded growth in both sales revenue and earnings. With aggregate earnings still in negative territory, the companies acquired in 2011 had a slightly dampening effect on ElringKlinger AG’s income from affiliated companies. The total amount distributed from earnings generated by the subsidiaries was EUR 23.1 (19.0) million.
In view of improved sales and earnings performance, ElringKlinger AG performed write-ups of the investment carrying amounts of two subsidiaries, totaling EUR 6.5 million: Elring Klinger (Great Britain) Ltd., Redcar, United Kingdom, and ElringKlinger Korea Co., Ltd., Changwon, South Korea. By contrast, the investment carrying amount relating to the North American spare parts company ElringKlinger North America, Inc., Plymouth, USA, was written down by EUR 0.7 million. In the case of the former Freudenberg company ElringKlinger Meillor SAS, Nantiat, France, acquired in January 2011, the carrying amount had to be adjusted by EUR 4.0 million. The net result of these adjustments was a write-up of the investment carrying amounts by EUR 1.8 million.

In total, income from affiliated companies remained largely unchanged at EUR 24.9 (25.3) million.

**Net interest result slightly lower**
The temporary reduction in interest-bearing bank borrowings as a result of the proceeds from the seasoned equity offering were offset by financing arrangements for the purchase prices payable in connection with the three acquisitions transacted over the course of 2011. Additionally, there were substantial investments in tangible fixed assets. In total, net debt rose to EUR 188.4 (99.1) million as at the end of 2011.

At EUR 10.9 (10.9) million, interest expense remained unchanged year-on-year. In this context, the general decline in interest rates proved beneficial to ElringKlinger AG as regards its floating-rate loans. In total, the net interest result, which also includes income from other securities and loans, stood at EUR -8.7 (-8.6) million.

**Income from ordinary activities up by 63%**
Income from ordinary activities benefited from higher capacity utilization and the reduction in foreign exchange losses in 2011. Furthermore, the sale of the Ludwigsburg industrial park contributed significantly to growth within this area. Income from ordinary activities rose by EUR 37.9 million to EUR 98.1 (60.2) million. Adjusted for the one-time gain on the disposal of the industrial park, income from ordinary activities stood at EUR 70.4 million. At 16.9%, adjusted growth in income was slightly higher than the increase in sales revenue.

**Significant reduction in extraordinary expense**
Extraordinary expense was considerably lower in 2011. The merger of ElringKlinger Spezialdichtungen GmbH into ElringKlinger AG produced non-recurring expense of EUR 1.1 million. By contrast, the adoption of new rules imposed by the Act to Modernize Accounting Law (Bilanzrechtsmodernisierungs- gesetz – BilMoG) in 2010 had resulted in extraordinary expense of EUR 13.4 million, which had a one-time impact on the profits of ElringKlinger AG.

**Higher tax expense**
The significant increase in sales and earnings created a broader tax base. Additionally, deferred tax liabilities amounted to EUR 7.8 million. Of this figure, EUR 7.6 million is due to the application of Section 6b of the German Income Tax Act (Einkommensteuergesetz – EStG) on disposal of the Lud-
wigsburg industrial park. Consequently, income taxes rose by EUR 12.4 million to EUR 22.6 (10.2) million. The tax rate (income taxes in relation to income from ordinary activities) stood at 23.0% (16.9%) in 2011.

**Net income at record level: EUR 74.3 million**
Net income rose at a more pronounced rate in percentage terms than income from ordinary activities. It was up by 103.6%. Net income generated by ElringKlinger AG totaled EUR 74.3 (36.5) million in 2011.

**Earnings target for 2011 met**
For 2011, ElringKlinger AG had set itself the target of improving on its fiscal 2010 performance in terms of both sales revenue and income from ordinary activities. The company met both annual targets with ease.

**Dividend with special bonus**
After allocation of EUR 37.1 (14.3) million to other revenue reserves, net retained earnings (i.e. distributable profit) of ElringKlinger AG, from which dividend payments are distributed, amounted to EUR 37.1 (22.2) million.

As a result of one-off income from the sale of the Ludwigsburg industrial park, net income was boosted by an additional EUR 20.1 million, having accounted for deferred taxes. Shareholders are to benefit from the significant one-off increase in net income and net retained earnings – beyond the proposed regular dividend of EUR 0.40 per share for the financial year 2011. This is to be implemented in the form of an additional special bonus of EUR 0.18 per share. Therefore, the Management Board and Supervisory Board will propose to the Annual General Meeting resolving on the 2011 financial year a total dividend of EUR 0.58 per share.

The new shares placed on October 6, 2010, as part of the seasoned equity offering have been qualified for a dividend since January 1, 2010. Therefore, the number of no-par-value shares entitled to a dividend in respect of fiscal 2011 remained unchanged at 63,359,990.

**Net Assets**

With an equity ratio of 54.2% and positive net cash from operating activities, ElringKlinger AG remained solid in terms of its financial position and cash flows as at December 31, 2011.

**Total assets up 19%**
The significant growth generated by ElringKlinger AG was reflected in total assets. Within this context, the increase in total assets was attributable primarily to the rise in financial and tangible fixed...
assets as well as higher working capital. As at December 31, 2011, total assets stood at EUR 800.0 (674.7) million, up EUR 125.3 million on the previous year. The integration of ElringKlinger Spezialdichtungen GmbH into ElringKlinger AG had no significant effect on the balance sheet.

Tangible fixed assets grew by EUR 23.8 million or 11.8% to EUR 224.8 (201.0) million. Among the contributing factors were extensive investments in land and buildings (EUR 7.4 million) as well as in fixed assets under construction (EUR 38.5 million), which exceeded depreciation and amortization of fixed assets. The disposal of the Ludwigsburg industrial park, with a residual book value of EUR 6.3 million, had a contrary effect. The treatment relating to tools changed effective from January 1, 2011, as a result of a modified interpretation of supply contracts. They are now accounted for as current inventories until the point of completion, rather than being recognized as fixed assets. Tools* are recognized in profit or loss upon transfer of economic ownership to the customer (Notes, page 5). As a result, tangible fixed assets increased at a slower rate than in the previous year and at a less pronounced rate relative to sales revenue.

Due mainly to the acquisitions transacted in fiscal 2011, financial assets rose by EUR 61.8 million. After the write-downs attributable to ElringKlinger Meillor SAS, Nantiat, France, as discussed earlier, the figure as at December 31, 2011, stood at EUR 57.8 million. Additionally, this figure was influenced by loans to affiliated companies, which were up EUR 24.9 million year on year, as well as the above-mentioned net write-ups in the investment carrying amount of subsidiaries. In total, financial assets rose at a much more pronounced rate relative to total assets, up by EUR 102.4 million to EUR 359.0 (256.6) million.

The expansion of intangible assets was attributable mainly to patents of EUR 1.1 million acquired from Freudenberg. As at December 31, 2011, intangible fixed assets totaled EUR 2.9 (1.0) million.

In total, fixed assets amounted to EUR 586.8 (458.6) million, which was 28.0% up on the same figure posted for the previous financial year.

Growth-induced increase in working capital

Inventories held by ElringKlinger AG rose as a result of more expansive production output, reaching EUR 83.3 (58.0) million at the end of 2011. In this context, it should be noted, as outlined above, that changes in the interpretation of supply contracts for tools contributed to higher inventories. Excluding the effects of these changes, inventories would have increased by just EUR 10.5 million.

Trade receivables and other assets rose by EUR 27.1 million. As at December 31, 2011, they totaled EUR 129.2 (102.1) million. Alongside the significant expansion in sales revenue, this was attributable to a claim of EUR 14.4 million towards an insurance company* (Notes, page 12). Capital tied up in inventories, receivables and other assets thus increased at a faster rate relative to sales revenue. Without the expansion in inventories as a result of changes in the interpretation of tool-related contracts and excluding the insurance claim, working capital would have increased by 14.5%, i.e. at a rate proportionate to sales revenue.
Cash in hand, bank balances and checks, which had been propelled upwards in the previous year due to the proceeds from the seasoned equity offering at the time, were scaled back to EUR 0.4 (55.7) million.

Current assets as a share of total assets contracted to 26.6% (32.0%) in view of the fact that fixed assets, particularly the financial assets, underwent more pronounced growth in percentage terms.

Equity ratio at 54%
ElringKlinger AG’s net retained earnings totaled EUR 37.1 million in 2011, compared to EUR 22.2 million in the previous financial year. The company was in a position to allocate a larger amount to revenue reserves, despite the fact that the dividend payout was almost doubled to EUR 22.2 (11.5) million in 2011. Revenue reserves amounted to EUR 212.1 (175.0) million in total.

In total, shareholders’ equity stood at EUR 433.5 (381.4) million, i.e. it expanded at a less pronounced rate than the balance sheet total. Consequently, the equity ratio was slightly lower than in the previous year, but nevertheless remained at a solid 54.2% (56.5%).

Higher provisions
Provisions rose by EUR 10.0 million or 12.7% year on year to EUR 88.6 (78.6) million. This was attributable mainly to an increase in tax provisions by EUR 4.2 million.

Provisions for pensions rose from EUR 53.3 million to EUR 56.1 million. This figure was influenced primarily by pension provisions for Management Board members, which increased by EUR 1.1 million. This, in turn, was attributable to the new compensation structure agreed for the Management Board (Compensation Report, page 79 et seqq.). The carve-out and transfer of some of the pension provisions to a pension fund had a contrary effect.

Other provisions saw a reduction in provisions for contingent losses relating to order backlog as a result of changed estimates (Notes, page 14). Provisions recognized in 2010 in connection with the Framework Collective Pay Agreement were reversed in 2011, which also contributed to a partial reduction in other provisions. These effects were counteracted in particular by higher provisions for flexitime, overtime and holidays, which were the result of the high levels of capacity utilization in the financial year under review. In total, other provisions amounted to EUR 27.2 (24.2) million.

The share of provisions in the balance sheet total fell to 11.1% (11.7%).

Net debt up following acquisitions
In fiscal 2011, bank debts were expanded by EUR 34.0 million year on year to EUR 188.8 (154.8) million. This was attributable primarily to the acquisitions transacted over the course of 2011 as well as investment projects.

The increase in debt was mainly attributable to short-term bank borrowings (with remaining terms of up to one year). These rose by EUR 40.9 million. By contrast, long-term financial liabilities (with remaining terms of more than five years) were scaled back by EUR 11.7 million.
Net financial debt (financial liabilities less cash) thus rose by EUR 89.3 million to EUR 188.4 (99.1) million.

Trade payables rose in parallel with higher production output and thus also more expansive purchasing volumes. Expanding proportionately to sales revenue, they increased by 14.7% to EUR 22.6 (19.7) million.

Payables to affiliated companies rose to EUR 10.8 (0.4) million, which was attributable to a loan on overdraft provided by ElringKlinger Kunststofftechnik GmbH to ElringKlinger AG.

Other liabilities include a customer claim of EUR 7.0 million against ElringKlinger AG in connection with a warranty case* (Notes, page 12). This was the principal driving force behind the rise in other liabilities from EUR 38.6 million to EUR 46.6 million.

In total, liabilities amounted to EUR 269.1 (213.5) million. On this basis, liabilities accounted for 33.6% (31.6%) of total equity and liabilities.

Deferred tax liabilities rose to EUR 8.8 (0.9) million. This was attributable to the application of Section 6b EStG, as outlined above.

Cash Flows

The information presented with regard to cash flows is based on a Statement of Cash Flows prepared in accordance with German Accounting Standards (GAS) 2. The unrealized foreign exchange gains/losses included in the Statement of Cash Flows, which were formerly accounted for in cash flows from financing activities, have now been accounted for in cash flows from operating activities or adjusted accordingly.

**Year-on-year increase in cash flow from operating activities**

Compared with the previous financial year, cash flow from operating activities increased slightly in fiscal 2011 as a whole.

The increase in net income by EUR 37.8 million helped to boost cash flow. Higher depreciation/amortization and write-downs of intangible fixed assets, tangible fixed assets, tools and financial assets (less reversals of write-downs) amounting to EUR 35.1 (28.5) million also had a positive effect on cash flow. This included the above-mentioned impairment loss of EUR 2.4 million in respect of surpluses resulting from the merger of Elring Klinger GmbH into ZWL Grundbesitz- und Beteiligungs-AG in 2000.
The merger of ElringKlinger Spezialdichtungen GmbH into ElringKlinger AG produced extraordinary expense of EUR 1.1 million. However, this had no effect on cash flow.

Provisions increased by a total of EUR 0.7 million in 2011. At EUR 14.6 million, the increase recorded in 2010 had been much more pronounced, attributable primarily to the first-time adoption of new rules applicable under the Act to Modernize Accounting Law (Bilanzrechtsmodernisierungsgesetz – BilMoG).

The net gain – after offsetting gains and losses – from the disposal of assets increased significantly compared to the previous year, rising to EUR 26.5 (0.4) million in 2011. Within this context, the sale of the Ludwigsburg industrial park in particular made a sizeable contribution with a one-off gain on disposal of EUR 27.7 million. The reported cash flow from operating activities was adjusted by the offset gains and losses from the disposal of fixed assets.

Due to the substantial increase in production volumes in 2011, stock levels also expanded in the financial year under review. Inventories rose by EUR 9.1 (9.1) million. The adjustments to treatment of tools as a result of changes in the interpretation of supply contracts as from January 1, 2011, had a significant effect on cash flow from operating activities. As a result, inventories rose by an additional EUR 14.8 million. In total, inventories expanded by EUR 23.9 million.

While trade receivables had increased by EUR 13.5 million in fiscal 2010, they were up by just EUR 4.4 million in 2011. This was significantly lower than the level of growth in sales revenue.

By contrast, other assets not attributable to investing or financing activities rose by EUR 17.4 (0.2) million. This was due mainly to the above-mentioned claim of EUR 14.4 million against an insurer. Over the course of 2011, EUR 10.0 million of the original total claim of EUR 24.4 million was reimbursed by the insurer.

The claim against the insurer was counterbalanced by corresponding liabilities, of which ElringKlinger AG settled EUR 17.4 million over the course of the financial year. Consequently, as at December 31, 2011, other assets not attributable to investing and financing activities included outstanding liabilities of EUR 7.0 million in connection with the warranty case.

Trade payables increased in 2011, but at a less pronounced rate compared to the previous year.

In total, trade payables and other liabilities not attributable to investing or financing activities rose by EUR 8.2 (4.6) million.

Overall, net cash from operating activities increased by EUR 1.8 million to EUR 64.8 (63.0) million. The cash return (cash flow from operating activities in relation to sales) fell to 14.8% (16.5%).
Cash flow from investing activities dominated by sale of industrial park and substantial capital expenditure

In 2011, ElringKlinger AG recorded a cash inflow of EUR 34.0 million from the sale of the Ludwigsburg industrial park. As a result, cash receipts from the disposal of tangible fixed assets and intangible fixed assets rose by EUR 32.8 million in total to EUR 38.4 (5.6) million.

ElringKlinger AG’s investment activities were mainly centered around the payments made in connection with the three acquisition deals closed in 2011.

ElringKlinger AG saw its cash outflow for investments in financial assets and the acquisition of merged entities rise to EUR 84.3 (5.8) million, primarily due to the payment of the purchase considerations for the takeover of the Freudenberg companies, the Swiss Hug Group and the Hummel-Formen Group.

Cash outflows for investments in intangible fixed assets increased to EUR 2.6 (0.5) million and primarily included patents acquired from Freudenberg.

The outflow of cash for investments in buildings and land, machinery, equipment and tools was further expanded in 2011, mainly as a result of major projects. Cash outflow in this area amounted to EUR 64.8 million, which was up on the figure recorded in the previous year (EUR 60.9 million).

A considerable share of investments was channeled into the construction of a new plant for plastic housing modules at the site in Dettingen/Erms as well as into the completion of the new logistics center. The new operating facility covers 20,000 m² of production space, offering state-of-the-art manufacturing systems and tool technology. The plant will produce lightweight cam covers, oil pans and oil suction pipe modules made of extremely light polyamide plastics. The emphasis of new ramp-ups is on the production of components for the truck industry.

Several new machines and operating systems were purchased for the Plastic Housing Modules/Elastomer Technology division. Additionally, ElringKlinger AG further expanded the E-Mobility division in 2011. The company invested in a number of new machines for a newly designed operating system in preparation for the mid-2011 ramp-up of serial production of cell contact systems used in lithium-ion batteries.

The Cylinder-head Gaskets division purchased new machinery for its sites in Dettingen/Erms and Runkel. These were required primarily for new project start-ups. Investments within the Specialty Gaskets division included a new coating unit as well as a punching press.

As a result of the changes in treatment of tools following the different interpretation of supply contracts, cash outflows for investments in tools were EUR 11.4 million lower than in the previous financial year.
The investment ratio (capital expenditure on tangible fixed assets as well as intangible fixed assets and tools as a proportion of sales) fell to 15.4% (16.1%). This was attributable primarily to the significant level of growth in sales during 2011.

Net cash from investing activities used by ElringKlinger AG amounted to a total of EUR 113.1 (61.7) million.

On this basis, ElringKlinger AG had a significant operating free cash flow of EUR 36.0 million in 2011. However, this includes a cash inflow of EUR 34.0 million from the sale of the industrial park. Operating free cash flow is defined as cash flow from operating activities less cash flow from investing activities adjusted for net investments in financial assets as well as merged entities.

**Reduction in cash flow from financing activities**

Net cash used in financing activities totaled EUR 7.0 million in 2011. In 2010, ElringKlinger AG had recorded a net inflow of cash of EUR 54.1 million from financing activities. The considerable cash inflow of 2010 was attributable mainly to the proceeds of the seasoned equity offering implemented in October 2010 (EUR 123.8 million).

At EUR 22.2 million, the dividend payout to shareholders in 2011 was almost double the amount distributed in the previous year (EUR 11.5 million).

While short-term financial liabilities had been scaled back by EUR 18.9 million in 2010, ElringKlinger AG took out short-term loans equivalent to a net amount of EUR 58.8 million in 2011. By contrast, long-term loans amounting to EUR 26.3 (22.2) million were repaid.

Additionally, loans granted to subsidiaries contributed to the net outflow of cash used in financing activities. The parent company provided EUR 27.0 (10.6) million in loans to its subsidiaries in 2011, up EUR 16.4 million compared to the previous year.

At the same time, ElringKlinger AG received EUR 9.6 million in loans and time deposits from affiliated companies. By contrast, borrowings from affiliated companies had been scaled back by EUR 6.6 million in 2010.

As at December 31, 2011, cash and cash equivalents of ElringKlinger AG amounted to EUR 0.4 (55.7) million.
Procurement

The main task of ElringKlinger AG’s purchasing department is the procurement of commodities and materials for production. The principal raw materials used by ElringKlinger AG are C-steel, high-grade steel alloys (mainly nickel alloys), aluminum, polymer granules and rubber. In 2011, materials procurement for the plants operated by ElringKlinger AG was again managed primarily by Central Purchasing at the company’s headquarters in Dettingen/Erms.

One of the main challenges faced by procurement management in 2011 was how to make sure that sufficient volumes of raw materials and primary products were supplied to production on time. Some of the customers increased their requirements at very short notice in view of the dynamic rise in demand. As a result, ElringKlinger AG’s procurement requirements in 2011 considerably exceeded the quantities originally planned.

The natural disaster that took place in Japan in March 2011 also represented a major challenge for the purchasing department. It led to supply-side shortages of certain raw materials, particularly with regard to polymers that are needed to produce rubber. Nevertheless, thanks to the close and long-standing relationships that ElringKlinger has with its suppliers, ElringKlinger AG was always able to guarantee the efficient provision of volumes required for production purposes. However, price increases on certain raw materials could not be avoided.

Purchasing volume increases by 21%
The noticeable growth in sales generated by ElringKlinger AG in 2011 was reflected in a significant increase in purchasing volume in the period under review. It expanded by 20.8% year on year to EUR 290.3 (240.3) million. The purchasing volume encompassed externally sourced raw materials, consumables and supplies as well as merchandise for the company’s independent Aftermarket business, in addition to investments in land, tangible fixed assets and real estate. The total cost of materials was EUR 221.7 (172.0) million. This increase was due to the larger quantities purchased and the rise in raw material prices. For example, in the first six months of 2011, the price of nickel for use in high-grade steel alloys rose by around 30% to USD 30,000 per ton.

Strong demand prompts further rise in commodity prices
Buoyant demand within the manufacturing sector as a whole led to shortages in the supply of steel, polymer granules and rubber. The sudden spike in volumes requested by customers as part of their production scheduling translated into higher prices paid for the purpose of replenishing raw materials. As a result, ElringKlinger AG’s expenditure on raw materials once again increased year on year.

The price of some raw materials purchased by ElringKlinger AG began to fall slightly in the second half of 2011 due to fears of an economic slowdown. However, it generally takes three to four months before these downward price adjustments have an effect on ElringKlinger’s purchasing costs. By contrast, the company’s proceeds from the sale of scrap tend to contract relatively quickly in line with price movements on the London Metal Exchange. Nickel prices eased considerably in the third quarter of 2011. ElringKlinger AG took advantage of this trend by making use of derivative instruments...
to hedge against part of the nickel-based alloy surcharges for the quantities of high-grade steel required by the company.

ElringKlinger AG normally concludes supplier agreements that are valid for a period of one year or longer in order to limit the risk presented by rising raw material prices and guarantee the volumes required for production. These long-term supply contracts provide ElringKlinger AG with a fixed, calculable base. The company also looks to counteract price increases by qualifying more inexpensive suppliers, expanding its global supplier base and sourcing new materials.

Rise in energy prices partially offset by long-running contracts

As a result of higher production output, ElringKlinger AG’s energy consumption rose to 86.9 (84.8) MWh (absolute energy consumption: electricity, gas and other energy sources). Due to the increase in market prices for electricity and gas, energy costs for 2011 amounted to EUR 7.3 (6.4) million.

As early as 2008, ElringKlinger AG concluded long-term supply contracts for large quantities of electricity and gas, thus guarding to a certain extent against an increase in purchase prices until 2013. In 2011, ElringKlinger AG negotiated new supply contracts for 2014. Additionally, it commissioned its own combined heat and power plant at its site in Dettingen/Ems in 2011, which also contributed to an overall reduction in energy costs and has provided a better basis for long-term planning in this respect (Sustainability*, page 66 et seqq.).

Continued expansion of global supplier structure

In terms of supplier management, ElringKlinger AG always makes every effort to develop its existing suppliers while at the same time seeking out new supply-side partners. In 2011, the focus was on reviewing and qualifying international suppliers. Potential suppliers were audited in accordance with international ISO standards as well as on the basis of the exacting quality and environmental guidelines defined by the company itself. In many cases, this allows ElringKlinger AG to identify more cost-effective sources of supply. To this end, regular quality and cost audits are carried out across all ElringKlinger AG sites.

ElringKlinger AG is committed to minimizing its dependency on single suppliers. In 2011, the company’s top 30 suppliers supplied around 50% of volumes purchased.

Over the course of 2011, ElringKlinger AG also refined its supplier management, focusing more strongly on enhancing the level of cooperation between the purchasing and quality management departments. When selecting new suppliers, the quality management department is now involved in the decision-making process at an even earlier stage.

Every year, ElringKlinger AG presents a supplier award in order to promote long-standing supplier relationships and recognize excellent performance. The award recognizes excellent product quality, reliability and quality management systems, along with customer-oriented service and communication. The 2011 award was presented to the ThyssenKrupp Steel Service Center (SSC) in Mannheim.
Sustainability

Sustainability is a key factor in the long-term success of ElringKlinger AG. The company places great emphasis on achieving environmental efficiency in all its business activities. Within this context, environmental considerations are central to the Group’s product development and production processes. ElringKlinger AG is also very aware of its responsibilities towards its staff and society as a whole.

In order to emphasize how important sustainable business practices are to the company, ElringKlinger AG will be publishing its first separate Sustainability Report in 2012.

Sustainable business models and non-financial indicators are becoming increasingly important for investors in the capital markets. In 2011, ElringKlinger AG was given a rating by Sustainalytics, a leading independent agency for assessing sustainability. It was ranked 6th among 33 companies in the automotive components segment. Since 2007, ElringKlinger AG has also been one of only a small number of automotive suppliers to be actively involved in the Carbon Disclosure Project (CDP) (www.cdproject.net). The ratings agency Oekom Research gave ElringKlinger AG a “prime” investment rating.

Green product portfolio and eco-friendly production processes – relative CO₂ emissions down 15%

The reduction of fuel consumption and the lowering of emission levels have emerged as key objectives within the automotive industry, whether this is achieved through engine downsizing, lightweight construction, exhaust purification systems or new, eco-friendly drive technology. As an automotive supplier, ElringKlinger AG believes its main focus should be on protecting the environment by developing innovative solutions for the reduction of emissions. This is the focus of almost the entire ElringKlinger product range centered around applications for engines, transmissions and exhaust systems. It also applies to ElringKlinger’s activities in the area of electromobility. Further information on ElringKlinger products and their contribution to greener mobility can be found in the chapter “Research and Development” and on the company’s website at www.ElringKlinger.de under the heading “Products”.

ElringKlinger AG always strives to optimize the use of resources in order to make its production processes as environmentally-friendly as possible. Each month, its central Environmental Management unit collects, checks and evaluates a series of key indicators that track the use of resources, energy consumption, emissions and waste at all the company’s production locations worldwide. Appropriate optimization measures are then introduced as required. In many cases, these measures also help to streamline costs. Energy efficiency is one of the main criteria for any decision to invest in new machines or equipment.

The very highest levels of quality are essential for running a sustainable and environmentally-friendly business operation. High levels of quality provide the basis for a long service life and a lower number of rejects during the production process. All production facilities of ElringKlinger AG are certified in accordance with TS 16949 or ISO 9001, the standard applicable within the automotive industry. They also operate an environmental management system according to ISO 14001.
One of ElringKlinger AG’s key objectives is to reduce its relative CO\textsubscript{2} emissions by 3% per annum. In 2011, this target was not only reached but exceeded, with levels of 55.2 metric tons in relation to sales of one million euros. This represented a reduction of 14.6% compared to the previous year (64.6 metric tons). Absolute CO\textsubscript{2} emissions totaled 24,200 (24,700) metric tons. This includes emissions generated by the supply and consumption of electricity, gas and heating oil. The average CO\textsubscript{2} emissions generated by the ElringKlinger vehicle fleet amounted to 159 g/km (159 g/km).

The company commissioned its own combined heat and power plant (CHP), which began operation in Dettingen/Erms in mid-2011. This also contributed to the reduction of ElringKlinger AG’s CO\textsubscript{2} emissions. The CHP generates electricity, and the resultant waste heat can be used for heating purposes. This double utilization of energy makes the CHP particularly effective, with an overall efficiency level of 90%.

The installation of a new heating system at the main plant in Dettingen/Erms also had a positive effect on energy efficiency. A modern gas-fired system was installed to replace the oil-fired boiler that had been in place since 1972. Energy conservation was also a major focus during the construction of the new factory for plastic housing modules in Dettingen/Erms to be completed in 2012. The new plant provides almost 20,000 m\textsuperscript{2} of production space. The roof, approx. 3,000 m\textsuperscript{2} in size, is fitted with solar panels which can produce around 450 KW of electricity. Waste heat from the machinery and plant can also be used to heat the production facilities and offices. This results in annual savings of around 1,300 MWh of primary energy.

Along with lowering its energy consumption in 2011, ElringKlinger AG was also able to decrease the amount of waste generated in relation to production output. The amount of solvents used per produced gasket was also reduced. This was due to a switch from full coating to partial coating methods.

### Environmental Indicators of ElringKlinger AG

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO\textsubscript{2} emissions in metric tons</td>
<td>24,200</td>
<td>24,700</td>
</tr>
<tr>
<td>CO\textsubscript{2} emissions in metric tons per EUR 1 million in sales</td>
<td>55.2</td>
<td>64.6</td>
</tr>
<tr>
<td>Absolute energy consumption (electricity, gas and other energy sources) in MWh</td>
<td>86,900</td>
<td>84,800</td>
</tr>
<tr>
<td>Absolute energy consumption in MWh per EUR 1 million in sales</td>
<td>198.4</td>
<td>221.6</td>
</tr>
<tr>
<td>Of which electricity consumption in MWh</td>
<td>41,300</td>
<td>38,500</td>
</tr>
<tr>
<td>Electricity consumption in MWh per EUR 1 million in sales</td>
<td>94.4</td>
<td>100.6</td>
</tr>
<tr>
<td>Water consumption in m\textsuperscript{3}</td>
<td>47,700</td>
<td>40,600</td>
</tr>
<tr>
<td>Solvents in metric tons</td>
<td>610</td>
<td>580</td>
</tr>
<tr>
<td>Total waste in metric tons</td>
<td>17,100</td>
<td>16,400</td>
</tr>
<tr>
<td>Of which metal waste in metric tons</td>
<td>15,700</td>
<td>14,200</td>
</tr>
</tbody>
</table>

* incl. ElringKlinger Spezialdichtungen GmbH merged into ElringKlinger AG
Investment in the future: sustainable HR policies

Reflecting its commitment to sustainable corporate management, ElringKlinger AG provides its staff with a working environment that is both motivating and socially balanced. A Corporate Code was introduced as early as 2007. This Code laid down binding rules regarding diversity in the workplace, staff development, remuneration and working hours, along with health and safety regulations. The ElringKlinger Corporate Code can be accessed online at www.ElringKlinger.de*.

Our goal is to have a satisfied workforce and thus generate long-term loyalty to the company, which is in turn reflected in lower numbers of sick days and reduced staff turnover. Both figures remained largely unchanged in 2011 in comparison to the previous year.

A major part of ElringKlinger AG’s HR function is the recruitment of talented young people and the provision of employee training. For many decades now, ElringKlinger AG has been offering vocational training programs for both commercial and technical professions. This is complemented by degree courses at Cooperative State Universities. In 2011, the company also supported 35 students preparing diploma, bachelor’s and master’s theses and offered internships for both school pupils and students.

At ElringKlinger AG, all staff are offered training opportunities to suit their particular needs. In addition to training in specific areas, ElringKlinger AG offers general skills courses, including project management, team seminars, software skills and foreign languages. In 2008, a special project was launched to help prepare the company’s future generation of managers to take on managerial responsibilities within the space of two years. Seventeen young professionals are currently taking part in this program.

During the year under review, ElringKlinger AG spent EUR 0.3 (0.2) million on training and professional development.

ElringKlinger AG allows its staff to participate appropriately in the company’s success. In 2011, staff received a bonus of EUR 1,000 in respect of the previous financial year.

ElringKlinger AG believes it is important to have a diverse workforce. One of its clear objectives is to maintain a healthy mix of different ages and nationalities and to enforce the principles relating to diversity as set out in the Corporate Governance Code. There are now two female members of the Supervisory Board following the appointment of Dr. Margarete Haase in 2011.

The figures given below reflect the long-term approach pursued by ElringKlinger AG with regard to its HR policies. For the sake of even greater transparency, some HR indicators have been published for the first time for the 2011 financial year.
ElringKlinger AG has been working with the Bruderhaus Diakonie foundation and the associated disabled persons’ workshops in Dettingen/Erms for ten years. The workshops independently handle complete processes for ElringKlinger’s Aftermarket division, including tasks such as the sorting, finishing and packing of gasket sets. In 2011, ‘standard production’ was introduced into the workshops in order to handle spikes in demand. This means that certain processes are always carried out at certain times, which guarantees the best possible utilization of available capacity, regardless of demand.

### HR Indicators of ElringKlinger AG

<table>
<thead>
<tr>
<th>Indicator</th>
<th>as at Dec. 31, 2011</th>
<th>as at Dec. 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute number of employees</td>
<td>1,972</td>
<td>1,757</td>
</tr>
<tr>
<td>Of which men</td>
<td>73.2%</td>
<td>72.6%</td>
</tr>
<tr>
<td>Of which women</td>
<td>26.8%</td>
<td>27.4%</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>1,888</td>
<td>1,693</td>
</tr>
<tr>
<td>Breakdown of age groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 30 years old</td>
<td>20.4%</td>
<td>17.7%</td>
</tr>
<tr>
<td>30 to 50 years old</td>
<td>53.7%</td>
<td>56.2%</td>
</tr>
<tr>
<td>Over 50 years old</td>
<td>25.9%</td>
<td>26.1%</td>
</tr>
<tr>
<td>Percentage of vocational trainees/apprentices</td>
<td>3.6%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Interns and thesis students</td>
<td>35</td>
<td>72</td>
</tr>
<tr>
<td>Staff turnover rate</td>
<td>1.1%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Average number of sick days per employee</td>
<td>12.7</td>
<td>11.7</td>
</tr>
<tr>
<td>Employees covered by collective agreements</td>
<td>1,875</td>
<td>1,661</td>
</tr>
<tr>
<td>Number of qualification interviews conducted</td>
<td>1,875</td>
<td>891</td>
</tr>
<tr>
<td>Percentage of part-time employees</td>
<td>7.9%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Employees on permanent contracts</td>
<td>1,737</td>
<td>1,614</td>
</tr>
<tr>
<td>Number of employees with severe disabilities</td>
<td>115</td>
<td>89</td>
</tr>
<tr>
<td>Number of employees in management positions*</td>
<td>53</td>
<td>-</td>
</tr>
<tr>
<td>Of which women*</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Of which local nationals</td>
<td>53</td>
<td>-</td>
</tr>
<tr>
<td>Work-related accidents leading to more than 3 days off work</td>
<td>67</td>
<td>63</td>
</tr>
<tr>
<td>Work-related fatalities*</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>Absolute number of employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In partial retirement*</td>
<td>59</td>
<td>-</td>
</tr>
<tr>
<td>On maternity leave*</td>
<td>13</td>
<td>-</td>
</tr>
<tr>
<td>On parental leave*</td>
<td>31</td>
<td>-</td>
</tr>
<tr>
<td>Number of improvement suggestions submitted</td>
<td>137</td>
<td>188</td>
</tr>
<tr>
<td>Number successfully implemented</td>
<td>55</td>
<td>80</td>
</tr>
<tr>
<td>Number rejected*</td>
<td>82</td>
<td>-</td>
</tr>
</tbody>
</table>

*Published for the first time in 2011, therefore no prior-year figures available
This harmonization also benefits the disabled people, as it allows them to have a more regular working day.

ElringKlinger AG also makes regular donations to social projects. In 2011, more than EUR 45,000 (42,000) was set aside for non-profit purposes. As a member of the Stifterverband für die Deutsche Wissenschaft, ElringKlinger AG makes a significant contribution to improving science and science teaching in Germany.

Focusing on sustainable development
ElringKlinger AG will remain committed to taking the company forward in a sustainable way. One of the company’s core objectives for 2012 is to reduce its relative CO₂ emissions by a further 3%.

Research and Development

In 2011, R&D activities at ElringKlinger AG focused on two drive concepts: the optimization of combustion engine technology through downsizing and lightweight construction techniques on the one hand and e-mobility on the other.

With numerous new developments and applications in established product groups within the company’s core line of business, ElringKlinger development engineers once again paved the way for growth in the coming years. At the same time, completely new product concepts were being developed with regard to New Business Areas and Battery Technology, some of which have already been launched on the market.

This makes ElringKlinger AG one of the few automotive suppliers worldwide to develop and mass-produce not only products aimed at optimizing the conventional combustion engine but also components for e-mobility.

The company’s philosophy is to regard new developments as established products as soon as they are launched on the market and immediately start working on the next generation of concepts. In 2011, as in previous years, this strategy again allowed ElringKlinger AG to sharpen its competitive edge in the race for innovation.

Greater demands on innovative capacity
In respect of drive technology, the automotive industry is on the verge of a new era. The focus of R&D efforts is on sustainable, yet affordable, mobility solutions, ranging from further efficiency improvements using hybrids – i.e. combining the combustion engine with an electric drive unit – through to solely battery-powered drive systems and fuel cells.
For automotive industry suppliers like ElringKlinger AG, this means steadily increasing demands on its innovative capacities and the associated financing capabilities. Automotive suppliers are actively involved in shaping these developments. The value added to the total vehicle by automotive suppliers, which has now reached almost 75%, is set to rise even more in the coming years.

OEMs are showing growing interest in long-term collaboration with technology vendors who offer development and production capacity in all drive technologies and are capable of providing support in the form of specialized solutions and components, particularly for electric drive systems. ElringKlinger AG began positioning itself early on to take advantage of this development, and expanded its capacities considerably, particularly in Battery Technology, in 2011. At the same time, the company continued to forge ahead with development work in fuel cell technology.

When it comes to powertrain development, most customers are pursuing hybrid concepts. In the coming years, a large number of new vehicle models will be launched on the market as hybrids.

ElringKlinger AG benefits greatly from this trend, as it can supply both a wide range of components for the combustion engine as well as the new products for battery technology.

Higher expenditure on R&D reflects e-mobility trend
In 2011, ElringKlinger AG stepped up its investment in and expenditure on research and development, in both established product areas and, increasingly, in the new E-Mobility division.

Following its establishment two years ago, ElringKlinger AG’s Battery Technology unit alone now employs 56 people. As at December 31, 2011, the number of people employed in ElringKlinger AG’s R&D-related departments rose to 306 (268).

Over the course of the financial year 2011, ElringKlinger AG increased its R&D expenditure by a further EUR 3.8 million to EUR 42.4 (38.6) million.

R&D expenditure as a proportion of sales revenue was 9.7% (10.1%) in 2011, down on the previous year’s figure. The slightly lower R&D ratio in 2011 is largely attributable to substantially higher sales revenue, which therefore considerably increased the reference base for calculation.

Technological know-how protected by numerous patent filings
ElringKlinger AG has a dedicated in-house patents department to protect its technological know-how and intellectual property rights. In 2011, alone, it filed 35 patent applications and industrial property rights.
To safeguard its development know-how and key process advantages, ElringKlinger AG has concentrated all R&D activities at ElringKlinger AG’s sites in Germany, as well as at ElringKlinger Abschirmtechnik (Schweiz) AG and Hug Engineering AG (both in Switzerland). The Technology Centers of Excellence established at these sites handle the majority of R&D activities for the entire ElringKlinger Group.

Focus on fuel efficiency: downsizing and hybridization
Despite increasing electrification, the combustion engine will remain by far the dominant drive system in the coming 15 to 20 years. However, increasing numbers of fuel-efficient downsized engines will be combined with an electric motor in hybrid drivetrains. Purely battery-powered electric vehicles will become more prevalent within large urban areas in particular. Most market analysts predict that the proportion of all-electric vehicles will not yet have exceeded the 5 percent threshold by 2025.

In view of steadily increasing energy prices and stricter exhaust gas emission limits, the main development objectives of automobile manufacturers are to scale back fuel consumption and further reduce emissions of harmful nitrogen oxides, hydrocarbons and soot particles. Increasingly stringent CO₂ limits, as well as the Euro 6 standard due to come into force in 2014, have imposed much more challenging requirements on the entire engine technology. This also and primarily affects engine and exhaust gas components such as those supplied by ElringKlinger.

The company benefits above all from the strong demand for vehicles with downsized engines that are often capable of achieving fuel savings of more than 20% compared with their predecessors.

ElringKlinger AG has geared its product range and development activities to the significant demand for highly fuel-efficient, downsized but turbocharged engines. In 2011, the company won a large number of new development projects. The efficiency of the compact downsized engines is associated with considerably higher fuel injector and ignition pressures in the combustion chamber and with increased peak temperatures. This, in turn, imposes high performance requirements on the development of new cylinder-head and specialty gaskets and increases demand for thermal shielding parts to protect the surrounding components.

New designs and applications for metal gaskets
In the Cylinder-head Gaskets division, the focus was on developing even more effective sealing systems for downsizing concepts. The number of ongoing development projects for cylinder-head gasket applications rose to 221 (166), with demand from Asian customers exhibiting the highest growth rate.

ElringKlinger AG is a market leader in supplying cylinder-head gaskets for diesel engines. In addition, the company also won a large number of development projects in 2011 relating to the new highly efficient, supercharged petrol engines with direct fuel injection. With high peak pressures and
temperatures, these models also impose very exacting demands on the performance of sealing systems, necessitating technically sophisticated, multi-layer sealing concepts. ElringKlinger AG has developed new designs with additional supporting elements and coined, height-profiled (topographic) stoppers. In addition, a new, particularly stable elastomer coating material was launched on the market and is already in high demand with customers.

The trend towards turbochargers and the increasing complexity of exhaust gas systems are the most important drivers for the Specialty Gaskets division.

The requirement for special gasket designs for turbochargers has increased sharply in both Europe and North America. ElringKlinger AG is in the process of establishing itself as the leading vendor of complete sealing solutions for turbochargers. In 2011, ElringKlinger developed high-quality V-ring gaskets for this application as one of the key components for the turbocharger. Considerable progress was also made in the production and tooling technologies for the manufacture of these products. Moreover, ElringKlinger AG has pressed ahead with the development of new, highly heat-resistant alloy materials to be used in the production of sealing systems for turbochargers.

The increasing complexity of the exhaust tract, which – from catalytic converter to SCR system – comprises more and more components to be joined together, has led to noticeably higher demand from customers for high-quality exhaust gas sealing systems. To meet the wide range of requirements in the high-temperature environment of the exhaust gas system, the Specialty Gaskets division designed an extensive range of new gasket applications and geometries. In the area of exhaust gas technology, this division works closely with Elring Klinger Motortechnik GmbH, which offers extensive know-how in this field and state-of-the-art testing and test rig technology along with engineering services for external customers.

In 2011, ElringKlinger AG developed additional designs of control plates for the latest generation of automatic and dual-clutch transmissions – ready for serial production. Within this context, a patented sealing concept reduces internal leakage flow within the gearbox, thereby contributing to improved efficiency.

**Thermal management increasingly important**

The introduction of new compact engines and sophisticated exhaust gas aftertreatment systems has generally necessitated more sophisticated temperature management. Turbocharger technology, exhaust gas recirculation and limited space translate into high ambient temperatures, a situation that calls for integrated thermo-management solutions. This, in turn, increases demand for shielding components in the vehicle.

In 2011, the Shielding Technology division designed an extensive range of thermal and acoustic shielding components that protect heat-sensitive parts such as hoses, sensors or electronic control devices from high ambient temperatures in and around the engine and exhaust tract. In the process, ElringKlinger AG developed complete shielding packages for the engine compartment, vehicle underbody and exhaust gas system.
Many development projects focused on the customers’ key requirement of combining thermal shielding with sound insulation. ElringKlinger AG’s response was to develop numerous specific parts with a wide range of applications for combined noise and heat shields using multilayer composite technology.

With its development of lightweight materials with low heat conductivity coefficients and innovative multilayer composite materials that incorporate both thermal and acoustic shielding properties, the Shielding Technology division was able to make a significant contribution to reducing vehicle weight. Innovative shielding concepts based on aerogels with high melting points of more than 1,000 degrees Celsius are in the pre-development phase.

The shielding solutions developed by ElringKlinger AG therefore make a substantial contribution to reducing energy losses and limiting the cold start phase. Thermal losses in the engine compartment and the exhaust gas aftertreatment unit can be minimized by shielding and encapsulation, and the ambient temperature can be maintained at a level closer to the optimum point. This reduces fuel consumption and lowers harmful emissions.

Over the course of the year, the ElringKlinger Shielding Technology division worked on several shielding concepts as part of a research project under the heading of “Energy Harvesting.” Within this context, the heat created is not only dissipated but also utilized for the purpose of producing electricity by means of thermoelectric generators.

In the year under review, the first products were introduced to the market within the field of E-Mobility. The Shielding Technology division designed a complete thermal-acoustic shielding package for the drivetrain of a hybrid electric sports car. Other components specially tailored to hybrid and all-electric cars are currently undergoing development.

**Reducing CO₂ through lightweight design**

The R&D activities of the Plastic Housing Module/Elastomer Technology division focused on replacing heavy metal parts with more cost-efficient, lightweight plastic housing modules. This reduces the overall weight of vehicles and delivers considerable advantages when it comes to scaling back CO₂ emissions.

In 2011, the division developed numerous housing modules made of thermoplastic materials for engine- and transmission-specific applications. For example, these included cam covers, engine and gearbox oil pans as well as shift pistons and end-shield housings in the gearbox. In addition, plastic oil suction tubes were developed to serial-production level; they are to replace the aluminum solutions currently used within the market.

Based on the MuCell plastic injection-molding process, the company was able to create an even lighter material structure compared with conventional polyamide parts and to significantly reduce the weight of the component. Initial modules made of this material have gone into serial production.

A major challenge in the design of new products is to integrate add-on functions. In the case of the new plastic cam cover designs, ElringKlinger AG development engineers have already incorporated
functional elements such as vacuum accumulators, heat shields and fleece filter oil separation systems, as well as the sealing system and decoupling elements.

A series of plastic housing modules for trucks formed a focal point of development work in 2011. ElringKlinger AG managed to design particularly robust cam covers and oil pan modules that cope with the high mechanical stresses in the commercial vehicle segment. Tooling technology in particular is subject to special requirements in this area. Several major production start-ups for a leading German truck manufacturer will take place in the first half of 2012.

When it comes to potential applications, there is still considerable scope for plastics, as highlighted by the activities of Hummel-Formen GmbH, a manufacturer of plastic injection-molding tools acquired by ElringKlinger AG in 2011. The ElringKlinger subsidiary developed the requisite tooling technology and production processes for the very first wheel rim made of plastic. Compared with aluminum rims, weight savings of more than 10 kg per vehicle are possible. This offers extensive potential for use, particularly in small electric and hybrid vehicle concepts. The first prototypes were already showcased at the IAA motor show in 2011.

Hug – We reduce emissions
In acquiring the Hug Group, based in Switzerland, ElringKlinger AG has added complete exhaust gas purification systems and components to its product range. Its long-standing expertise makes Hug one of the world’s leading suppliers of diesel particulate filters and catalytic exhaust gas aftertreatment systems for various engine types and sizes.

The combination of Hug’s high-performance filter substrate with ElringKlinger’s environmentally friendly CleanCoat coating material – which is free from precious and heavy metals – looks promising. It is designed to assist with the catalytic burn-off of soot particles and allows filter regeneration even at comparatively low temperatures. There is a substantial reduction in the amount of post-injected fuel necessary as well as lower CO₂ emissions. The test runs on internal test rigs and trials of loop systems in truck and bus engines demonstrated the high performance potential of the coated filter material. A first combined application for an international construction machine manufacturer was developed to market readiness in 2011 and will go into production in 2012. The introduction of the new Euro VI legislation for trucks in 2014 will provide interesting application potential particularly in this area.

ElringKlinger AG licensed the innovative alkaline-silicate-based coating material from a partner company specializing in coating technology and then refined it for use in diesel particulate filters in automotive applications. The stability and durability of the product was further improved in 2011. Compared with conventional systems containing precious metals, the new material offers the potential to significantly reduce the costs for coating. Prototypes are currently undergoing testing with a European car manufacturer.
E-mobility division significantly expanded

In 2011, ElringKlinger AG significantly expanded its E-Mobility division – established back in 2010 – to ensure the company is well placed to respond in good time to the automotive industry’s migration towards electromobility. Building on the material and process expertise available at ElringKlinger AG, such as precision metalworking, coating technology and plastics know-how, the company developed new product concepts in the field of battery storage technology. With its cell contact systems for lithium-ion batteries, ElringKlinger AG rolled out the first serial products in a very short period of time. As this was an entirely new product, great attention was paid to the design of the plant technology and manufacturing processes for large-scale production. As a result, in the summer of 2011, ElringKlinger AG was able to successfully launch the first automated serial production plant for cell contact systems.

As regards battery technology, the company has opened up new growth opportunities in the vehicle segments of full- and plug-in hybrid as well as electric-only cars. In 2011, ElringKlinger AG focused its research and product development on key components for lithium-ion batteries, including powerful cell and module connectors as well as battery housing seals and pressure equalization systems – building on the diaphragm expertise of subsidiary ElringKlinger Kunststofftechnik GmbH.

As at December 31, 2011, ElringKlinger AG employed more than 50 people in the E-Mobility division, most of them in R&D or prototyping. The costs attributable to the significant start-up activities in the area of E-Mobility are covered in part by public-sector funding projects.

Further development projects secured for cell connectors in lithium-ion batteries

Of particular significance for the E-Mobility division was the successful completion of development work on an extremely powerful and stable solution for connecting lithium-ion cells and modules for high-performance batteries. Innovative, embossed cell connector elements with high thermal and mechanical stability are designed to equalize temperature fluctuations in the battery. As part of its R&D activities in this area, ElringKlinger Battery Technology was able to draw on existing expertise in prototyping and in process engineering for high-grade metal and plastic components.

In 2011, the development team produced numerous applications not just for conventional cylindrical battery cells but also for prismatic and so-called “coffee-bag” cell structures. In addition to the low-loss connection of the lithium-ion cells, the sensors required for monitoring currents and temperatures were integrated in a control interface.

The large number of customer inquiries and development orders meant that capacities were fully utilized in 2011. In the meantime, ElringKlinger AG has received four series production contracts from two German carmakers. In addition, Battery Technology worked on development projects for various European automobile manufacturers and for a battery producer. Another carmaker located in Germany awarded ElringKlinger AG a first prototype order to develop a cell contact system for lithium-ion batteries, which, if successful, will be used in large numbers in a hybrid platform.
Responding to significant customer demand, ElringKlinger AG set up a specialized test and development facilities at its site in Dettingen/Erms as early as 2010.

With the reference projects described, and the successful launch of the first series production facility, ElringKlinger Battery Technology established a solid foundation in 2011. This will allow it to hold its own in the market in the coming years with additional technologically sophisticated applications in lithium-ion batteries but also other high-performance energy storage concepts. As a result, it will be in a position to make an increasing contribution to the Group’s sales and earnings.

With a view to further performance enhancement and cost optimization, the developer teams are already working on the second generation of connecting technologies. Apart from new materials and geometries for cell connectors, completely new concepts for signal routing in the contact system are also being trialed.

Commercialization of fuel cell technology
As regards fuel cell technology, ElringKlinger AG pressed ahead with ongoing projects and undertook important steps on the journey from a laboratory solution to a marketable product. ElringKlinger AG has now started up the first pilot production line for SOFC stacks (Solid Oxide Fuel Cell).

Working with two partner companies, ElringKlinger AG made solid progress in the further development of an SOFC high-temperature fuel cell unit. Combined with heat exchangers and reformers, the fuel cell converts fuels such as diesel or natural gas in a highly efficient way into electrical energy. In the meantime, the output of the SOFC system has been successfully increased to up to 5 KW. The system is protected from high temperature by means of a thermo-enclosure specially developed by ElringKlinger. It is intended for use in heavy trucks in the North American market to provide onboard power and air conditioning; from 2012 it will be illegal in most US states to run a truck engine when stationary (non-idling law). For environmental policy reasons, but also due to noise nuisance at night, the diesel-fuelled auxiliary power systems frequently used at present are not an ideal solution. The environmentally compatible fuel cell concept has attracted a lot of interest among North American truck manufacturers. The objective of the development project is to be able to offer customers a series-ready product by 2015 at the latest. Numerous prototypes were manufactured in 2011 and subjected to extensive testing.

ElringKlinger AG is working concurrently on a lightweight SOFC stack on the principle of combined heat and power generation (CHP) for use in decentralized power and heat supply in family homes and apartment blocks.

ElringKlinger AG develops and produces metal bipolar plates for PEM (Proton Exchange Membrane) fuel cells. These are key components of the fuel cell and are needed in large volumes for fuel cell stacks. ElringKlinger AG has been working on this product as part of a long-term project with several major international car manufacturers. Combined with an electric motor, the fuel cell stack is intended to replace the combustion engine as a drive unit. Components are already being supplied for demo fleets. The first small production lots are set to be supplied from 2013. In 2011, the focus of this development project was to further improve design and cost efficiency by using new materials and reducing the requirement for expensive precious metal coatings.
In process engineering terms, ElringKlinger AG made substantial progress during 2011 in implementing volume-production-capable manufacturing processes in the assembly and sealing of fuel cell stacks. In this area, the company uses high-precision coining/stamping processes and laser welding techniques in progressive die technology.

Additionally, in cooperation with a major international utilities supplier, a gas and engineering company and a global logistics group, ElringKlinger AG is developing complete PEM low-temperature fuel cell stacks with an output of around 5 KW for a fleet project. Combined with a lithium-ion battery, they become a powerful energy source for use in forklifts. The extensive testing processes were successfully concluded over the course of the year and the first prototypes were delivered to the company’s project partners. ElringKlinger AG is in the early phase of commercialization with regard to this project. The first ten systems are set to be delivered to customers in 2012.

R&D pipeline well stocked
As a result of substantial upfront funding and investment in completely new product concepts in battery technology and fuel cells, as well as simultaneous development of additional applications for existing products, ElringKlinger AG is on the whole ideally placed to outpace the market in the coming years.

Employees

Headcount rises on the back of buoyant demand
Additional staff were recruited at the sites of ElringKlinger AG over the course of 2011, the aim being to meet the requirements of rising demand and new product ramp-ups in production. By curtailing the factory holiday period and operating with additional shifts, the company managed to meet the just-in-time orders placed by customers. In many cases, customers requested substantial volumes at short notice. ElringKlinger managed to meet all deadlines, which is also a tribute to the exceptional flexibility displayed by staff. The significant expansion of business also necessitated new staff recruitment in central functions and within the area of administration at the site in Dettingen/Erms.

Additionally, at the company’s headquarters in Dettingen/Erms, the E-Mobility division also underwent significant expansion with regard to human resources deployed in this area.

As at December 31, 2011, the sites operated by ElringKlinger AG in Dettingen/Erms, Runkel, Langenzenn and Gelting employed 1,972 (1,757) people in total.

Compared with the previous financial year, this represents an increase of 12.2%, i.e. the headcount was up by 215. On this basis, the number of employees grew slower than sales revenue over the course of 2011. The annual average headcount for the company was 1,888 (1,693).
A total of 48 employees joined ElringKlinger AG as a result of the integration of ElringKlinger Spezialdichtungen GmbH. Excluding the acquired entities mentioned above, the headcount would have increased by just 9.5%, i.e. at a much slower rate than revenue growth within ElringKlinger’s core business (12.0%).

For further information on staff development and HR policies at ElringKlinger AG, including corresponding indicators, please refer to the chapter entitled “Sustainability”.*

Compensation Report

Compensation structure for members of the Management Board
Contracts for members of the Management Board are drawn up by the Personnel Committee, negotiated with the respective members of the Management Board and concluded following approval by the entire Supervisory Board. The Personnel Committee reviews the level of compensation at predefined intervals and advises the Supervisory Board on appropriate adjustments. These recommendations are decided upon by the full Supervisory Board.

Management Board compensation is made up of fixed and variable elements. The variable components comprise a short-term component, which relates to Group earnings before taxes, and a long-term component that is measured on the basis of share performance.

Short-term variable compensation is calculated as a percentage of the average result before income taxes of the last three years at Group level. It is paid annually. Short-term variable compensation is restricted to two annual fixed salaries.

As a component of long-term variable compensation, members of the Management Board are granted stock appreciation rights. Holders of stock appreciation rights are entitled to a cash-settled payment. Stock appreciation rights are not furnished with any entitlements to shares in ElringKlinger AG. For two members of the Management Board, allocation occurs in five tranches, commencing as of February 1, 2008, up to February 1, 2012. For one member of the Management Board, allocation also occurs in five tranches, but beginning as of January 1, 2009, up to January 1, 2013. 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 (fixed compensation in relation to grant price = number of shares allocated). 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 more than the index in which ElringKlinger is listed, but at least by 25%. A provision is recognized in consideration of expected future obligations. Remuneration per
The vesting period for the tranches allocated on February 1, 2008, and February 1, 2009, as well as January 1, 2009, is three years; for all other tranches it is four years.

Management Board members are entitled to a company car, which may also be used privately.

Members of the Management Board have a right to a pension if their contract has expired, 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 full year of service, not to exceed 45%.

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

In the meantime, the Management Board contracts have been extended by a further term in office and adjusted accordingly. As a result, the following changes to the structure of compensation shall apply effective from February 1, 2013. Short-term variable compensation will be restricted to a maximum of three annual fixed salaries. In future, the stock appreciation bonus as a form of long-term variable compensation will involve, in each case, the allocation of 30,000 stock appreciation rights as of February 1 of each year. The grant price is computed as the arithmetic mean of the market price of ElringKlinger shares in the last sixty stock exchange trading days prior to the grant date. An essential precondition for the allocation of stock appreciation rights is the personal investment by the Management Board members of one-tenth of the overall number of stock appreciation rights in shares of ElringKlinger AG. The vesting period of the stock appreciation rights is four years. On completion of the vesting period, the Management Board member is entitled to request redemption of the stock appreciation rights within another two years. The redemption price is determined on the basis of the average market price of the ElringKlinger shares over the last sixty stock exchange trading days prior to the request for redemption. Redemption of the stock appreciation rights can only be requested if the redemption price is 25% higher than the grant price. The redemption price as a whole is limited per tranche to two fixed annual salaries. The retirement pension entitlement is to be increased to 3.0% or 3.2% of the last monthly fixed salary prior to leaving the company in respect of each full year of service. Thus, the cap remains unchanged at 45%.

Compensation structure for members of the Supervisory Board
The compensation structure for Supervisory Board members remained unchanged compared with last year. 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 accordance with the recommendations of the German Corporate Governance Code in the version of May 26, 2010, 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 role of the Supervisory Board Chairman and that of his Deputy are taken into consideration 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. Expenses incurred by the Supervisory Board members are reimbursed to an appropriate extent.

Details according to section 289 (4) of the German Commercial Code (HGB) particularly with regard to share capital and disclosure of potential takeover obstacles

As at December 31, 2011, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 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, 2011, are as follows

| Walter H. Lechler, Stuttgart | Total of 21.836% (of which 9.74% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) |

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-quarter majority.

The Management Board is authorized to buy back company shares up to a total amount of 10% of share capital existing at the date on which this resolution was passed (May 21, 2010). This authorization remains valid until May 21, 2015.

Details relating to authorized capital and the utilization of authorized capital are included in the notes* on page 13.

ElringKlinger 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.

Report on Opportunities and Risks

Risk management system
ElringKlinger AG has established an extensive risk management system for the purpose of identifying risk at an early stage. By monitoring markets, customers and suppliers on a continual basis and maintaining detailed internal reporting and controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities as they arise. The efficiency and suitability of the risk management system itself is continually adapted and optimized in accordance with new requirements as they arise.

The risk management system is made up of various tools and control systems. Among the key components are strategic corporate planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and far-reaching decisions. All key areas within the company are involved in strategic planning. Within this context, information is retrieved, collated and evaluated in a standardized process. The Management Board bears full responsibility.

Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the respective divisions, which is performed on a quarterly basis. It covers developments in all fields relevant to the company that can affect business activity and in particular the continuation of ElringKlinger AG as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, the commodities markets and internal risks. This reporting system involves identifying and evaluating all risks and subsequently drafting recommendations on how to prepare for and protect against them. The head of the legal department oversees coordination.
The Management Board assesses the aggregate risk and submits regular and comprehensive reports on its findings to the Supervisory Board. 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. The company considers risk management to be an all-embracing activity that encompasses not only the identification and assessment of risk, as outlined above, but also a system of preventive measures and contingency planning that has proven to be very effective.

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and service divisions of ElringKlinger AG. These audits are conducted by accountancy firms and/or suitably qualified companies commissioned by ElringKlinger AG. The rationale behind the appointment of external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. Execution of these measures is controlled by the Management Board member whose remit covers this area. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weakness. In fiscal 2011, audits were performed in the areas of Specialty Gaskets, Plastic Housing Modules/Elastomer Technology and Personnel. Furthermore, the risk management process was analyzed, and an audit firm specializing in this field assessed the accounts payable unit assigned to the Finance department. All internal audits showed that both statutory regulations and internal requirements had been consistently met. The recommendations submitted with regard to potential areas for optimization were put in place or are currently being implemented.

In order to reduce the liability risk from potential damage cases and any associated losses, the company has taken out appropriate insurance policies. The suitability of these policies is subject to regular review with regard to the actual risks covered and the level of cover provided. Where necessary, the policies are then amended.

Control and risk management system with regard to accounting
With regard to accounting and external financial reporting, the internal control and risk management system may be described with reference to the following basic characteristics. The system is geared toward the identification, analysis, valuation, risk control and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board and Supervisory Board. In accordance with the distribution of responsibilities, Finance and Corporate Investment Management, which are in charge of accounting, come under the remit of the Chairman of the Management Board. These departments control accounting within ElringKlinger AG and throughout the Group and compile the information required for the preparation of the separate and consolidated financial statements. Corporate Investment Management is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. The Group companies report to the Head of Corporate Investment Management, who in turn reports to the Chairman of the Management Board.
The principal risks associated with the accounting process derive from the need to provide accurate and complete information within the specified time frame. This presupposes that the requirements have been clearly communicated and the departments responsible are placed in a position where they can meet those requirements.

SAP is used by ElringKlinger AG as well as by its German and some of its foreign subsidiaries. SAP is to be introduced at other key companies within the Group. All implemented systems feature hierarchical access systems; all clearances are documented in the system. For companies that use SAP, access rights are managed centrally according to established rules. Within the German companies, access decisions are made by the Head of Finance; at the non-domestic companies, access is granted by the Head of Corporate Investment Management. Local management makes decisions on access in those companies that use other systems.

As a rule, no external service providers are used in the accounting process. As described above, it is carried out by the staff of the respective specialist departments.

Among the risks that may affect accounting are, for instance, those associated with delays or errors in the entry of transactions or failure to observe the accounting manual and account allocation rules. In order to avoid mistakes, the accounting process is based on the separation of responsibilities and competencies, the automation of procedures and plausibility checks for reporting purposes. Calculations are subject to continuous monitoring. Comprehensive and detailed checklists have to be worked through before the established reporting deadline. The accounting process is incorporated into the company’s risk management system as a way of identifying accounting-related risks at an early stage, allowing the company to take prompt action to anticipate and address potential risks.

As is the case with the other areas and functions of the company, accounting is also subject to the investigations conducted as part of internal auditing. Accounting processes and procedures at ElringKlinger AG are reviewed in the course of regular internal audits. The findings are then used to make further developments and improvements. For more information, please see the description of the risk management system.

Risks

General economic risks
There are unusually large variations between the forecasts issued by banks and economic research institutes with respect to 2012. The indicators used to measure business and consumer confidence point to major regional differences. As a result, it is more difficult to make plausible assumptions on which to base future planning on.

Continued high levels of sovereign debt and uncertainty about the future of the eurozone pose a serious potential risk. The need to streamline national budgets could provoke a recession in the eurozone. This could trigger a significant downturn in passenger car sales, especially in the countries on the
periphery of Europe that have been worst hit by the crisis. In turn, this would impact on customer demand for the components supplied by ElringKlinger.

The current view is that growth in the emerging markets will more than compensate for the weakness of industrialized states and that global economic output will increase by 3.3% in 2012. There could be a direct impact on global vehicle demand if the pace of growth in these emerging markets slackens. This may undermine the sales and earnings performance of ElringKlinger AG.

On the other hand, ElringKlinger AG stands to benefit if the global economy grows faster than predicted. Past experience has shown that passenger car demand picks up in response to economic growth, especially at the domestic level. This would have the effect of increasing demand for the products made by ElringKlinger.

ElringKlinger AG makes every effort to factor in economic risks at the forward planning stage. The company’s forecasts are based on a prudent assessment of the likely macroeconomic situation (*Report on Expected Developments*, page 94 et seqq.).

Thanks to its broad international base, the ElringKlinger Group is able to mitigate at least to some extent the impact of any economic collapse within a specific region.

ElringKlinger AG also has the flexibility to respond quickly and adjust its cost structures accordingly in the event that more widespread economic turbulence affects the automotive industry.

**Industry risks**

Any substantial downturn in vehicle or engine production within one or more of the company’s key sales regions could trigger a significant reduction in the volume of parts requested by customers under just-in-time supply agreements. In turn, this could lead to a major decline in the utilization of production capacity, with a consequent reduction in contribution margins, and put pressure on the operating margin.

With regard to the future direction of car sales, at present ElringKlinger sees the countries of Western Europe as the main area of risk for 2012. Any further deterioration in the sovereign debt crisis would also have a detrimental impact on consumer behavior. Under these circumstances, there could be a significant fall in passenger car sales within a short space of time, especially in the countries on the periphery of Europe. Although a percentage downturn in vehicle demand in the high single figures cannot be ruled out in Western Europe, this should be evened out by corresponding increases in North America and Asia.

Overall, however, there is currently no likelihood of a major collapse in global vehicle production. The probability of a scenario similar to that of 2008/2009 is low.
**Customer risks**

One result of the rapid upturn in global vehicle production in 2010 and 2011 has been a considerable improvement in the earnings situations of nearly all customers of ElringKlinger AG. As a consequence, the risk of defaults on outstanding accounts has declined further. In the unlikely event of the insolvency of one of ElringKlinger AG’s ten biggest customers, the default risk would be less than six million euros.

Over recent years, the company has minimized the risk of becoming excessively dependent on individual customers by gradually widening its customer base. Asian manufacturers and other suppliers now also feature prominently on the list of new customers. Compared to other international automotive suppliers, ElringKlinger AG has an exceptionally broad and regionally diverse client structure. In 2011, the company’s three largest customers accounted for approx. 17% of sales revenue.

**Price risks**

ElringKlinger AG also faces a risk of higher prices for its input materials. Materials constitute the company’s single biggest cost area.

The main requirement is for high-grade steel with alloys, carbon steel, aluminum and polymer granules. From 2009 onwards up to the middle of 2011, there was a continuous rise in the price of the alloy surcharges that form a vital part of ElringKlinger AG’s cost base. Beginning in mid-2011, however, prices fell by around 25% over the rest of the year. In general, price reductions in this area can take months to feed through to ElringKlinger AG’s purchasing costs.

The prices paid by the company to procure aluminum and carbon steel for 2012 were slightly below the high level paid for 2011. With regard to input costs, the risk of extreme price increases thus remains manageable. Nevertheless, raw material prices saw another significant rise before the year-end. ElringKlinger AG is making strenuous efforts to counter this trend through ongoing improvements in its manufacturing processes and product designs and by widening its pool of approved suppliers.

In some cases, the company is able to negotiate cost escalation clauses with its customers. Otherwise, where increases in the cost of raw materials exceed cost estimates, they have to be passed on to customers. This creates a risk that the company may not be able to pass on the full increase or that it may only be able to do so after a certain period.

Thanks to the income it generates from the sale of waste metal from the stamping process, ElringKlinger AG is able to compensate at least in part for any cost increases.

On balance, it is not possible to exclude the risk of further substantial increases in raw material costs. However, there are currently no signs of a repeat of the strong upwards trend in material prices seen at the beginning of 2011.

As part of its risk assessment, ElringKlinger AG also monitors not only price movements but also the availability of the commodity groups it requires for production.
ElringKlinger AG plans well ahead and is able to mitigate any risk in this area, among other things, through its well-established links to suppliers, most of which go back some years. In this context, the company follows a strategy of diversified procurement. Alternatives are developed for commodity groups that are either in short supply or that are subject to major price fluctuations.

**Use of derivative instruments**

ElringKlinger AG only uses derivative financial instruments in specific instances. Their purpose is to protect the company against fluctuations in the price of high-grade steel alloys such as nickel. They also serve to limit the company’s exposure to interest rate risks and exchange rate fluctuations. Whenever hedging contracts are used as a risk management tool to protect against material price volatility, they are always based on the actual quantity of physical materials required by the company.

In the fourth quarter of 2011, the decline in nickel prices by 25% was used to hedge some of the company’s high-grade steel alloy requirements. As at December 31, 2011, the volume actually hedged was approximately 18% of the total estimated requirement. Hedging was performed by means of nickel hedging transactions. The hedging contracts run for a period of 12 months.

In order to limit the risk of interest rate movements, ElringKlinger AG entered into futures contracts for the purpose of securing its existing terms and conditions. This has the effect of converting variable interest rates into predictable fixed rates.

**Currency risks**

The impact of the sovereign debt crisis and the ongoing debate about the stability of the eurozone have led to greater exchange rate volatility. This has been particularly marked in the case of the euro’s relationship to other currencies.

ElringKlinger AG is exposed to currency risks in connection with loans granted to subsidiaries, acquisitions financed in a foreign currency and receivables from affiliated companies. Wherever possible, loans granted to subsidiaries are covered by financing in the same currency. This minimizes the currency risk.

With regard to the translation of other currencies in the financial statements, the main exchange rate risks concern fluctuations in the euro with respect to the Swiss franc, the US dollar, the Canadian dollar, the Mexican peso and the Brazilian real. By contrast, ElringKlinger AG’s exposure to transactional exchange rate risks is minimal. In almost all the company’s sales regions, both costs and revenues are denominated in the same currency.

The euro/Swiss franc exchange rate has a significant impact on the company’s net income. ElringKlinger AG financed its acquisition of the Swiss SEVEX Group by means of a loan in Swiss francs.
As at December 31, 2011, the company’s balance sheet still contained EUR 47.7 million in financial liabilities denominated in Swiss francs. Consequently, any appreciation in the Swiss franc with respect to the euro increases the size of these liabilities and has a negative impact on ElringKlinger AG’s other operating expenses. Looking ahead, this risk has now been largely reduced by the decision of Switzerland’s central bank to keep a lower exchange rate limit of EUR 1.20/CHF.

**Financing risks**
The rapid global expansion of car production from 2010 onwards after emerging from the crisis led to a significant increase in demand for the up-front financing needed to purchase materials. At the same time, the inventories held by both manufacturers and suppliers were at a relatively low level. Capital requirements rose sharply in response to the 2011 hike in production volume. In this context, the industry faces a risk from the more restrictive lending practices of many banks.

There is also a risk that the rating agencies may make changes to their assessment of the industry’s credit risk profile. This could increase the risk premiums payable on new borrowings and subject the industry to less favorable credit terms.

Any rapid increase in the currently low interest rates would feed into variable rate loans. This, in turn, would place a greater interest burden on ElringKlinger and have a negative impact on its net income.

Given the present financial market situation, the overall financing risk for the automotive supplies industry remains high, with an increased risk of insolvency.

Thanks to its low level of debt, the financing situation of ElringKlinger AG is very stable. This is due to the high level of cash flow generated from operating activities. ElringKlinger AG can still draw on agreed but currently unused credit lines totaling approx. EUR 70.0 million. There are currently no identifiable risks that might jeopardize the financing of projects or prevent the company from meeting its payment deadlines. Equally, there are no identifiable financing risks that might jeopardize the company’s existence as a going concern.

As such, ElringKlinger AG has ample scope when it comes to financing its planned expansion. Adequate financial resources are available for investment in new technologies.

**Wage cost risks**
Alongside materials, wages also constitute a major cost area within ElringKlinger AG. Pronounced wage cost inflation in Germany would have an adverse effect on the company’s earnings situation. This would also undermine the company’s position relative to its international competitors.

There is also a risk that any sudden collapse in demand and production volume could cause a significant jump in the staff cost ratio. This would affect ElringKlinger AG’s earnings and overall financial situation.
During the 2008/2009 crisis, ElringKlinger AG held on to its core staff and kept them in full employment. As a result of the surge in sales, ElringKlinger AG again raised the percentage of temporary staff to around 12% of the total workforce in 2011. The company has established a range of labor flexibility measures that would allow it to respond quickly to any unexpected and severe fall in demand. These measures include working time accounts, shift models and adjustments to temporary staffing capacity.

IG Metall is demanding a 6.5% increase in wages for metal industry workers covered by collective pay agreements. This poses a risk that wage costs in Germany could rise at a faster rate in 2012 than in 2011 (+2.7%). The result would be increased pressure on ElringKlinger AG’s earnings performance.

All in all, wage cost inflation constitutes a significant risk to the earnings and financial situation. In order to maintain the company’s competitive position at the international level, any wage cost increases need to be accompanied by improvements in efficiency and streamlining of production.

**Technology risks**

ElringKlinger AG’s business model is based predominantly on its ability to develop technologically cutting-edge products and achieve above-average long-term growth through superior innovation and productivity.

This innovative approach brings with it a risk that the company may not identify and apply important technological developments in good time.

In the medium-term at least, this would jeopardize its role as one of the preferred development partners of vehicle and engine manufacturers and could lead to a decline in sales and earnings over the medium to long term. Any failure to maintain a portfolio of market-leading products would put considerable downward pressure on prices.

The current development focus within the industry is dominated by a massive expansion of alternative drive technologies. ElringKlinger AG is fully engaged in this area and aims to position itself strongly for the future with solutions that optimize combustion engine performance and a range of new e-mobility and exhaust gas purification products. This commitment is clear from the company’s R&D ratio, which is above the industry average. In addition, from 2005 to 2011, the company spent 9 to 16% of its revenue on investments.

Its main focus lies on the application of existing material and process know-how. This reduces the risk of straying from its core competencies and wasting efforts on areas of technology with fewer market prospects. Trends in the market are kept under constant review by each of the company’s divisions. They analyze the latest technological developments and draw up attractive proposals for their customers at an early stage.

Overall, the opportunities presented by new trends in technology, especially in the area of vehicle drives, clearly outweigh the risks for ElringKlinger AG.
External growth/Acquisitions
In the case of acquisitions, there is always a risk, despite careful planning and analysis, that the newly acquired companies will not achieve the expected targets or not do so within the expected time frame. External circumstances can also cause delays in the integration of companies after their acquisition. Any restructuring measures required may initially have a negative impact on ElringKlinger AG’s earnings. A decline in the company’s profit margin cannot be ruled out, at least on a temporary basis. In addition, the level of new investment may be higher than originally anticipated.

Where new technologies have been purchased by the company, the possibility that they do not subsequently prove effective or do not perform as well as expected cannot be entirely ruled out. There is also a risk that a new technology may not find acceptance among customers.

To limit these risks, ElringKlinger AG’s internal team of experts always subjects acquisition projects to a due diligence review before the acquisition of a company or new technology. Each review examines the plausibility of all the financial and technical data and forecasts in great detail. Acquisitions are only approved internally if there is a good prospect that they can deliver ElringKlinger’s profit margin in the medium term. Even in the worst-case scenario, the total potential risk should not impair the company’s ability to offer an attractive dividend.

IT risks
Any disruption to the IT systems and application software used by the company can lead to delays in the processing of orders and in the supply chain. This may damage the company on both the cost and revenue side.

One of the company’s two data centers has now been moved to a new site at Vogelsang (Dettingen/Erms), thus improving the level of protection against hardware malfunction, software problems and data line faults. The risk of a system crash and loss of data has therefore been reduced as far as possible.

Redundant storage methods and double systems are in place to back up the IT systems and data lines used in production areas. Potential risks are mitigated by advance planning and through the implementation of transitional solutions and additional back-up systems.

In 2011, the company finalized plans to back up all the data inventories of its international subsidiaries in a central location. This will provide a further level of protection.

Staff access to sensitive data is controlled by means of a graded system of authorization. Up-to-date security software is used to provide the best possible protection against unauthorized access from outside the company.
Legal risks/Warranty risks
As a manufacturer and a supplier to the automotive industry, ElringKlinger AG may be exposed to warranty and liability risks in relation to revenue and earnings. The supply of non-compliant components may necessitate an exchange or recall of such parts. The associated cost and claims for damages may be significant. Appropriate quality assurance systems are in place to prevent and mitigate such risks. Furthermore, risks in this area are covered to a large extent by insurance policies, which are an element of the risk management system. Finally, ElringKlinger AG addresses its exposure to legal risks by recognizing appropriate provisions in its annual accounts. Compared with the previous year, there were no other significant risks in the period under review.

Opportunities

Market opportunities: great potential for growth in emerging markets
The difficult period in 2008/2009 was followed in 2010 and 2011 by strong growth in passenger car production in nearly every market across the world. Growth rates were well above the long-term trend. The level of market growth is expected to return to normal in 2012 and 2013. The percentage rise in global vehicle production is likely to remain in low single figures. At the same time, there will be an increasing shift in demand for cars and commercial vehicles from the established markets of Europe, the US and Japan towards the BRIC states.

Given widespread concern about the ongoing euro crisis, many companies are keen to exploit new and promising regions outside their established core markets. With the prospect of only moderate growth in Western Europe, the focus is on Eastern Europe, South America and the emerging markets of Asia. In addition to China, the ASEAN states are set to play an increasingly important role in the coming years. The market is likely to see a drive towards greater mobility and with that a rise in demand for passenger cars.

ElringKlinger AG and its subsidiaries stand to benefit in particular from the fact that strict emission standards that compare to Euro 4 and Euro 5 are being adopted in nearly all the BRIC states and in the ASEAN region. As a result, there will be greater demand in these markets for high-tech engine and exhaust components that help manufacturers to comply with the Euro standards.

ElringKlinger AG is therefore in a strong position thanks to its product portfolio and local production capacity. This is a prerequisite for taking advantage of the expected rapid growth in vehicle demand in the emerging markets. The company has established a solid base on which to exploit the prospects for sales and earnings growth in these regions.
Sales prospects boosted by climate change and new emissions rules

In response to growing concern about the potential impact of climate change, CO₂ reduction is now one of the automotive industry’s main objectives. ElringKlinger AG’s portfolio and development work are strategically focused on efforts to reduce fuel consumption and emissions as well as on alternative drive technologies.

The statutory limits for greenhouse gas emissions will be reduced dramatically in the next few years. By 2020, CO₂ emissions for new vehicles in the EU will have to fall by a further 20% to 95 g/km. Regulations have also been introduced in the US obliging manufacturers to reduce emissions down to approximately 162 g/km by 2016. A further cut of nearly 50% will be required by 2025.

At the same time, emissions standards covering carbon monoxide, hydrocarbon compounds, nitrogen oxide and particulates are also being tightened up considerably. The main focus in this area is on the strict new Euro standards, which are being adopted in similar form by many developing countries.

For ElringKlinger AG, the trend towards downsizing in the combustion engine market (Research and Development, page 72 et seqq.) creates new fields of application for high-temperature specialty gaskets and shielding components, e.g. in the turbocharger area. The growing complexity of the exhaust tract has also increased demand for high-grade specialty gaskets and thermal shielding components for the catalytic converter and particulate filters integrated into the exhaust system.

More and more vehicle manufacturers are opting for hybrid powertrains as the best way to reduce CO₂ emissions. In future, many vehicle platforms will come with a choice between an optimized combustion engine and a hybrid version with a combined electric drive. This should be viewed in the context of the new standards that oblige manufacturers to meet strict CO₂ limits for the vehicle fleets they produce. According to industry analysts, by 2025 it is likely that more than half of all new vehicles will be supplied as hybrids.

Plug-in hybrids in particular offer an opportunity for ElringKlinger AG to supply its newly developed products for batteries in addition to its existing range of components for the combustion engine. Together with other products such as its cell contact systems and pressure equalization modules for lithium-ion batteries, ElringKlinger is in a good position to boost its per-vehicle sales revenue.

Exploiting industry consolidation

Many companies in the automotive supplies sector have been hit by the after-effects of the industry crisis in 2008/2009, together with the difficulty of obtaining new financing when demand began to pick up. Often, these hurdles are aggravated by low equity ratios and a lack of access to the capital markets. As a result of new rules stipulating that the banks themselves have to meet higher capitalization requirements, there is a risk that it will become more difficult to obtain external financing and
that the cost of capital may rise considerably. While the number of insolvencies in 2011 was lower than in the previous year, the figure nevertheless remained high.

On the other hand, given the need to expand production capacity in response to rapid growth in the emerging countries, companies have to find new financial resources. They also need to invest heavily in the development of new products.

With regard to competition and price, the situation remains extremely tight. The Center of Automotive at the University of Applied Sciences for Industry (FHDW) in Bergisch Gladbach believes the next few years will be marked by an even greater degree of consolidation within the industry. The impact will mainly be felt by small to medium-sized suppliers that have not yet established a global profile. Increasingly, vehicle manufacturers are producing “global engines” that can be used across the world for a wide range of vehicle platforms. This means that suppliers need to develop an international production network and deliver their products worldwide.

Thanks to its solid financial structures, ElringKlinger AG is in an excellent position to benefit from this situation. It can also add to its existing technology portfolio through targeted acquisitions. In this context, the company’s main focus is on alternative drive technologies. To this end, ElringKlinger AG keeps the market under constant review.

Overall assessment of risks and opportunities

Over recent years, the systems established by ElringKlinger AG to identify and manage risks and opportunities have proven to be very effective. This is clear from the successful outcome of decisions to move into highly promising markets, such as e-mobility and hybrid technology, and from the company’s successful management of the crisis in 2008/2009.

Thanks to ElringKlinger AG’s solid equity base, with an equity ratio of 54.2%, and financial strength, with cash flow return on sales of around 15%, the company is in a good position to weather even more protracted crises. This degree of stability is a particular strength when it comes to securing new orders. After the experience of 2008/2009, customers now place greater importance on the financial stability of suppliers when negotiating long-term contracts and selecting development partners.

On balance, the macroeconomic risks and uncertainties have grown since the beginning of 2011. The risk factors affecting the company are predominantly external. On account of its early warning systems and extremely flexible organizational structure, ElringKlinger AG is well equipped to respond quickly and comprehensively as events require.

There are currently no identifiable risks or combinations of risk that might jeopardize the future existence of the company as a going concern.
In recent years, ElringKlinger AG has invested heavily in the expansion of its technology pipeline and in the development of new products. It has established a strategic position that allows it to exploit opportunities for growth in the new areas of alternative drive technology and in the market for conventional products. It is also well positioned to seize opportunities that may arise as a result of the trend towards industry consolidation. Overall, ElringKlinger AG is in a good position to continue outgrowing the automotive market as a whole in the years ahead while maintaining a manageable risk profile.

Corporate Governance Statement

The declaration on corporate governance required by Section 289a of the German Commercial Code (HGB) is openly available for inspection on the company’s website at www.ElringKlinger.de/2011-euf-en*

Report on Expected Developments

Market and Sector Outlook

**Global economy remains on track for growth, but in choppy waters**

Forecasts as to the course of the global economy in 2012 are dominated by a high degree of uncertainty. Projections within this area are being adversely affected by political imponderables and the concomitant risks associated with excessive sovereign debt. The global debt crisis became increasingly severe over the course of 2011. Europe in particular saw a significant deterioration in a number of early and market sentiment indicators. With this in mind, the forecasts for growth with regard to economic output in 2012 were revised downwards on successive occasions. The mood was slightly more upbeat on the back of improved economic indicators for North America towards the end of the year.

In the meantime, the general outlook seems to suggest a slowdown in global economic growth. Despite the projected loss of momentum, the world economy will continue to grow, expanding by 3.3% in 2012. The main impetus for growth is likely to come from the emerging markets of Asia. In 2013, global economic growth is expected to accelerate at a more pronounced rate than in 2012.

**Recession in Europe**

The repercussions of the European debt crisis and the severe yet inevitable cutbacks in state expenditure in many countries are likely to have a detrimental effect on economic performance across much of the eurozone. Against this backdrop, most of the forecasts for the eurozone point to a recession in 2012. The International Monetary Fund (IMF) anticipates a contraction in the euro area’s gross
domestic product (GDP) by 0.5%. However, the region as a whole is expected to return to significant growth again as early as 2013.

The German economy will continue to benefit from exports to Asia as well as North America in 2012. Having said that, the country will be faced with a stronger headwind as a result of the gradual decline in the volume of orders from European member states encumbered by debt. Economic growth almost came to a standstill in the final quarter of 2011. Germany’s GDP is projected to increase by a modest 0.3% in 2012.

Signs of economic upturn in the United States
There were more tangible signs of continued economic recovery in the US at the end of 2011. Most recently, employment market indicators for the United States had been positive. At the same time, purchasing managers’ indices were up slightly despite the ongoing concerns over debt. There is every chance that economic recovery will stabilize in the election year 2012, supported to some extent by the zero interest rate policy adopted by the US Fed.

The United States are expected to see moderate year-on-year growth of 1.8% in their GDP in 2012. Here, too, the forecast suggests a return to more buoyant growth in 2013.

Economic performance throughout Latin America is likely to remain favorable in 2012. Although the overall rate of growth is expected to decelerate slightly compared to previous years, GDP in Brazil looks set to expand by an estimated 3.0%. In 2013, South America's largest economy may even see a more dynamic rate of growth.

Asia remains global growth driver
The dynamic rate of growth in what is currently considered the most important market for the world economy, Asia, looks set to decline slightly in 2012. Having said that, the regional economy as a whole will remain at a buoyant level. China is expected to see its GDP rise by 8.2%. Economic output in India is projected to grow by 7.0%. Asia as a whole is also expected to generate single-digit growth at the top end of the scale in 2013.

Having contracted in 2011 after the devastating natural disaster in March, the Japanese economy is likely to recover in 2012 and also produce some forward momentum. Current estimates suggest growth of 1.7% for 2012 and a similar increase for 2013.

Significant regional differences in performance of car markets in 2012
Demand for motor vehicles is expected to diverge significantly between the various regions in 2012. Following the dynamic expansion of vehicle production in response to the severe slump witnessed in 2008/2009, markets will continue to develop at a more normal pace.

In view of the prevailing macroeconomic risks and the current fiscal climate, the general outlook for 2012 in terms of car demand is relatively subdued. Within this context, forecasts issued by companies and market research institutes vary considerably. They include everything from stagnation on the
one hand to growth on the other, with the prospect of global demand for vehicles rising to 77.7 million units. This would represent an increase of more than 6% compared to the previous year. Car production is expected to grow at a similar rate. As an automotive supplier, ElringKlinger AG bases its forecasts on estimated production figures. ElringKlinger AG’s forecasting for 2012 is premised on the assumption that automobile production will grow by 1 to 2%.

In 2012 as well as 2013, demand for vehicles will be fueled mainly by the Asian markets. Alongside China and India, populous and burgeoning ASEAN member states such as Indonesia, Malaysia, Thailand, the Philippines and Vietnam are becoming increasingly important as automotive markets.

**German automotive industry continues to benefit from buoyant foreign demand**

According to the latest projections, Germany’s car production figures for 2012 will, at the very least, match those recorded in 2011, which saw output reach a record level of 5.9 million units.

Domestic carmakers continue to benefit from buoyant demand abroad. The premium segment of German-made vehicles in particular has become increasingly popular among customers in Asia, but also in North America. At around 4.6 million vehicles, exports in 2012 are likely to match the figure recorded in 2011. Based on the number of new registrations, the domestic car market is expected to stagnate at a high level. New vehicle sales in Germany are likely to total 3.1 million units. In 2011, the figure had stood at 3.2 million new vehicles sold.

**Western Europe overshadowed by risks**

Having already contracted by 13.4% in total between 2007 and 2011, the Western European automobile market is unlikely to see any tangible improvement in 2012. The dire economic situation in the peripheral states of Southern Europe in particular will also have an adverse effect on demand for new cars. In view of the recent downturn, the risk of further contraction is likely to be relatively limited. Nevertheless, overall sales of passenger cars and light commercial vehicles are forecast to decline by 5% to 13.6 million units in Western Europe. This means that the European car market would remain below the replacement demand threshold of 14 to 15 million vehicles.

**US auto market shows potential**

In 2011, the US market fell well short of the record levels achieved in 2005, when the number of cars and light trucks sold had totaled approx. 17 million. However, given the significant average age of vehicles currently on the road and the backlog in replacement demand, there is every chance that consumers will become more active in 2012. There were already signs of a significant upturn in demand towards the end of 2011. Against this backdrop, new vehicle registrations are expected to rise by 5.0 to 6.0% to more than 13 million units in 2012 (2011: 12.8 million units). Depending on the route taken by the economy, the US auto market may actually produce a positive surprise in the form of even higher growth rates.

In budgeting for 2012, ElringKlinger AG worked on the assumption that US car production would expand at a percentage rate in the mid single-digit range.
The Brazilian auto market also looks set to grow. Sales of passenger cars and light trucks in 2012 are expected to exceed the previous year’s figure by around 3%. The Argentinian vehicle market, which is of increasing interest to the industry, also shows signs of more buoyant demand.

**Asia remains growth incubator**

The general climate within the Chinese market bodes well for 2012 and beyond. Average income has risen quite significantly, and there is evidence of growing demand for cars, even outside the large conurbations. With this in mind, there is every chance of healthy growth in 2012.

The forecasts for 2012 currently range between 8 and 10% as regards growth in car sales. If this materializes, the overall sales volume in 2012 could exceed the 15 million mark for the first time. Although the growth rate is below the average of the last five years, it does reflect the robustness of the momentum still being generated in the emerging economies of Asia. Sales of premium-range vehicles produced by Western carmakers will probably continue to outperform relative to the general trend for the industry. India is also expected to see significant percentage growth in car sales, at the top end of the single-digit range.

Over the course of 2012, the Japanese car market will continue to recover from the effects of the natural disaster back in the spring of 2011. Given the backlog of demand, both sales and production figures are likely to expand markedly. New car registrations are projected to rise by 10.0%.

**Structural change within car markets**

In terms of market structures, ElringKlinger AG looks set to benefit from the trend towards hybridization, as the revenue generated from each plug-in hybrid is potentially much higher than in the case of conventional vehicles. Based on current estimates, the number of hybrid vehicles sold will increase from 0.8 million to 1.4 million worldwide in 2012. This figure is expected to rise significantly in subsequent years, buoyed in particular by growing environmental awareness in many consumer markets.

**Restrained growth in commercial vehicle markets**

Demand within the commercial vehicle markets is closely interlinked with the prevailing economic climate. Due to the existing risks, it is difficult to predict how the industry will develop over the course of 2012.

The truck segment, too, will be faced with inconsistent sales trends across the respective regions. Overall, global demand is likely to stagnate or merely expand at a slow pace.

The economic malaise in many parts of Europe, coupled with continued uncertainty as to future developments, poses risks with regard to the purchasing behavior of freight forwarding companies and fleet operators. Given the downturn in orders for Western Europe as a whole, the industry may even be faced with a decline in truck sales by around 10% compared to 2011. The market as a whole is likely to be propped up by Germany to a certain extent. Forecasts for 2012 suggest that new truck registrations, for vehicles in excess of 6 tons, will rise by 2% in Germany.
The outlook for the US truck market is much more favorable. The majority of manufacturers are anticipating growth in sales of heavy trucks (Class 8) of between 15 and 20% in 2012.

After the downturn in Chinese commercial vehicle sales, the local market is expected to see single-digit percentage growth in 2012, particularly in view of the stable economic climate in China. Japan is also likely to produce forward momentum.

Following the start of production at the newly built plant for plastic housing modules in Dettingen/Erms at the beginning of 2012, ElringKlinger AG anticipates that it will be in a position to further boost its revenue from the sale of components destined for the truck market. The successive ramp-up of production for cam cover modules and oil pans supplied to customers within the truck industry is scheduled as from the first quarter of 2012.

Outlook – Company

**Competitive environment remains challenging**
Market conditions will again be governed by intense competition in the majority of product groups in 2012. At the same time, customer price demands will continue to be a dominant factor. Given the significant technological barriers, coupled with the specific expertise and capital-intensive production associated with business operations in this field, the likelihood of market entry by new competitors is remote.

The future direction of business has become more discernible compared to the crisis year of 2009. However, the latent risks associated with the international debt crisis continue to be a source of significant uncertainty as to the future course taken by the automotive industry as a whole. Ultimately, these uncertainties also apply to the volumes requested by customers as part of their just-in-time production scheduling. These market conditions once again call for a highly flexible approach in 2012, both in terms of the company’s positioning and its cost structures.

**Capital expenditure to be scaled back in 2012**
Following substantial capital expenditure in recent years, driven primarily by large-scale projects, investment requirements look set to return to more normal levels in 2012 and 2013. After EUR 67.4 million in 2011, ElringKlinger AG plans to invest around EUR 50.0 million over the course of 2012. These investments have been earmarked primarily for machinery and operating systems required for scheduled production ramp-ups as well as for streamlining projects.

Some of this capital expenditure will still be directed at the new factory – completed at the beginning of 2012 – for plastic housing modules at the site in Dettingen/Erms. In 2012, additional production machinery will be purchased for this plant.

ElringKlinger AG is committed to further expanding its production of cell contact systems – used in lithium-ion batteries – at its site in Dettingen/Erms. The degree of automation is to be increased within the existing production lines.
The figure also includes investments in welding equipment at ThaWa GmbH Thaler Warenautomaten, Thale, for the process of “canning” particulate filters and exhaust gas purification systems. The aforementioned company is to be merged into ElringKlinger AG in 2012.

Order intake remains stable
Order intake at ElringKlinger AG rose to EUR 464.5 (438.1) million in 2011. After a dynamic rate of expansion over the course of the year, order intake weakened slightly towards the year-end.

Order backlog totaled EUR 205.2 (172.1) million as at December 31, 2011. This represents an increase of 19.2% on the previous year’s figure.

Judging from current orders in hand as at December 31, 2011, the overall targets set by the company in terms of revenue and earnings appear to be based on a solid foundation.

Forecast: Sales and Earnings Performance 2012 and 2013
ElringKlinger AG’s financial performance will continue to improve over the course of 2012 and 2013. To this end, the company is further optimizing its production processes and implementing cost reduction measures, with a particular emphasis on automation.

In anticipation of an economic slowdown, raw material prices began to retreat from the peak levels seen in mid-2011. Having said that, they still remained high when viewed across a longer time frame. It should also be noted that raw material prices picked up again slightly towards the end of 2011.

However, there are currently no signs of a return to the dynamic price momentum seen within the commodity markets at the beginning of 2011. ElringKlinger AG took advantage of the dip in prices and, with regard to part of the quantities required, put in place a hedge against the alloy surcharges (nickel) included in the high-grade steel consignments needed for production purposes. On the whole, therefore, ElringKlinger anticipates that the price situation will remain stable in 2012.

Following a moderate expansion in the headcount, together with wage increases, staff costs are expected to rise. However, ElringKlinger anticipates that the total percentage increase in staff costs will be less pronounced than the rate of growth achieved in sales revenue. The outcome of negotiations currently under way between IG Metall and employer organizations with regard to the collective wage increase scheduled for April 1, 2012, is difficult to gauge. Administrative expenses are expected to rise only slightly compared to 2011.

Further growth in revenue and adjusted income from ordinary activities
ElringKlinger AG will be looking to achieve further growth in sales revenue and earnings in 2012. This outlook is based on the above-mentioned economic expectations and the assumption that vehicle production will continue to expand at a modest rate. ElringKlinger AG anticipates that it will be in a position to increase its sales revenue by 5 to 7%. Within this context, income from operating activities, adjusted for non-recurring factors, such as the gain on disposal of the Ludwigsburg industrial park, is to increase in parallel with revenue growth.
Benefiting from an expanding portfolio of solutions aimed at CO₂ reduction and new products within the area of e-mobility, ElringKlinger AG also considers itself well placed to further expand sales and earnings via organic growth in 2013 as well as in the medium term.

In view of the structural growth seen within the majority of its product groups, the company is confident that the expansion in sales revenue achieved by ElringKlinger AG will outpace the level of growth generated by the vehicle market as a whole – calculated on the basis of car production figures.

**Sufficient financial scope**

In 2011, financing of the company’s key projects and the investments within the E-Mobility division was covered by the proceeds from the seasoned equity offering in 2010.

The existing cash inflow from internal funding is sufficient to cover the company’s financing requirements for 2012 and 2013 as they currently stand. In each case, net cash from operating activities anticipated for 2012 and 2013 is expected to exceed the payments for investments currently budgeted for tangible fixed assets. Thus, the expansion of promising lines of business and the financing of ongoing growth have been secured.

What is more, ElringKlinger AG has access to funding of around EUR 70.0 million in the form of lines of credit provided by several banks. This financing could be utilized if and when opportunities for external growth or technology-related acquisitions arise.

**Net debt to be scaled back**

Swelled to EUR 188.4 million mainly as a result of the acquisitions in 2011, net debt is to be gradually reduced as from the second half of 2012 once the dividend payout has been completed. As at December 31, 2012, net financial debt attributable to ElringKlinger AG is expected to be considerably lower than at the end of 2011. In 2013, the company should be in a position to further reduce its net financial liabilities.

In summary, the financial performance, financial position and cash flows of ElringKlinger can be considered solid. On this basis, the company finds itself in a favorable position when it comes to achieving the corporate goals outlined above.
Events after the Reporting Period

After the reporting period, ElringKlinger AG acquired metal-housing producer ThaWa GmbH Thaler Warenautomaten, based in Thale, Saxony-Anhalt/Germany, as well as AGD Group Entwicklungs- und Vertriebs GmbH, Gütersloh. The purchase consideration was EUR 3.0 million. The sale to ElringKlinger AG was closed on January 3, 2012. In making this acquisition, the company is looking to strengthen its activities in the field of exhaust gas purification technology. ThaWa operates primarily as a supplier and production partner to Hug Engineering AG, a Swiss exhaust treatment specialist acquired by ElringKlinger AG in May 2011. The plan is for ThaWa GmbH Thaler Warenautomaten as well as AGD Group Entwicklungs- und Vertriebs GmbH to be merged into ElringKlinger AG and for the Thale site to be retained as an operating plant of ElringKlinger AG.

Based in Elsau, Switzerland, Hug Engineering AG is being further developed into a center of excellence for exhaust treatment technology and filter substrates within the ElringKlinger Group. The plant in Thale is to be used in particular for the production of housings as well as for the so-called canning of diesel particulate filters and catalytic converters. In the case of new incoming orders, ThaWa will in future also be assigned other production processes. Services previously outsourced to Swiss suppliers operating within this area are to be performed within the Group at the more cost-efficient site in Thale. Acting as an “extended workbench” for Hug Engineering AG, ThaWa is to be expanded in order to accommodate the automated manufacture of larger volumes at serial production level. As part of the measures implemented for the purpose of integrating the exhaust treatment business of Hug Engineering AG into the ElringKlinger Group, significant cost items will thus be transferred to the euro area. This will help to reduce foreign exchange losses attributable to the euro/Swiss franc exchange rate, as Hug Engineering AG generates most of its sales revenue in euros. Consequently, pressure exerted on the operating margin by currency effects will be reduced.


Dettingen/Erms, March 15, 2012
The Management Board

Dr. Stefan Wolf  Theo Becker  Karl Schmauder
Auditor’s Report

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, 2011. 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 Board of Managing Directors. 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 § (Article) 317 HGB (“Handelsgesetzbuch”: “German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the 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 the Company’s Board of Managing Directors, 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 Company 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 15, 2012
PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

Marcus Nickel      ppa. Renate Berghoff
Wirtschaftsprüfer      Wirtschaftsprüferin
(German Public Auditor)      (German Public Auditor)
Responsibility Statement

Signature of the annual financial statements and responsibility statement

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

Dettingen/Erms, March 15, 2012
Management Board

Dr. Stefan Wolf  Theo Becker  Karl Schmauder