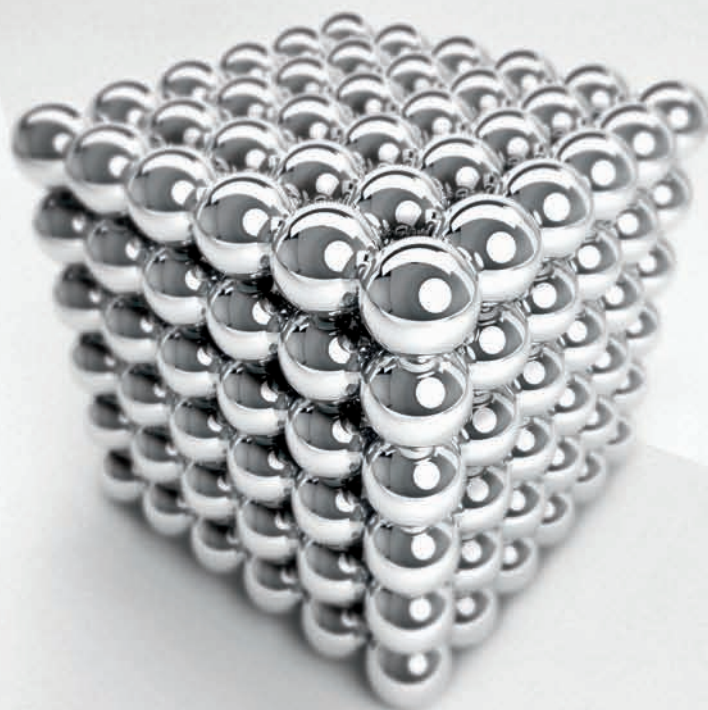


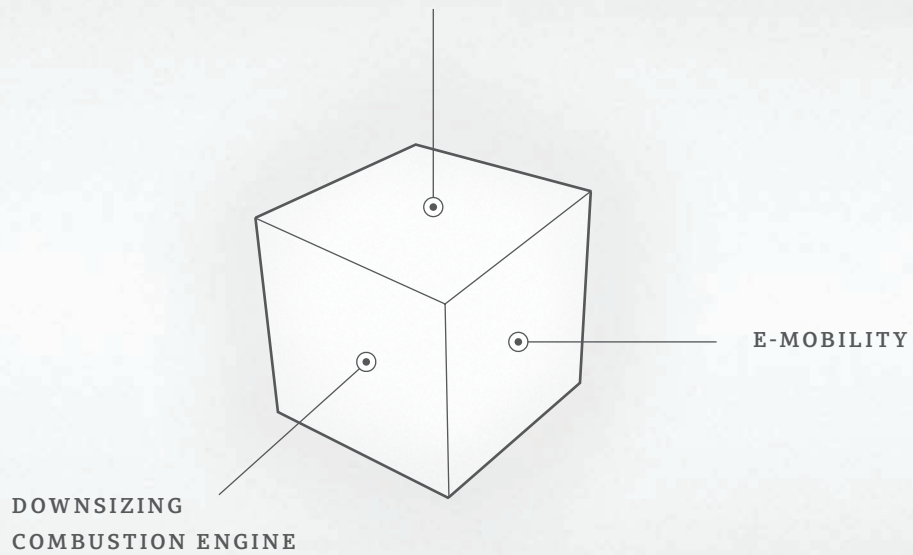
ANNUAL REPORT 2011

NEW DIMENSIONS



elringklinger

EXHAUST GAS TECHNOLOGY



Cover image: The “NeoCube” is an innovative brain-teaser puzzle. Based on the sphere as a symbol of momentum and propulsion, it comprises 216 individual magnetic balls. In its original cube shape, the magnetic balls form three axes and can be rearranged again and again in any number of combinations to create new shapes and new dimensions.

ElringKlinger, too, is synonymous with the creation of new dimensions – with three acquisitions in 2011 and sales topping the one billion euro mark for the first time. At the same time, our strategy for sustainable mobility also centers on three axes: optimization of the conventional combustion engine, exhaust gas purification technology and alternative drive technologies.

ElringKlinger Group – Key Figures

(IFRS)

		2011	2010	2009	2008	2007
Order intake	€ million	1,089.0	886.6	612.9	621.3	644.7
Order backlog	€ million	448.4	333.1	242.2	208.6	245.1
Sales	€ million	1,032.8	795.7	579.3	657.8	607.8
Cost of sales	€ million	744.2	557.0 ⁴	426.3	464.2	400.1
Gross profit margin		27.9 %	30.0 %	26.4 %	29.4 %	34.2 %
EBITDA	€ million	245.5	188.9	134.5	133.2	169.0
EBIT ¹	€ million	148.7	106.7	63.3	71.5	121.0
EBIT margin		14.4 %	13.4 %	10.9 %	10.9 %	19.9 %
Earnings before taxes	€ million	136.6	94.0	49.4	60.0	114.9
Net income	€ million	97.6	68.6	34.8	43.2	80.3
Profit attributable to shareholders of ElringKlinger AG	€ million	94.9	65.6	33.2	39.8	75.9
Net cash from operating activities	€ million	74.5	126.2 ⁴	148.8	98.2	99.3
Net cash from investing activities	€ million	- 147.4	- 128.1	- 93.6	- 211.7	- 101.9
Net cash from financing activities	€ million	35.4	74.0 ⁴	- 49.3	116.9	4.4
Operating free cash flow ²	€ million	- 10.5	- 1.9	58.2	- 37.6	5.5
Balance sheet total	€ million	1,217.6	991.3 ⁴	772.3 ⁴	764.5	572.5
Equity	€ million	610.1	522.3 ⁴	318.3 ⁴	288.1	281.1
Equity ratio		50.1 %	52.7 %	41.2 %	37.7 %	49.1 %
Return on equity after taxes		17.2 %	16.3 %	11.5 %	15.2 %	31.3 %
Return on total assets after taxes		9.9 %	9.2 %	6.4 %	8.2 %	16.5 %
Return on Capital Employed (ROCE)		16.7 %	15.2 %	8.8 %	13.6 %	30.3 %
Earnings per share	€	1.50	1.11 ⁵	0.58	0.69	1.32
Dividends paid	€ million	36.7 ³	22.2	11.5	8.6	26.9
Dividend per share	€	0.58 ³	0.35	0.20	0.15	0.47

¹ including currency effects² Net cash from operating activities minus net cash from investing activities (excluding acquisitions)³ Proposal to the Annual General Shareholders' Meeting 2012⁴ Figures adjusted due to changes made in accordance with IAS 8⁵ Figure for 2010 calculated on the basis of average number of shares (taking into account capital increase of October 6, 2010)

Highlights of the Year 2011

JANUARY

Auto Stock of the Decade

ElringKlinger is selected by the German trade and business magazine *Automobilwoche* for the "Auto Stock of the Decade" award. Over the last ten years, shares in ElringKlinger have considerably outperformed others in the sector to rise by over 1,300 percent. // [ElringKlinger and the Capital Markets](#) cf. page 16

JANUARY



Further boost to competitive position

ElringKlinger completes its takeover of the Freudenberg Group's Flat Metal Gaskets business, providing a further boost to its market position in the field of cylinder-head and specialty gaskets, e.g. for turbochargers. The four production sites acquired by ElringKlinger in France, Italy and Germany are integrated into the Group. // [Sales and Earnings Performance](#) cf. page 41

APRIL

Window on Asia

ElringKlinger makes its debut at Auto Shanghai, Asia's biggest automotive trade fair. Visitors show a lively interest in the company's new 130 m² exhibition stand and its latest product range. With sales in excess of EUR 70 million, China is now one of ElringKlinger's most important markets.

MAY



New factory in Changchun

ElringKlinger's new factory in Changchun (China) is inaugurated, doubling the space available to approximately 15,000 m². This further major boost to production capacity in the Chinese market prepares ElringKlinger for future growth. // [An Overview of ElringKlinger's Activities and Structure](#) cf. page 28

MAY



Clean acquisition

ElringKlinger extends its know-how in the field of exhaust cleaning technology for stationary and mobile applications by acquiring a majority stake in Swiss-based Hug Engineering AG, a company specializing in exhaust gas purification systems. The purchase opens up promising new markets for ElringKlinger – especially with the introduction of increasingly strict rules on exhaust emissions throughout the world. // [Significant Events](#) cf. page 40

AUGUST

Focusing on core business

ElringKlinger sells its Ludwigsburg Industrial Park for EUR 34 million in order to focus on its core activities. The proceeds are to be used to finance the Group's continued growth in the core fields of fuel economy and exhaust technology and further expansion of the E-Mobility division. // [Significant Events](#) cf. page 40

SEPTEMBER

Boost to lightweight construction

ElringKlinger acquires a 90% stake in the Hummel-Formen Group, which specializes in large-scale molds for injection tools as well as the development of new plastic components. The acquisition is a significant boost to the lightweight construction activities of the Plastic Housing Modules/Elastomer Technology division, with a focus on replacing metal parts with lighter and more cost-effective plastic components. // [Significant Events](#) cf. page 40



SEPTEMBER

Future comes as standard

ElringKlinger presents its latest innovative products for lean combustion engines and alternative drives at the IAA in Frankfurt under the motto "Embracing both Worlds". The company's new cell contact systems for lithium-ion batteries draw large numbers to its redesigned stand in the E-Mobility hall.



DECEMBER

A major leap forward

The Group's total sales revenue passes the EUR 1 billion mark for the first time in the history of ElringKlinger AG, taking the company into a new league.

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.

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KEY (TO SYMBOLS)

*  GLOSSARY REFERENCE

*  INTERNET REFERENCE

*  CROSS REFERENCE



DR. STEFAN WOLF (Chairman /CEO)

Responsible for Group companies, the corporate functions Finance, Controlling, Legal Affairs, Human Resources, IT, Investor Relations and Corporate Communications, as well as the Aftermarket and Industrial Parks divisions

KARL SCHMAUDER

Responsible for Original Equipment Sales and New Business Areas

THEO BECKER

Responsible for the Cylinder-head Gaskets, Specialty Gaskets, Plastic Housing Modules/ Elastomer Technology, Shielding Technology, E-Mobility and Tooling Technology divisions, as well as the corporate functions Quality and Environment, Materials Management and ElringKlinger AG plants



Letter to Shareholders

Dear Shareholders,
Dear Ladies and gentlemen,

The world economy continued on the road to recovery in 2011, with its forward momentum taking it beyond the pre-crisis level of 2007 in almost every sector. The automotive industry, in particular, recorded encouraging growth. With original equipment customers requesting substantial volumes as part of their production scheduling, sales revenue increased significantly in fiscal 2011. In parallel, however, the exceptionally high levels of capacity utilization were also associated with additional costs. Supplements payable for work performed on Saturdays and Sundays, the expansion of working time accounts, insufficient machine downtime to implement streamlining and automation projects as well as costs attributable to special deliveries and non-scheduled consignments exerted downward pressure on profitability. In addition, the Group was affected by the as yet negative earnings contributions of the acquired entities and significant material costs. Despite these effects, however, the ElringKlinger Group achieved a satisfactory business performance in 2011.

Sales revenue generated by the ElringKlinger Group in 2011 totaled EUR 1,032.8 million, 29.8% more than in the previous financial year. The Group thus moved beyond the threshold of one billion euros. Yet again, the subsidiaries and joint ventures recorded higher sales revenue and earnings than the parent company, ElringKlinger AG. The ElringKlinger Group posted earnings before taxes of EUR 136.6 million in fiscal 2011, up 45.3% on the result of 2010. This figure includes non-recurring other operating income of EUR 22.7 million. The latter is attributable to the disposal of the Ludwigsburg industrial park at the end of September 2011, which no longer formed part of the company's core business.

Total assets at the Group level rose to EUR 1,217.6 million, which corresponds to a year-on-year increase of 22.8%. This includes the flat gaskets business acquired from Freudenberg, Weinheim (since January 1, 2011), the Hug Engineering Group, Elsau, Switzerland (since May 1, 2011), and the Hummel-Formen Group, Lenningen (since October 1, 2011). The Group's equity ratio stood at 50.1%, which was still well above the minimum equity ratio of 40% defined for the Group as a whole.

As our shareholders, you again stand to benefit from your company's performance in the year under review. We propose to the General Meeting of Shareholders a dividend of 40 cents per share, 5 cents more than in the previous year. As regards the disposal of the industrial park, we intend to pay an additional bonus of 18 cents, the rationale being that you as shareholders should receive part of the proceeds from this sale. The total distribution thus stands at EUR 36.7 million, the highest payout in the history of the Group. Based on the net income recorded by the parent company in 2011, this corresponds to a dividend ratio of 49.5%.

The financial year 2011 was dominated not only by above-average organic growth, but also by three corporate acquisitions.

Effective from January 1, 2011, we took over the flat gaskets business of the Freudenberg Group. As a result, ElringKlinger Meillor SAS in Nantiat and Chamborêt (formerly Metallic Gaskets Nantiat SAS), France, Oigra Meillor s.r.l. in Turin, Italy, and former Burgmann Automotive GmbH in Eurasburg (now Gelting operating facility of ElringKlinger AG) joined the Group. The Group managed to complete most of the associated integration measures in 2011. The acquisition led to further consolidation in the area of flat gaskets, particularly with regard to cylinder-head gaskets. At the same time, the ElringKlinger Group has considerably strengthened its position in the markets of France and Italy. The mica and graphite seals produced by the site now operating as the Gelting facility of ElringKlinger AG represent an important extension to the specialty gasket portfolio, particularly with regard to exhaust tract applications.

The acquisition of a majority interest in Swiss-based Hug Holding AG has given the ElringKlinger Group access to exhaust gas purification technology. Given the more stringent emission standards implemented worldwide for both, mobile and stationary applications, the new products offer solid growth opportunities. ElringKlinger is now operating with an extended product portfolio, ranging from individual components such as diesel particulate filters with a new, improved microstructure and non-precious-metal coating to complete exhaust gas purification systems. This product range is marketed to both vehicle manufacturers and other automotive suppliers. The integration of Hug within the Group is proceeding swiftly. Within this context, the ongoing transfer of value-adding activities from the currency area of the Swiss franc to the eurozone will have a positive impact on margins.

As of October 1, 2011, ElringKlinger acquired a 90% interest in Hummel-Formen GmbH. Hummel's track record of designing plastic housing components and injection-molding tools for ElringKlinger spans many years. In acquiring Hummel, the Group has secured long-term access to these technologies. Furthermore, Hummel has applied for patents that are likely to open up considerable opportunities in the area of light weight constructions for the future. The issue of weight reduction in vehicle manufacturing is becoming increasingly important. The formula applied within this area: less weight = lower fuel consumption = reduced emissions.

Against the backdrop of rising demand for cell contact systems used in lithium-ion batteries and components for fuel cell units, the company established the E-Mobility division back in 2010 and expanded this area of the business significantly over the course of 2011. In short succession, we secured both development and series production contracts from customers. This division is considered the incubator for growth within the ElringKlinger Group in the area of hybrid and pure electric vehicles. Although production output of pure electric vehicles is likely to be restricted to smaller volumes in the coming 15 to 20 years, ElringKlinger will be in a position to benefit from the growing trend towards hybrid solutions. The classic products aimed at more efficient downsized combustion engines together with the new solutions for hybridization offer considerable opportunities for growth.

The ElringKlinger Group continues to grow at a global level, but also in Germany. In building a fully automated high-performance plant for plastic housing modules at ElringKlinger AG's headquarters in Dettingen/Erms, we have reaffirmed our commitment to Germany as a business location. A total amount of around EUR 24 million is being invested in the site that encompasses approx. 20,000 m² in production space and 3,000 m² in office space. Operations at the new plant commenced in January 2012. Full completion of the facility is scheduled for June 2012.



Total investments in 2011 amounted to EUR 121.6 million. The focus here was on expanding facilities worldwide, procuring new, state-of-the-art machinery and systems, as well as implementing automation and streamlining measures. From a regional perspective, the emphasis was on the growth markets of Asia, particularly China. Our ongoing investments in the latest technologies are aimed at cementing ElringKlinger's position as an innovation leader.

Trading within a difficult capital market climate in 2011, ElringKlinger's stock was unable to match the dynamic growth rate achieved in the previous year. At the end of 2011, the company's share price stood at EUR 19.18. In the first weeks of 2012, however, the stock returned to a level of EUR 24.00.

The encouraging performance of 2011 would not have been possible without the contribution of our highly qualified, motivated and dedicated workforce. Each and every team member within the Group makes a profitable contribution to our overall performance. The Management Board would like to thank all of the Group's employees for their efforts over the course of the financial year just ended.

We are well prepared for the future. Lower fuel consumption, the reduction of emissions and exhaust gas purification are key issues for our customers worldwide. As an innovation leader operating within the global arena, we are able to serve our customer base from 41 locations worldwide, covering every aspect from development through to series production. Focusing on three dimensions – “optimization of the combustion engine,” “exhaust gas purification” and “electromobility” –, we meet the needs of the automotive industry as well as those of other sectors. Drawing on this expertise, we are now primed for further growth.

This annual report outlines our business performance in 2011 and provides details of the strategic direction we are taking. We are committed to achieving profitable growth well into the future by delivering solutions to the coming challenges facing our industry. We hope you enjoy reading our annual report for 2011.

Sincerely,

Dr. Stefan Wolf

Report by the Supervisory Board 2011

During the financial year 2011, the Supervisory Board of ElringKlinger AG monitored the activities of the Management Board and supported it in an advisory capacity in line with the requirements of the German Stock Corporation Act (Aktiengesetz – AktG) and the German Corporate Governance Code.

The Supervisory Board was given a monthly written report by the Management Board outlining developments in the wider economy, ElringKlinger's business performance, order intake, order backlog, revenue and earnings (each with a prior-year and target comparison), important new orders, the employment situation of the Group, the parent company, their divisions and the subsidiaries as well as the level of borrowing.

In 2011, the Supervisory Board held four scheduled meetings.

At each of these meetings, the Management Board provided a detailed review of performance over the last intra-year period, including the main business indicators, comparisons with the previous year and an assessment of whether targets had been achieved for the Group, the parent company, their divisions and the German and international subsidiaries. These reports also reviewed the current forecast for the full-year results and examined the macroeconomic situation and the state of the markets and competition. The Management Board also provided details of the current risk situation and the status of ongoing legal disputes.

In addition to the core reporting issues outlined above and its discussion, the Supervisory Board also addressed the following specific matters at its scheduled meetings:

Scheduled meeting on March 25, 2011

- 2010 financial statements, discussion of the financial statements with the responsible auditors from Price-waterhouseCoopers AG (PWC) and adoption of the financial statements. Approval of the Management Board's proposal for the appropriation of profit for fiscal 2010
- Integration of the acquired Freudenberg companies operating in the flat gasket business
- The Management Board's plans to acquire a majority interest in Hug Engineering AG, Switzerland, which specializes in the development, manufacture and sale of exhaust gas aftertreatment systems for heavy diesel engines
- Preparations for the 2011 Annual General Meeting
- Strategy of the ElringKlinger Group in the regions India, South-East Asia and China

Scheduled meeting on May 31, 2011

- Following the AGM, obligatory new elections for the positions of Chairperson and Deputy Chairperson of the Supervisory Board. Dr. Helmut Lerchner was elected to act as the Chairperson and Markus Siegers (employee representative) as Deputy Chairperson of the Supervisory Board
- Review and evaluation of the 2011 Annual General Meeting
- Following the acquisition of a majority stake, a discussion of progress made in the integration of Hug Engineering AG into the ElringKlinger Group structure

Scheduled meeting on September 9, 2011

This meeting was held in Liechtenstein close to the site of ElringKlinger Abschirmtechnik (Schweiz) AG, Sevelen, Switzerland. The meeting was followed by a visit to the Swiss manufacturing plant.

- Progress and outcome of the integration of Hug Engineering AG into the ElringKlinger Group structure



DR. HELMUT LERCHNER (Chairman of the Supervisory Board)

- Discussion of the Management Board's plans to acquire a majority interest in the tool and mold producer Hummel-Formen GmbH, Lenningen, an important supplier of ElringKlinger
- Managerial issues relating to senior employees at two US subsidiaries

Scheduled meeting on December 9, 2011

- 2012 budget and extension of the medium-term forecast to the period 2012 to 2016
- Integration process for the newly acquired subsidiaries and affiliated entities
- Results of internal audits conducted in 2011 and planning for internal audits scheduled for 2012, in particular an increase in the number of internal audits in light of the expansion of the Group
- 2012 Annual General Meeting
- Earlier-than-scheduled extension of the employment contracts of the three members of the Management Board to cover the period from February 1, 2013 to January 31, 2018, and redetermination of Management Board compensation for this extended period

With the exception of two meetings at which one member was absent in each case and duly excused, all meetings of the Supervisory Board in 2011 were attended by all its members.

There were no separate preparatory meetings of the Supervisory Board's employee and shareholder representatives prior to the scheduled meetings. The clear and comprehensive documentation distributed by the Management Board was self-explanatory and therefore made this unnecessary.

There were no conflicts of interest in 2011 between Supervisory Board members and the company.

The declaration of conformity of the Supervisory Board and the Management Board, as required by Section 161 of the German Stock Corporation Act concerning the German Corporate Governance Code as amended on May 26, 2010, was adopted by written circulation. The declaration was published on the company's website on December 4, 2011.

In addition to the monthly written reports and the four scheduled meetings, the Chairman of the Supervisory Board remained in contact with the Chairman of the Management Board by telephone, e-mail and in person at regular intervals throughout the year. These ongoing exchanges covered the current situation, important business developments and other events of particular significance. Where appropriate, the Chairman of the Supervisory Board informed his colleagues on the Supervisory Board by e-mail or telephone.

The Management Board liaised with the Supervisory Board in good time with regard to all transactions requiring approval, furnishing it with clear and detailed information. The Supervisory Board granted its approval in all cases. One particular issue worth mentioning at this point is the sale of the Ludwigsburg industrial park to its principal long-term tenant effective from October 1, 2011. The Supervisory Board approved the sale by means of circular resolution.

A change in the composition of the shareholder representatives on the Supervisory Board was approved at the 2011 Annual General Meeting. For reasons of age, Dr. Rainer Hahn chose to step down from his position on the Supervisory Board after 23 years of excellent service on the shareholder committees of the former Elring Dichtungswerke GmbH, Elring GmbH, later Elring Klinger GmbH and now ElringKlinger AG. The AGM elected Dr. Margarete Haase, who sits on the management board of Deutz AG in Cologne, to replace Dr. Hahn as a shareholder representative on the Supervisory Board. The Supervisory Board would like to thank Dr. Hahn for the commitment and sound judgment he has shown over many years. At the same time, we would like to wish Dr. Haase every success in the position.

No other changes were made to the composition of the Supervisory Board in 2011. Equally, there were no other changes in the committees or in their composition.

In fiscal 2011, the company's Audit Committee held two meetings with the auditors on March 24 and December 5, 2011.

The first of these meetings was primarily concerned with the report produced by the auditors from PWC based on its audit of the 2010 financial statements. The report was examined and discussed at length.

Following this meeting, the Audit Committee was able to recommend that the Supervisory Board adopt the financial statements without amendment.

Preliminary talks on the 2011 audit were held at the meeting in December, at which in particular the main focal points of the audit were established. These were agreed with particular reference to the "Areas of Emphasis" published by Germany's Financial Reporting Enforcement Panel (FREP). It was agreed that the following company-specific issues would also be addressed in detail in the audit:

- An assessment of the currently available documentation on the internal control system established by ElringKlinger AG in relation to its accounting procedures
- The procedure for capitalizing property, plant and equipment and tools
- An impairment review of intangible assets

Beyond the meetings, the Audit Committee was informed regularly of the results of internal audits. The Management Board also reported on the results of the measures taken in response to internal audit findings. No major issues emerged that might have required changes to the company's risk management and control systems.

The Management Board accepted and implemented the recommendations of the auditors, the internal audit department and the Audit Committee.



The Personnel Committee held one meeting on September 9, 2011, to decide on the proposals to extend, earlier than scheduled, the Management Board's employment contracts as of February 1, 2013, and to adjust the compensation of the Management Board over this extended period. The proposals were approved unanimously. The chairperson of the Personnel Committee then held negotiations with the members of the Management Board, who also agreed to the proposals. They were then presented for adoption by the Supervisory Board at its meeting on December 9, 2011 (see above).

No meetings of the Mediation Committee were necessary in 2011.

At the end of 2011, as required by the German Corporate Governance Code, the Supervisory Board held a routine meeting to evaluate its own effectiveness, including the openness of communications at its meetings and the involvement of all members in discussions. The Supervisory Board delivered a consistently positive assessment of its activities.

The 2011 financial statements of ElringKlinger AG, including the management report, and the corresponding consolidated financial statements and Group management report, as presented by the Management Board, were audited by the auditors PricewaterhouseCoopers AG. The audit mandate was issued by the Supervisory Board in accordance with the resolution passed by the Annual General Meeting on May 31, 2011.

In accordance with Section 315a of the German Commercial Code (HGB), the consolidated financial statements of ElringKlinger AG were prepared on the basis of International Financial Reporting Standards (IFRS). The auditor issued an unqualified audit opinion for the 2011 financial statements of ElringKlinger AG, including the management report, as well as for the consolidated financial statements, including the Group management

report. The Supervisory Board was in possession of the documents relating to the financial and consolidated financial statements together with the Management Board's proposal for the appropriation of profits, as well as the two audit reports compiled by the auditors. The aforementioned documents were studied in depth by the Audit Committee and the Supervisory Board as a whole before being discussed at length and examined in conjunction with the auditors. The Supervisory Board concurred with the outcome of the audit. No objections were raised.

At its meeting on March 23, 2012, the Supervisory Board approved the 2011 financial statements of ElringKlinger AG and the consolidated financial statements – together with the associated management and Group management reports – for the financial year 2011. The financial statements of ElringKlinger AG for 2011 have therefore been adopted in accordance with Section 172 AktG. At the same meeting, the Supervisory Board approved the Management Board's proposal for the appropriation of profit.

The Supervisory Board would like to thank the Management Board and all members of staff at ElringKlinger AG and its domestic and international subsidiaries and affiliated entities for their successful work in the financial year 2011.

Aichtal, March 23, 2012
The Supervisory Board

Dr. Helmut Lerchner
Chairman of the Supervisory Board

An abiding fascination with the car

2011 was one of the most successful years ever for the German automotive industry. Nevertheless, the international debt crisis and concerns about eurozone stability and the possibility of a recession continue to cast a shadow over us in 2012. Against this background, many of those with a stake in the automotive market are wondering about its future prospects and the challenges facing the industry. These issues were discussed by Dr. Stefan Wolf, CEO of ElringKlinger AG, and Matthias Wissmann, President of the German Association of the Automotive Industry (VDA).

WOLF: Mr. Wissmann, at the moment the outlook for Europe's economy as a whole appears quite gloomy, and we are seeing a good deal of uncertainty. Yet, at the global level, the VDA anticipates solid four-percent growth in 2012. What is it that makes you so confident?

WISSMANN: 2011 certainly was a very good year for the automotive industry. German car makers broke all their previous records for production, exports and revenue. We are also growing in all the key regions around the globe. In the United States, we topped the one million mark for car sales; in China, German group companies account for one in every five new car sales, and in Western Europe, our share of the market stands at nearly 50 percent. Apart from Southern Europe, which is suffering particularly from the debt crisis, overall we expect to see stable growth, especially in North America and Asia. So the global automotive market is continuing to expand.

WOLF: So you don't anticipate another crisis of the sort we experienced in 2008/09. How do you see the risk of a comparable scenario emerging? My understanding is that companies are now better prepared for major fluctuations in demand.

WISSMANN: Yes, companies have learned lessons from the crisis – they are much more flexible now than they were then. That's why we have been able to get back on our feet more quickly than others, because we held on to our core workforce and didn't cut our investment in research and development. We are not anticipating a collapse, but we do need to expect a weaker period in some EU states. It's worth mentioning that our political leaders have also absorbed lessons from 2008/2009 – everyone in Europe is now focused on stabilizing the situation.

WOLF: From my own perspective as a participant in the real economy, I can only agree with you. What matters most for us as a company is being able to plan over the long term. If we look ahead at the next few years, things don't look so bad, particularly with strongly rising demand for mobility in emerging countries. In the long term, global car production is likely to increase, although perhaps at a more moderate pace than in 2011.

WISSMANN: The outlook certainly is very positive. Looking at the medium-term and long-term trend, the global automotive market is clearly expanding, above all, as you were saying, given the huge gap in levels of vehicle ownership in Asia compared to more developed coun-



“Suppliers are more and more important to the industry. Their contribution is vital if we are going to establish Germany as a leading market for electric vehicles – with the capacity to influence developments worldwide.”

MA TTHIAS WISSMANN

tries, but also thanks to dynamic rates of growth in North and South America. By 2020, worldwide car sales are set to increase by 40 percent to 90 million units. For German manufacturers and suppliers, the challenge is to win a large share of this growth. With our global reach, I'd say our prospects of doing so are good.

WOLF: Further growth also increases the risk of higher material costs. Prices for input materials have risen considerably over the last two years and represent a major cost for the industry, especially suppliers. Are we going to have to cope with even higher prices for raw materials in 2012 – or with shortages in the availability of materials?

WISSMANN: I think we can expect to see sizeable fluctuations on those vitally important commodities markets in 2012 as well. The same goes for exchange rates. What's more, we keep coming up against the restrictive trading policies adopted by some countries with regard to commodities. In the case of rare earths, global supply is dominated by China, and it restricts the level of exports. Looking further ahead, I expect that there will be alternatives in this area, too, by which I mean new suppliers.

WOLF: The automotive industry faces some major challenges with regard to the development of alternative drive technologies such as e-mobility. I am not personally convinced that we are going to see large numbers of pure electric vehicles being produced in this decade. My own view is that the next ten years belong to the hybrid.

WISSMANN: I am certain that we are going to find an exciting mix of drive systems on our roads. For the next ten years, I believe the combustion engine, which is of course becoming increasingly efficient, will continue to dominate the market, although it will be joined by a growing number of hybrids and electric vehicles. Fuel cell technology also has good prospects in the long term. The distinction between hybrids and pure electric vehicles is actually rather academic in any case. If a plug-in hybrid can run for 20 or 30 kilometers on its battery – after which the combustion engine takes over – that should help to deliver emissions-free mobility in our city and town centers.

WOLF: That's true. Of course, at ElringKlinger we are particularly interested in the hybrid option, as it means we can supply both our traditional range of products as well as new solutions for the electric motor. What is clear is that suppliers need to be prepared for the change and develop new solutions for the e-mobility market that complement their traditional product lines. This is the approach we took at ElringKlinger from a very early stage. Over the last few decades, automotive suppliers have made an ever greater contribution to the value chain. Looking forward, I believe that the industry's suppliers will play an increasingly important role in development and that this trend will continue.

WISSMANN: No question: Suppliers are more and more important to the industry. Their contribution is vital if we are going to establish Germany as a leading market for electric vehicles – with the capacity to influence developments worldwide. Having said that, in recent years the share of automotive suppliers in the value chain for a new car has remained steady at around 70 percent. It's not only with electric and hybrid cars that manufacturers are keen to ensure that their brand identity remains intact.

WOLF: As far as e-mobility is concerned, government policy also plays an important role. In other countries such as China, billions are being poured into subsidies for e-mobility. Germany has set itself a target of a million electric cars on the road by the year 2020. Do you think our political leaders need to take more action to ensure that Germany doesn't fall behind its global competitors in these new technologies?

WISSMANN: I think there is agreement between the industry, politicians and the world of science that we need to provide active support as the market expands. Each of these groups is represented on the National Electromobility Platform, which has laid the foundations for delivering that support. The challenge now is to put the right conditions in place for us to move forward. One of the key factors here will be the role of the projected so-called "shop window" regions, where people will come into much more regular contact with e-mobility systems as a whole. The aim is to examine patterns of



usage, new mobility solutions and intelligent business models. The public procurement program announced by the German government for the period from 2013 onwards will also help to widen the level of acceptance of e-mobility.

WOLF: If we include applications technology, ElringKlinger already invests between 6% and 8% of its sales revenue in research and development. At the moment, the main focus within the automotive industry is on optimizing the conventional combustion engine and on developing more efficient exhaust purification systems and alternative drive technologies. Which of these areas do you think we need to prioritize?

WISSMANN: In my view, it's not a matter of either-or. We need to prioritize all these things. For years now, we have been pursuing a broadly based strategy that covers all these options – optimizing the combustion engine and developing alternative drives. Of course, that also includes all the latest product innovations designed for the exhaust tract. In terms of CO₂ reduction, the German automotive industry has made tremendous progress in recent years. In fact, German manufacturers currently offer over four hundred vehicles with CO₂ emissions under 130 grams. This success would not have been possible without the innovative products developed by the industry's suppliers. And we have reduced emissions of the other traditional pollutants even further thanks to better engines and cutting-edge exhaust cleaning technology.

WOLF: That's exactly why ElringKlinger has adopted this strategy. It's the only way to achieve sustainable mobility. Now if I may, let me ask you about consolidation in the industry. In 2011, for example, ElringKlinger concluded three takeovers. Do you think we are going to see an increasing trend towards consolidation over the next few years?

WISSMANN: Business is all about change. If you are standing still, in reality you are heading backwards. The automotive industry is extremely vigorous and a real global player. We are seeing new international partnerships emerge between producers, and things are changing in the supplier sector, too. After the crisis, suppliers

have strengthened their capital base. They have also positioned themselves within the global arena, as for example the recent Auto Expo in India showed us. The scope of their activities is much wider than it was just twenty years ago. By expanding their international activities, they have successfully reinforced their competitive position.

WOLF: Mr. Wissmann, I'd like to finish with a personal question. You yourself come from Ludwigsburg in Baden-Württemberg and are very familiar with the region where the automobile was invented over 125 years ago. What is it that characterizes the entrepreneurial spirit of the automotive industry in this region?

WISSMANN: Baden-Württemberg is not only where the automobile was invented – 126 years ago now – it is still a vitally important region when it comes to making high-end prestige cars and home to some highly successful suppliers with an international profile. In my view, the region's international success is largely due to this unique partnership between manufacturers and suppliers in the Stuttgart area. Just take a look along the Fils and Neckar rivers – you will find a whole chain of regional suppliers one after another. Many of these are SMEs, often family businesses. That creates good long-term prospects over generations. Of course, the people in Swabia have a reputation for hard work, but above all it's their inventiveness that has made Baden-Württemberg great – and their commitment to developing and producing technical solutions to perfection. Another important factor in the region's success is that workforces identify very strongly with their companies and are proud of the products they make. In fact, Baden-Württemberg is home to over a quarter of all the jobs that make up Germany's automotive industry. There's something else, too: people here look after their cars like they do their own house. In Baden-Württemberg, in particular, there is clearly an abiding fascination with the car.

WOLF: Certainly at ElringKlinger we are very proud of our role in maintaining and exporting that entrepreneurial spirit. Mr. Wissmann, thank you for sharing your thoughts with us.

ElringKlinger and the Capital Markets

Equity markets worldwide under pressure in 2011

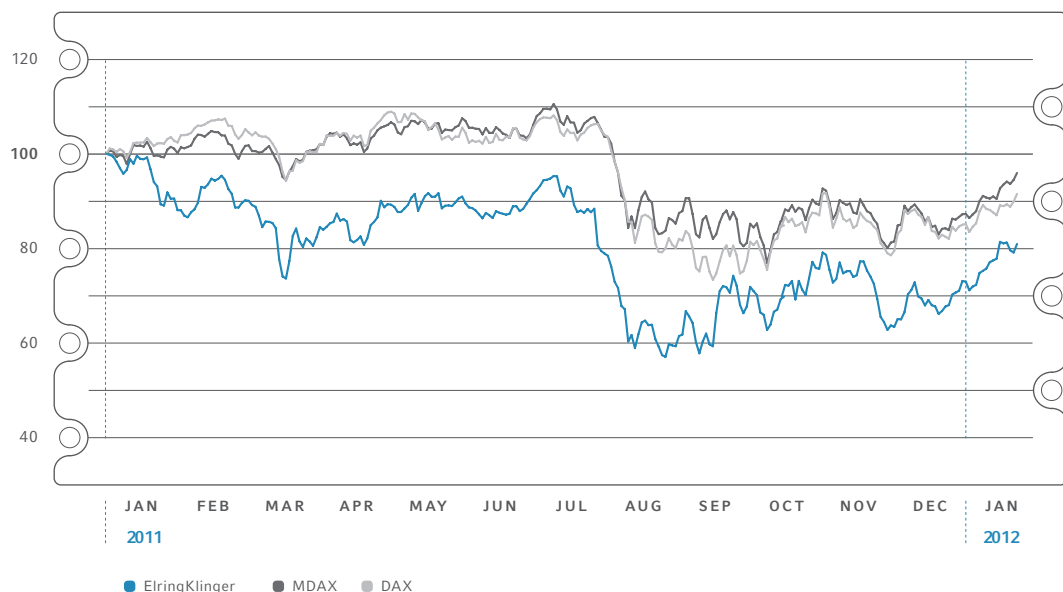
The year under review was marked by considerable turbulence on the global equity markets. Germany's lead index, the DAX, fluctuated by more than 2,400 points over the course of 2011.

The year actually began in very promising fashion. The DAX continued to gain ground, following a trend established in 2010, and even passed the 7,400 mark.

In March, the tsunami in Japan and the resulting damage to one of the country's nuclear power stations triggered a major collapse in share prices on global stock markets. However, when the worst fears failed to materialize, the markets recovered relatively quickly and in some cases reached new highs for the year.

In the summer, the general mood on the financial markets grew increasingly negative in response to the simmering financial and debt crisis in the United States and Europe; the markets found themselves under pressure from rising yields on government bonds in countries on the periphery of Europe and from credit downgrades by the rating agencies for a number of states. At the same time, early economic indicators became a cause of concern, and in August growing fears of recession triggered a widespread collapse on the capital markets. Within just a short time, the DAX lost around 2,000 points. With many analysts scaling back their global production forecasts for 2012 as a result of prevailing economic uncertainty, the pressure spread particularly to financial and automotive stocks. It was not

ELRINGKLINGER'S SHARE PRICE PERFORMANCE (XETRA) SINCE JANUARY 1, 2011
compared to the MDAX and DAX



until October that the markets began to recover, albeit from a relatively low base. The DAX ended the year down 14.7%, while the MDAX, which includes ElringKlinger, lost 12.2% over the same period.

In a generally difficult market environment, shares in ElringKlinger were unable to maintain the strong momentum of 2010, which had seen a rise of around 64%. After a solid start to 2011, the stock traded between EUR 23.00 and EUR 26.00 over the first few weeks before falling below the EUR 20 mark in March in the aftermath of the Japanese tsunami disaster. By mid-July, it had climbed back up to over EUR 25.00.

At the end of August, the stock fell to EUR 15.15, its lowest level for the year, in the wake of the growing sovereign debt crisis and the resulting waves of selling on stock markets around the globe. However, buoyed by positive quarterly figures and favorable company news, it had made a strong recovery by the end of 2011, reaching EUR 21.00 on occasion, before ending the year at EUR 19.18.

KEY INDICATORS FOR ELRINGKLINGER'S STOCK

	2011	2010
Earnings per share IFRS (after minority interests, in EUR)	1.50	1.11 ¹
Shareholders' equity per share (in EUR) ²	9.63	8.24
High (in EUR) ³	26.45	26.98
Low (in EUR) ³	15.15	16.09
Closing price on December 31 (in EUR) ³	19.18	26.50
P/E (price to earnings ratio) ²	12.8	23.9
Dividend per share (in EUR)	0.58 ⁴	0.35
Average daily trading volume (German stock exchanges; no. of shares traded)	196,400	119,900
Average daily trading value (German stock exchanges; in EUR)	4,178,000	2,466,000
Market capitalization (in EUR million) ²	1,215.2	1,679.0

¹ Figure calculated on the basis of average number of shares in 2010 (taking into account capital increase on October 6, 2010)

² as of December 31

³ XETRA trading

⁴ Proposal to 2012 AGM

Trading value significantly increased

Both the value and volume of shares traded showed an impressive rise in 2011. The daily average number of shares traded rose to 196,400 (119,900), while the corresponding figure for the total value of shares traded increased significantly to EUR 4,178,000 (EUR 2,466,000). This significant improvement in liquidity was largely a result of the capital increase in October 2010, which increased the proportion of shares in free float to 48.0%. This, in turn, made the stock more attractive, particularly to institutional investors such as banks and insurers.

The move also enhanced the stock's MDAX weighting. In December 2011, ElringKlinger continued to rank 37th out of 50 MDAX companies in terms of market capitalization but improved its ranking considerably from 48th to 36th place in terms of "average trading value over the last 12 months."

Ongoing dialog with the capital markets

As in previous years, in 2011, ElringKlinger's investor relations activities again focused on maintaining an ongoing and transparent dialog with the capital markets. The company held presentations at 13 international capital market conferences and took part in a total of ten road shows in Germany and elsewhere. Over the course of the year, these events took the company amongst others to Frankfurt am Main, Zurich, Paris, London, Dublin, Copenhagen and Helsinki as well as a number of cities in the United States.

To complete its investor relations program, ElringKlinger hosted numerous visits by institutional investors and financial analysts to its Dettingen/Erms and Bietigheim-Bissingen locations. The visitors were primarily interested in the company's production and R&D facilities. ElringKlinger's Suzhou production site in China also hosted visits by international investors on several occasions.

Furthermore, the company held regular telephone conferences in order to report on its current business performance and the latest market trends. Investors were particularly keen to hear about the latest product developments in the field of battery technology and the company's acquisitions in 2011.

In addition to the annual analysts' conference at which the company presented its results for the fiscal year, in September 2011, ElringKlinger hosted another major event for investors and analysts at the IAA International Motor Show in Frankfurt am Main under the slogan "Embracing both Worlds." CEO Dr. Stefan Wolf explained the rationale behind the acquisition of the two companies Hug and Hummel-Formen* (Significant Events, page 40). As the member of the Management Board responsible for Development and Sales, Karl Schmauder presented the latest product developments in the fields of e-mobility and exhaust technology. Professor Bratzel from the Center of Automotive at the Bergisch Gladbach University of Applied Sciences offered an academic perspective on developments in global vehicle markets and trends in the automotive industry. The event was attended by an enthusiastic audience that included over fifty representatives of the capital markets.

Proactive communication with private investors

ElringKlinger places great emphasis on maintaining personal contact with private investors. Around 25% of the free float is in private hands and is mostly held as a long-term investment. The company's telephone hotline (+49 7123 724-631) allows investors to make personal contact with members of the Investor Relations team. Furthermore, the website at www.ElringKlinger.com* contains a wide range of information about the stock as well as up-to-date news and publication dates. This section of the website was extended in 2011 to offer even more information to shareholders.

Private investors can also direct questions to CEO Dr. Stefan Wolf in person at one of our regular "live chat" sessions on the website (www.ElringKlinger.de/de/Chat-mit-dem-ceo)*. In 2011, this online chat facility was used extensively by many private investors as an opportunity to discuss the latest company and market developments and obtain first-hand feedback from the Management Board.

*  CF. PAGE 40

*  INTERNETLINK

*  INTERNETLINK



In addition, the query form in the Investor Relations section of the website allows investors to submit questions to be answered during the next CEO chat. The date of the next session is published in advance on the website.

ElringKlinger is also an active member of the Baden-Württemberg Small Caps initiative (BWSC/ www.bwsc.de*). As part of the initiative, ElringKlinger AG and eight other listed companies are involved primarily in a series of measures aimed at improving communications with private investors by holding investor information events in collaboration with regional banks and the Stuttgart Stock Exchange. At the end of September, ElringKlinger gave a joint presentation with the BWSC and the Baden-Württemberg Stock Exchange to an audience of regional asset managers at Stuttgart's Porsche Museum. Dr. Stefan Wolf introduced the company and its strategy. Following the presentation, the participants eagerly seized the opportunity to discuss a range of issues with the company's representatives.



Awards for investor relations work

The quality of ElringKlinger's financial communications was again recognized in 2011 when the company came in third place (MDAX) in the German Investor Relations Awards organized by the business magazine 'Capital', a further improvement on its creditable performance in 2010 (ninth place). 'Capital' launched its annual IR Awards in 1997 in collaboration with the DVFA (German Association for Financial Analysis and Asset Management). The award is based on a survey of around 300 fund managers and analysts based in Germany and abroad and rates 200 exchange-listed companies on the basis of target group orientation, transparency, consistency, reliability, continuity and sustainability reporting.

ElringKlinger AG's 2010 Annual Report was selected for two prestigious awards: In the industry-wide Automotive Brand Contest run by the German Design Council, the conceptual design of the report earned it an award in the "Print/Annual Reports" category, along with Audi and Volkswagen. The competition was held for the first time in 2011 and focuses on design and brand communication.

There was further recognition at the international level in the form of the 2010 LACP Vision Awards, which are conferred by the League of American Communications Professionals. The competition, widely regarded as the most prestigious of all in the area of international financial reporting, rated over 5,000 entries of leading companies from every corner of the world. ElringKlinger's annual report was awarded 96 out of a possible 100 points to earn "Silver" in the "Automobiles & Components" category.

ElringKlinger's stock market performance over the last ten years brought the company a very special award from the industry and business magazine 'Automobilwoche' in 2011. Their objective is to recognize people, brands and companies that have made an exceptional contribution and helped shape today's automotive industry over the course of a decade. In January, the stock was designated "Automotive Share of the Decade" in view of its unrivalled, long-term appreciation over this period. Having risen by 1,346 percent since 2001, ElringKlinger's stock was a clear winner ahead of the rest of the field. The stock also emerged as a front-runner in the "Long-term growth check" conducted by the financial magazine EURO, which examined the business and share performance of 160 companies from the DAX, MDAX, SDAX and TecDAX in its November 2011 issue. With earnings per share up 231% and the trading price up 665% since 2001, ElringKlinger finished in the top ten.

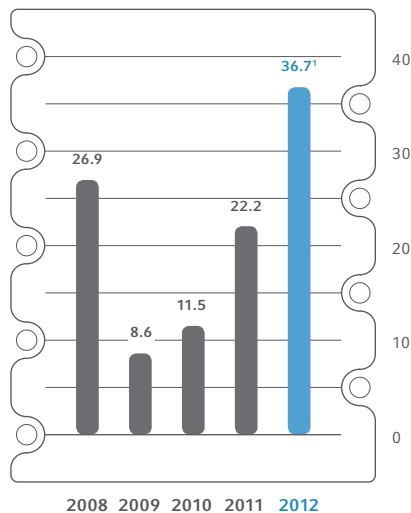
SHARES IN ELRINGKLINGER – STOCK DETAILS

ISIN	DE 0007856023
German Securities Identification Code (WKN)	785 602
Bloomberg	ZIL2
REUTERS	ZILG n.DE
Capital stock	EUR 63,359,990
Number of shares outstanding	63,359,990
Stock exchanges	Official trading: XETRA, Frankfurt, Stuttgart, Munich, Dusseldorf, Hamburg, Berlin
Market segment	Prime Standard
Index	MDAX

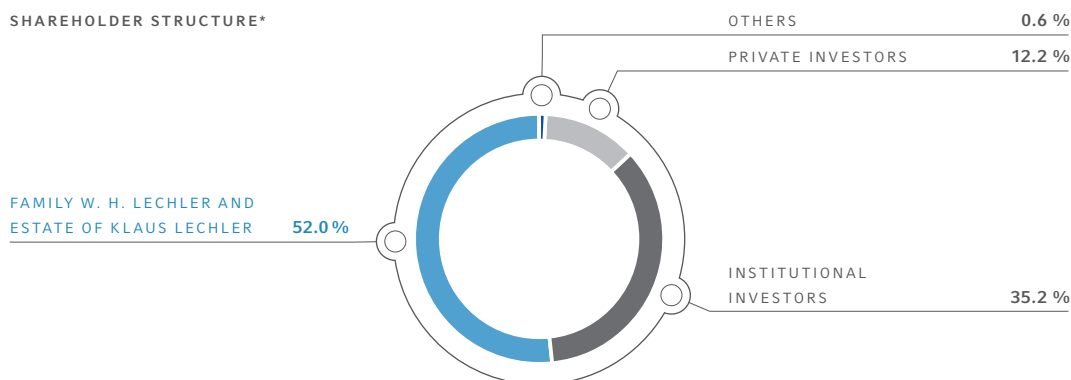
2011 AGM increases dividend and elects Dr. Margarete Haase to Supervisory Board

ElringKlinger AG's 106th Annual General Meeting was held on May 31, 2011. Speaking to an audience of around seven hundred shareholders and guests at Stuttgart's Liederhalle Culture and Conference Center, CEO Dr. Stefan Wolf gave an upbeat review of the fiscal year 2010. The shareholders voted by a majority of 99.9% to raise the dividend for the fiscal year 2010 to EUR 0.35 (0.20) per share, making a total dividend payout of EUR 22.2 (11.5) million. The AGM also elected Dr. Margarete Haase to succeed Dr. Rainer Hahn on the Supervisory Board of ElringKlinger AG. Dr. Haase sits on the Management Board of DEUTZ AG, where she is responsible for Finance, Human Resources and Investor Relations.

TOTAL DIVIDEND PAYMENTS
in EUR million



¹ Proposal to the 2012 AGM



* Based upon information available to the company as of end of January 2012

Shareholder structure – ElringKlinger broadens international investor base

As of December 31, 2011, the free float of ElringKlinger AG was unchanged at 48.0%. Most of the company's shares (52.0%) remained in the possession of the family of Walter Herwarth Lechler and the estate of Klaus Lechler.

The percentage of ElringKlinger AG's capital stock held by banks, insurers, investment companies and asset managers at the year-end stood at 35.2% (33.8%), making institutional investors the largest group within the free float. The number of private investors holding shares in ElringKlinger AG as of December 31, 2011, had risen to 10,517 (9,217), with the result that the proportion of shares outstanding held by private investors stood at around 12% (11.5%).

2011 also saw a further increase in the representation of international investors in the free float, with institutional investment funds in the United States, Canada, Scandinavia and Switzerland either buying into the company for the first time or increasing their holdings.

Investors who place strong emphasis on sustainability showed growing interest in the stock. Since 2010, ElringKlinger AG has been the only automotive industry supplier to be listed in the "DAXglobal® Sarasin Sustainability Germany Index." The company attracted a number of other sustainability funds in 2011. As a result, this investment segment is set to become increasingly important over the next few years.

Outlook 2012

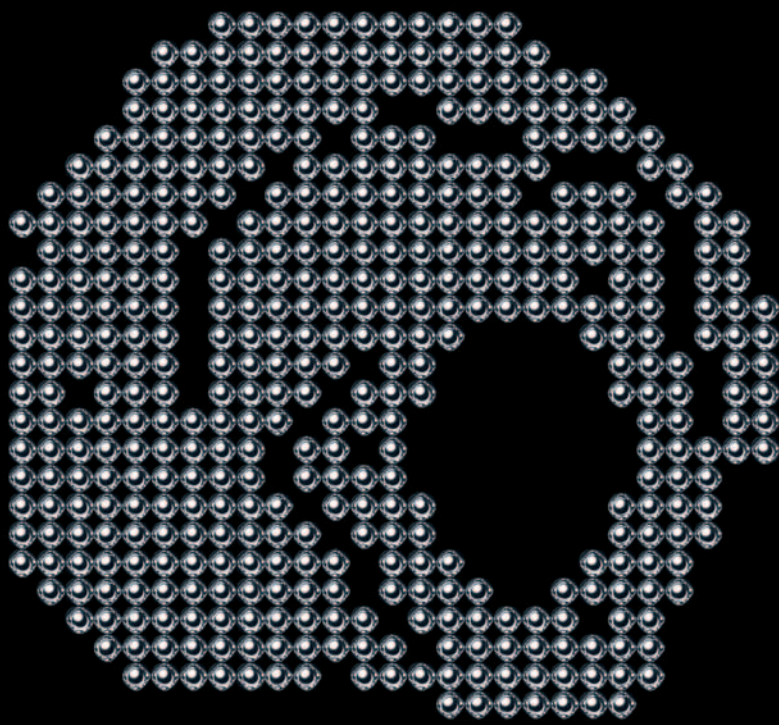
In 2012, ElringKlinger intends to expand its investor relations work even further at the international level. Given the relatively high inflows of capital from investment companies that focus on sustainability and the company's wide-ranging portfolio of products, particularly in the fields of CO₂ reduction, alternative drive technologies and exhaust gas purification, this investor segment will be of even greater importance to ElringKlinger.

In collaboration with the BWSC, ElringKlinger plans to hold further regional events for private investors in 2012 under the heading "personal, direct, transparent."



“Heat is our business. Modern engine designs, lightweight construction techniques and cutting-edge exhaust gas purification systems increasingly call for intelligent temperature management. The thermal and acoustic shielding components that we develop and supply represent innovative solutions that incorporate numerous add-on functions such as sealing systems and sensor technology.” /// BEATE ZIKA-BEYERLEIN,

Head of Research and Development, Shielding Technology division



Downsizing

25%

lower fuel consumption

The internal combustion engine still has untapped potential. With CO₂ reduction taking center stage, engine downsizing has allowed fuel consumption to be reduced significantly. The trend is towards more compact but turbocharged engines that offer comparable performance with a smaller engine displacement. Similarly, lighter but more thermally conductive materials are being used. Higher fuel injection pressures and temperatures impose more stringent requirements on the sealing and shielding technology used in the engine compartment, around the turbocharger or in the exhaust gas system.



Thermal and acoustic shielding component for turbocharger with integrated high-temperature gasket

ElringKlinger AG Group Management Report for the Financial Year 2011

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Overview of ElringKlinger's activities and structure

Profile

With a corporate history now spanning more than 130 years, ElringKlinger is an independent automotive supplier operating within the global arena. Around 90% of the Group's revenue is generated from sales to the international vehicle industry and from business within the independent aftermarket sector. As a development partner and original equipment manufacturer, ElringKlinger supplies cylinder-head and specialty gaskets, plastic housing modules, shielding parts for engine, transmission and exhaust tract applications, exhaust gas purification technology as well as battery and fuel cell components* to almost all the world's vehicle and engine manufacturers. This portfolio is complemented by products made of the high-performance plastic PTFE* supplied by ElringKlinger Kunststofftechnik (Engineered Plastics segment). These are marketed to a wide range of industries, including those operating beyond the vehicle manufacturing sector. In recent years, the Group's customer base has also been extended to include numerous automotive suppliers, particularly in the area of exhaust technology and transmission engineering. Additionally, the ElringKlinger Group supplies the independent aftermarket, the main focus being on flat metal-based gaskets and complete gasket sets. ElringKlinger employs around 6,200 people worldwide (Employees*, page 63).

*  CF. GLOSSARY

*  CF. GLOSSARY

*  CF. PAGE 63

Business model and core competencies

ElringKlinger is the global market leader in the field of Cylinder-head Gaskets. The company is ranked among the top three suppliers worldwide in the respective fields of Specialty Gaskets, Shielding Technology and Plastic Housing Modules/Elastomer Technology.

ElringKlinger's product range is targeted at addressing the key issues facing today's automotive industry: the reduction of fuel consumption and emissions as well as the development of alternative drive technologies. It is one of the few companies worldwide to have already positioned itself as a supplier of high-tech components for every relevant drive system of the future – from the combustion engine to electric applications.

ElringKlinger combines technology leadership at market level with cost leadership in production. Within this context, the emphasis is on supplying substantial series-produced volumes of a consistently high quality using fully automated manufacturing facilities.

ElringKlinger's core competencies lie in the combination of high-precision metal processing and coating technologies and in plastics engineering. Drawing on its specialized knowledge of materials acquired over a period spanning several decades, the Group has established a considerable lead within the marketplace. It has also derived significant competitive advantages from the production processes developed for the individual areas of application. Additionally, ElringKlinger's key strengths include tooling technology for metal forming, stamping and coining processes as well as for highly complex plastic injection-molding procedures. The company's in-house tooling unit develops and produces the majority of tools used for manufacturing purposes.

Committed to cementing its competitive position, ElringKlinger invests in research and development (R&D) at a rate that is above the industry average. Maintaining a strong culture of innovation, the Group is well positioned not only to embrace new areas of application for existing technologies but also to develop entirely new products. In pursuing this approach, ElringKlinger makes a point of developing products for technologically sophisticated niche markets, e.g. with regard to turbochargers.

Locations and markets: global presence

The ElringKlinger Group has established a global presence. At the end of 2011, the Group operated at 40 sites in 19 countries. Of these sites, 27 are production facilities, eight are sales organizations and three are companies operating solely within the aftermarket sector. The other locations belong to the Services and Industrial Parks segments.

ElringKlinger cultivates Europe, North America and Japan as its traditional automobile markets. At the same time, the Group has established a strong position in the emerging markets of Asia and South America, where it operates its own production sites (**Group Companies***).

*  CF. PAGE 61

Benefiting from a global production network that includes subsidiaries and investees, the Group is able to maintain manufacturing facilities located in close proximity to its customers. In this context, the Group companies compete with each other for the respective projects. Manufacturing takes place at the site that offers the most favorable production factors. The key criteria with regard to production-specific decisions are customer proximity, cost structures and internal value creation chains, but also the reduction of foreign exchange and other associated risks.

Among the largest sites within the Group in terms of revenue and headcount are the parent company's German-based plants in Dettingen/Erms, Runkel and Langenzenn; the Bietigheim-Bissingen factory operated by ElringKlinger Kunststofftechnik GmbH also falls into this category. In the rest of Europe, meanwhile, the plants in Reus (Spain) and Nantiat (France) are worth mentioning, together with the two Swiss sites in Sevelen and Elsau, which belong to ElringKlinger Abschirmtechnik (Schweiz) AG and Hug Engineering AG respectively. Outside Europe, the largest company sites are based in Leamington (Canada), Piracicaba (Brazil), Toluca (Mexico) and Buford (USA) as well as in Changchun and Suzhou (both in China).

In 2011, approx. 70% of Group revenue was generated within the international markets. A detailed breakdown of net sales per region for 2011 can be found in the section entitled "Sales and Earnings Performance."*

*  CF. PAGE 41

Group structure and organization

Headquartered in Dettingen/Erms (Germany), ElringKlinger AG as the parent company handles all the fundamental management tasks, and assumes responsibility for Group-wide functions in the areas of purchasing, IT, communications, legal affairs and human resources. As at December 31, 2011, in addition to the parent company, the ElringKlinger Group included 32 active and fully consolidated subsidiaries, two joint ventures with a total of four enterprises as well as one investee (**Schedule of Shareholdings***, Notes).

*  CF. PAGE 139

As at December 31, 2011, 38 entities in total were included in the consolidated financial statements. Of these entities, 33 have been fully consolidated. Four of the entities in question have been included on a proportionate basis.

Of the 38 Group companies in total, 24 are production companies, six are sales companies and three are companies operating solely within the aftermarket sector.

The following companies have their registered offices in Germany:

- ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen
- ElringKlinger Motortechnik GmbH, Idstein
- ElringKlinger Logistic Service GmbH, Rottenburg/Neckar
- Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH, Dettingen/Erms
- Hug Engineering GmbH, Magdeburg
- Hummel-Formen GmbH, Lenningen
- Hummel-Formen Kunststofftechnik GmbH, Lenningen

Among the international Group companies within the ElringKlinger Group, 13 companies are located in Europe, seven in the NAFTA region, eight in Asia and one each in South Africa and South America.

The joint ventures ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, have been included in the 2011 consolidated financial statements on a proportionate basis, i.e. according to the percentage interests held by ElringKlinger AG.

Segments and divisions

The Group's operating business is divided into five segments: Original Equipment, Aftermarket, Engineered Plastics, Services and Industrial Parks. They constitute the reportable segments under IFRS*.

* CF. GLOSSARY

SEGMENTS OF THE ELRINGKLINGER GROUP

Segment	Proportion of revenue*	Customer groups
Original Equipment	79.7%	Car, truck and engine manufacturers, automotive suppliers
Aftermarket	10.9%	Independent aftermarket business
Engineered Plastics	8.2%	Vehicle industry, mechanical engineering, medical technology, telecommunications, etc.
Services	0.5%	Vehicle manufacturers and suppliers
Industrial Parks	0.7%	Unspecified industries

* adjusted for effects of consolidation

The **Original Equipment** segment develops, produces and sells components and assemblies for vehicle engines, gearboxes and exhaust systems as well as for batteries and fuel cell components. Following the acquisition of the Swiss Hug Group, the portfolio also includes exhaust gas purification systems. Within the Original Equipment segment, these are to be used increasingly in the commercial



vehicle sector (**Significant Events***). The Hummel-Formen Group is also included within the Original Equipment segment.

*  CF. PAGE 40

In the **Aftermarket** segment, ElringKlinger supplies a range of spare parts consisting of cylinder-head and specialty gaskets as well as complete gasket sets and service parts, which are marketed under the "Elring – Das Original" brand. Supplied in OEM quality, the spare parts are used primarily for repairs to engines, gearboxes and exhaust systems.

The **Engineered Plastics** segment encompasses ElringKlinger Kunststofftechnik GmbH and its sales organization in Qingdao, China. These companies develop, manufacture and sell products made of the high-performance plastic PTFE. Around two-thirds of revenues from this segment are generated outside the vehicle industry. ElringKlinger Kunststofftechnik has already established itself as one of the three largest suppliers of PTFE applications in Europe and is currently in the process of penetrating the Asian market.

The **Services** segment includes Elring Klinger Motortechnik GmbH and ElringKlinger Logistic Service GmbH. Within this segment, ElringKlinger offers development and testing services for engines as well as transmission and exhaust systems. These services are used not only by vehicle manufacturers but also in particular by suppliers to the automotive industry. ElringKlinger has thus established close ties with the development departments of its respective customers. Working in collaboration with these units, the company develops solutions for the entire powertrain. ElringKlinger Logistic Service GmbH provides logistics services, both within the Group and to outside customers.

The **Industrial Parks** segment includes a site in Idstein near Frankfurt and one in Kecskemét, Hungary. The purpose of the business encompasses the lease and rental of land and buildings. A third industrial park located in Ludwigsburg was sold in 2011 (**Significant Events***), as this segment no longer forms an essential part of the classic core business of the ElringKlinger Group.

*  CF. PAGE 40

Additionally, the Group is divided into the following ten divisions:

Cylinder-head Gaskets, Specialty Gaskets, Shielding Technology, Plastic Housing Modules/Elastomer Technology, E-Mobility, Engineered Plastics, Aftermarket, Services, Industrial Parks and Tooling Technology.

ElringKlinger is acknowledged as the global market leader within the area of **Cylinder-head Gaskets**, a division that accounts for approx. 15% of the Group's total revenue. The main competition within a largely oligopolistic market comes from the gaskets/sealing divisions of two major corporations based in the United States. Some of the local markets include smaller, regional competitors.

The **Specialty Gaskets** division generates around 16% of the Group's total revenue. Within this area, ElringKlinger mainly provides sealing/gasket solutions for high-temperature applications relating to engines, turbochargers, gearboxes and exhaust systems as well as transmission control plates. The market environment and competitive situation are similar to those found within the area of cylinder-head gaskets. ElringKlinger is ranked as one of the three largest suppliers worldwide in the field of metal specialty gaskets. The division has benefited from more challenging requirements with regard to sealing technology as well as from the growing number of potential applications.

Accounting for roughly 26% of Group sales, the **Shielding Technology** division has recently emerged as the principal revenue driver within the Group. ElringKlinger is currently one of the few suppliers in the world producing combined thermal and acoustic shielding solutions for the engine and underbody. The number of shielding components required in vehicles will continue to increase in the coming years. This will provide the division with further opportunities for structural growth. The competitive situation in this field is more differentiated than in the area of gaskets/seals. Internationally, ElringKlinger is one of the top three suppliers within the area of shielding technology.

The company is also acknowledged to be one of the three largest suppliers operating within the area of **Plastic Housing Modules/Elastomer Technology**. This division accounts for 19% of the Group's total sales revenue. At present, the market environment is slightly more fragmented than that of the other divisions. In this area, ElringKlinger develops and produces lightweight modules made of polyamide plastics, e.g. cam covers, oil pans and oil suction pipe modules. The number of potential applications for plastics within the automotive industry is increasing. At the same time, vehicle producers, including manufacturers of trucks, have seen a growing trend towards the replacement of heavy metal parts. Against this backdrop, the division also looks set to benefit from structural growth impetus. Other key products for this division include metal-elastomer gaskets for the commercial vehicle sector.

*  CF. PAGE 72

Established in 2010, the **E-Mobility*** division was expanded significantly in 2011. This division develops and manufactures the cell contact systems that the company has been producing in series for use in lithium-ion batteries since 2011 (Research and Development, page 72).

*  CF. PAGE 40

Recognizing the significant importance of tool engineering, the company established a separate **Tooling Technology** division in 2011. It comprises intragroup tool manufacturing as well as the recently acquired company **Hummel-Formen GmbH*** (Significant Events, page 40).

The **Engineered Plastics, Aftermarket, Services** and **Industrial Parks** divisions correspond to the respective segments outlined above.

*  CF. PAGE 72

In general, new activities are transferred to dedicated divisions as soon as they are capable of generating their first revenue contributions at a serial production level. Until then, they are pooled within the New Business Areas division. At present, the New Business Areas division mainly includes the ongoing projects relating to **fuel cell technology*** (Research and Development, page 72).

Legal Structure

ElringKlinger AG, as the parent company of the Group, is registered in the Commercial Register of the Stuttgart District Court under HRB 361242. The registered address is ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms, Germany. The company trades as ElringKlinger AG. As defined in the Commercial Register, the purpose of ElringKlinger AG and its subsidiaries is to develop, manufacture and market technical and chemical products, particularly gaskets, gasket materials, plastic products and components for the automotive and other general industries. In addition, the company offers services associated with the technology that forms the basis of its product range.



The administration, lease and sale of real estate together constitute a further object of the company. The applicable Articles of Association are those dated October 6, 2010. They can be accessed on the corporate website at www.ElringKlinger.de.*

*  INTERNETLINK

Internal Control Criteria

The Management Board of ElringKlinger AG primarily refers to financial control criteria as a significant basis for decision-making within the overall Group. 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 within the ElringKlinger Group. 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 within the parent company and the Group entities. With regard to earnings, the principal indicators include earnings before interest and taxes (EBIT) and earnings before taxes (EBT). All internal control criteria are planned, calculated and monitored for the Original Equipment, Aftermarket, Engineered Plastics, Services and Industrial Parks segments as well as for the divisions within each segment (**Overview of ElringKlinger's Activities and Structure***).

*  CF. PAGE 28

Additionally, the success of individual divisions within the parent company as well as the individual Group entities and the Group as a whole is measured and evaluated on the basis of the 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 within the Group 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 both the divisions and the Group companies, 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 the ElringKlinger Group 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 for the Group 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 (**Report on Opportunities and Risks***).



The Management Board accords great importance to the sustained development of the Group of companies. 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 turnover 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 the Group 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 the ElringKlinger Group 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 by the Group as at December 31, 2011, are detailed under the heading "Hedging policy and financial instruments" in the notes to the consolidated financial statements.

In summary, the key goals of the control and planning system operated by the ElringKlinger Group 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.

KEY FINANCIAL CONTROL CRITERIA OF THE ELRINGKLINGER GROUP

		2011	2010	2009	2008	2007
EBIT	(in € million)	126.0*	106.7	63.3	71.5	121.0
Earnings before taxes	(in € million)	113.9*	94.0	49.4	60.0	114.9
Return on Capital Employed (ROCE)		14.2%*	15.2%	8.8%	13.6%	30.3%
Net cash from operating activities	(in € million)	74.5	126.2	148.8	98.2	99.3
Equity ratio		50.1%	52.7%	41.2%	37.7%	49.1%

* Adjusted for one-time income of EUR 22.7 million from sale of Ludwigsburg industrial park

Macroeconomic Conditions and Business Environment

Economic growth weakens at the global level over 2011

In most regions of the world, the dynamic rate of economic growth seen in 2010 was maintained on 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 to a greater degree 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 this figure would have been considerably weaker without the robust contribution from Germany.

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 saw continued growth 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 drivers 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 major automotive markets in Europe. For the reasons given above, the Japanese vehicle market was also weak. By contrast, 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 gains momentum 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 strong

The upward trend in the global commercial vehicle business that began in 2010 continued into the year under review. Worldwide sales of heavy trucks above 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-digit 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, where ElringKlinger is well represented.

On the production side, ElringKlinger is well prepared to respond to rapid growth in Asia over the next few years. The Group opened a new factory in Changchun in the first quarter of 2011, thus doubling its previously available production space to around 15,000 m². Work aimed at expanding the production area by an additional 5,000 m² commenced at ElringKlinger's second Chinese production facility in Suzhou.

The improvement in German production figures also had a positive impact on demand for the company's products. In 2011, ElringKlinger derived around 24% of its revenue from Original Equipment sales to domestic manufacturers.

The impact of the Japanese tsunami on the ElringKlinger Group was quite limited, since the proportion of parts supplied to Japanese manufacturers is relatively low.

The Group also benefited from the upswing in truck sales, with components for commercial vehicle engines and transmission systems making up around 9% of sales revenue in the area of Original Equipment. 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.

A detailed breakdown of net sales per region for 2011 can be found in the section entitled "Sales and Earnings Performance."*

*  CF. PAGE 41

Significant Events

ElringKlinger closed 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 within the area of cylinder-head gaskets and metal-based specialty gaskets, was finally closed effective from January 1, 2011.

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 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 Group, 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 within 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*).

Focus on core business – Sale of Ludwigsburg industrial park

On August 30, 2011, ElringKlinger signed an agreement for the 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 the ElringKlinger Group. As the book value of the industrial park was lower than the proceeds generated from the sale, ElringKlinger recorded non-recurring other operating income of EUR 22.7



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 still retains ownership of two properties located in Kecskemét-Kádafalva, Hungary, and 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. Hummel-Formen GmbH was included in the scope of consolidation of the ElringKlinger Group as of October 1, 2011. 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 has reinforced its expertise with regard to tooling technology and expanded its knowledge in the field of lightweight engineering on the basis of plastics, particularly in terms of incorporating 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 within these areas will provide ElringKlinger with a significant competitive advantage both in terms of technology and cost structures.

Sales and Earnings Performance

Annual targets for 2011 met

The ElringKlinger Group managed to significantly exceed its original annual target of achieving organic revenue growth of 5 to 7% in 2011. Ultimately, sales revenue (excluding acquisitions) rose by 19.3%.

As regards EBIT, the Group had set itself a growth target of 15 to 25%. The Group achieved the target range originally planned within this area. By contrast, the Group was not in a position to achieve its medium-term goal of returning to a profit margin range of 16 to 18%, calculated on the basis of EBIT, in the year under review. This was attributable mainly to the as yet negative aggregate earnings contributed by the acquired companies as well as the significant lead costs incurred within the E-Mobility division.

Revenue growth fueled by robust car demand and new product launches

Against the backdrop of buoyant demand for cars in the majority of regions around the globe, together with several new product rollouts in the Original Equipment segment, the ElringKlinger Group saw its sales revenue expand considerably in 2011.

Additionally, the acquisitions closed in 2011 contributed to Group sales for the first time. Thus, the ElringKlinger Group was able to cross the revenue threshold of one billion euros for the first time in its history. At EUR 1,032.8 (795.7) million, sales revenue exceeded the previous year's figure by 29.8%.

Group revenue buoyed by three acquisitions in 2011

The inclusion of the flat gaskets business acquired from the Freudenberg Group, the Swiss exhaust treatment specialist Hug Group as well as the Hummel-Formen Group in the scope of consolidation of the ElringKlinger Group contributed EUR 83.7 million in total to Group sales in fiscal 2011.

Excluding these acquisitions, sales revenue rose by 19.3%. Calculated on this basis, the rate of organic growth achieved by the ElringKlinger Group was considerably higher than the percentage increase in global vehicle production.

The dynamic surge in demand continued almost unabated in the fourth quarter, despite the lower number of production days compared to the previous year. Compared to the same quarter a year ago, which had already been very buoyant, sales revenue was up 16.9% as a result of organic growth, taking the figure to EUR 244.9 (209.5) million.

Integration of the metal flat gaskets business of the Freudenberg Group

The acquisition by ElringKlinger AG of the Freudenberg Group's metal flat gaskets business was closed effective from January 1, 2011. The acquired entities were included in the scope of consolidation of the ElringKlinger Group effective from this date. In total, the former Freudenberg companies contributed EUR 53.0 million to consolidated sales of the ElringKlinger Group in 2011, of which a total of EUR 11.5 million was attributable to the fourth quarter.

At minus EUR 2.5 million, the contribution to earnings before taxes was still in negative territory in 2011. This figure includes the negative earnings effects of EUR 0.4 million attributable to the purchase price allocation. Measures implemented for the purpose of restructuring and raising efficiency levels resulted in non-recurring staff costs of EUR 1.1 million.

In order to improve efficiency levels and cost structures, automated manufacturing processes were implemented at the French production site in Nantiat in particular. This was complemented by the introduction of state-of-the-art progressive system technologies. Additional cost savings and synergies are gradually being implemented in the areas of research and development, prototyping and central administrative functions. The site in Gelting, Germany, was integrated into ElringKlinger AG. Its focus is on the development and production of mica and graphite seals/gaskets used in the exhaust system. Both the Gelting site (before restructuring costs) as well as the plant of the former Freudenberg

berg company in Italy, Oigra Meillor s.r.l., Turin, managed to achieve operating margins that were well within positive territory.

For details relating to the companies' legal structures, please refer to the chapter "Group Companies."*  CF. PAGE 61

Strong Swiss franc impacts acquired Hug Group

The majority takeover of Swiss-based exhaust treatment specialist Hug was closed as at May 1, 2011, and the acquired entity was thus fully included in the scope of consolidation of the ElringKlinger Group for the first time. In fiscal 2011, the Hug Group contributed EUR 29.1 million to Group sales. The contribution to earnings before taxes was minus EUR 2.4 million. This was due mainly to the negative earnings effect of EUR 1.3 million attributable to the purchase price allocation.

In 2011, earnings at operating level were impacted by the continued appreciation of the Swiss franc. The Hug Group generates the majority of its sales revenue within the eurozone, whereas costs are primarily incurred in Swiss francs.

In order to improve the entity's profitability at the operating level, production processes are being automated to the largest extent possible. Furthermore, the additional acquisition of Hug supplier ThaWa GmbH Thaler Warenautomaten, Thale, will allow the company to optimize existing cost structures within the context of currency risk (Events after the Reporting Period*).

*  CF. PAGE 107

Drawing on its product portfolio of diesel particulate filters and complete exhaust gas purification systems, Hug was immediately able to take advantage of the considerable cross-selling potential offered by the ElringKlinger Group. The ElringKlinger subsidiary received its first large-scale order from a major international manufacturer of commercial vehicles in the year under review. The company is to equip a series of construction machinery engines with its exhaust gas purification systems. Hug will supply end-to-end systems comprising both a catalytic diesel particulate trap filter and a selective catalytic NOx reduction (SCR) unit. Within this context, the new ElringKlinger CleanCoat coating solution for soot reduction, which is free from precious metals, will be used in the diesel particulate filter.

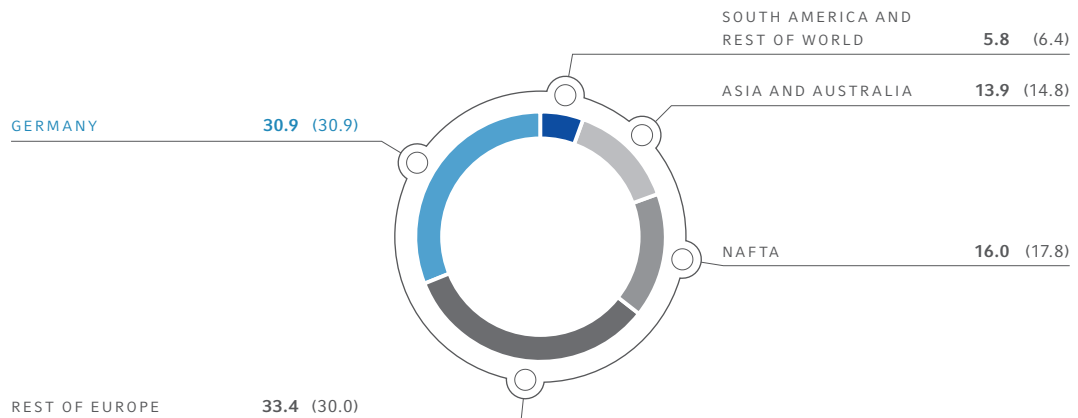
Acquisition of Hummel-Formen Group provides additional expertise in lightweight design

The mold and tool manufacturer Hummel-Formen GmbH, Lenningen, was included in the scope of consolidation as from October 1, 2011. Prior to the acquisition, more than one-third of sales revenue generated by the Hummel Group came from its customer ElringKlinger AG. In the financial year 2011, the Hummel Group contributed EUR 1.6 million to sales revenue as well as minus EUR 0.1 million to earnings before taxes of the ElringKlinger Group. This figure includes the one-off negative effect of EUR 0.5 million from the purchase price allocation attributable to the fourth quarter of 2011.

Proportion of foreign sales remains unchanged at 69.1%

The proportion of domestic sales revenue generated by the ElringKlinger Group remained stable in 2011 in spite of the fact that the three acquisitions mainly provided a boost to foreign sales. This was attributable to particularly buoyant business with domestic customers. As a result, the share of domestic Group sales remained unchanged at 30.9%. In total, the ElringKlinger Group increased its sales revenue in Germany by 30.0% to EUR 319.3 (245.6) million.

GROUP SALES BY REGION IN 2011 (prior year) in %



The ElringKlinger Group continued to generate more than two-thirds of its sales abroad. Thus, the percentage share of foreign sales in relation to total Group revenue stood at 69.1% (69.1%). In this context, it should be noted that the majority of German-made cars and engines for which ElringKlinger supplies components are ultimately destined for export markets.

The Rest of Europe, excluding Germany, saw revenue expand by 44.7% to EUR 345.4 (238.7) million. On this basis, the Rest of Europe was once again the strongest revenue-generating region for the ElringKlinger Group.

The disproportionately large gains recorded in Europe as a whole were attributable also to the consolidation of the acquired companies of the Freudenberg Group, the Hug Group as well as the Hummel-Formen Group. The revenue contributions made by these acquisitions came primarily from the German, French and Italian markets.

North America saw less pronounced growth in sales. In this region, the ElringKlinger Group generated sales revenue of EUR 165.0 (142.0) million. However, it should be noted that the natural disaster in Japan resulted in severe disruptions to production at suppliers and manufacturers in the second quarter of 2011. This also had an adverse effect on vehicle production output by Japanese manufacturers in North America. Despite these circumstances, ElringKlinger managed to lift sales revenue by 16.2% in this region over the year as a whole. Thus, growth generated by the company was considerably higher in percentage terms than the expansion of vehicle production in the United States.

In South America, meanwhile, the sustained and robust upturn in the Brazilian market prompted an increase in demand for ElringKlinger components. What is more, other South American countries, such as Argentina, are rapidly emerging as attractive sales markets for the automotive industry. Sales revenue generated by ElringKlinger in South America and the Rest of the World was up 17.0% to EUR 59.9 (51.2) million in 2011.

In Asia, the Group recorded sales of EUR 143.2 (118.1) million. This was achieved against the backdrop of severe disruption to operations at Japanese manufacturing facilities in particular over the first half of the year as a result of damage caused by the tsunami. However, the impact on the Japanese joint venture ElringKlinger Marusan Corporation was relatively low.

A large proportion of revenue growth achieved in the expanding markets of Asia was attributable to the Chinese subsidiaries ElringKlinger China, Ltd. and Changchun ElringKlinger Ltd. This was also a reflection of the larger volumes ordered by Chinese customers in the local market.

In total, the share of revenue generated by the Group from sales in Asia contracted to 13.9% (14.8%), which was due to the acquisitions transacted in Europe in 2011. However, a significant proportion of ElringKlinger parts supplied to customers in Western Europe is installed in engines and vehicles that are ultimately destined for the Asian export markets. Factoring in these effects, the share of revenue generated by the ElringKlinger Group in the Asian markets over the course of 2011 would have been around 21%.

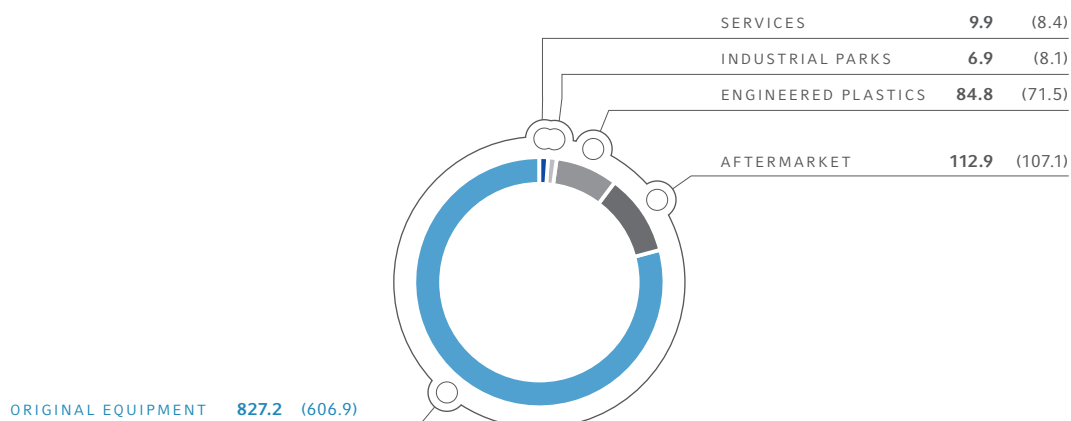
In building a new plant in Changchun, ElringKlinger doubled its production space at that site. In response to significant order intake over a sustained period, steps were taken to build an additional production facility at the Suzhou site in the south-east of China.

Dynamic growth in Original Equipment

Fueled by solid demand for cars worldwide, several new product launches as well as first-time revenue contributions from acquisitions completed in 2011, the Original Equipment segment recorded revenue growth of 36.3% in the period under review. In total, Original Equipment sales rose to EUR 827.2 (606.9) million. In relation to Group revenue as a whole (before consolidation), Original Equipment accounted for 80.1% (76.3%).

Within this context, it should be noted that revenues from acquired entities consolidated for the first time in the year under review were attributable almost entirely to the Original Equipment segment. Eliminating the contributions made by acquisitions, segment revenue totaled EUR 743.5 million.

SALES REVENUE BY SEGMENT IN 2011 (prior year) in EUR million
(before consolidation)



Recording organic growth of 22.5%, the Original Equipment business within the ElringKlinger Group was again able to outpace the international vehicle markets in percentage terms. This was driven not only by a number of new product launches but also in particular by the strong positioning of ElringKlinger's core business in structural niche markets with considerable growth potential. All divisions within the Original Equipment segment managed to increase their sales revenue in 2011.

The Group benefited from the growing trend towards downsizing concepts applied by the majority of vehicle manufacturers within the field of engine development. This proved to be a significant driving force behind the dynamic levels of demand for ElringKlinger components. The company 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 with projects that focus on the new generation of downsized, direct-injection petrol engines.

Specialty Gaskets recorded the highest growth rate in the period under review. 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 and graphite exhaust gas seals, which are produced at the former Freudenberg site in Gelting, was integrated into the Specialty Gaskets division. Both divisions – Cylinder-head Gaskets and Specialty Gaskets – recorded additional revenue growth following the integration of the recently acquired former Freudenberg companies, whose product portfolio centers around metallic flat gaskets.

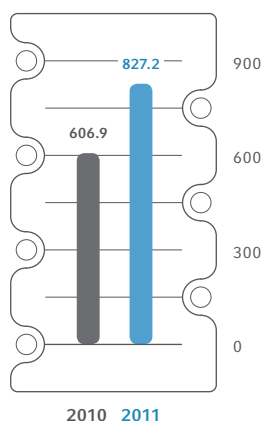
Shielding Technology also recorded double-digit growth in 2011. Engine downsizing and turbocharging translated into a continued rise in customer demand for thermal shielding parts and all-embracing thermal-acoustic solutions. ElringKlinger is acknowledged as a technology leader within this field, supplying complete shielding packages for engine, exhaust tract and underbody applications.

In 2011, the remaining Shielding Technology activities based at the Dettingen/Erms site of ElringKlinger AG were merged with operations at the Swiss plant of ElringKlinger Abschirmtechnik (Schweiz) AG in Sevelen. The Turkish company ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş., Bursa, also achieved considerable growth with shielding products. By contrast, in some cases, the volumes requested by Western European vehicle manufacturers as part of their production scheduling were slightly down in this division.

The Plastic Housing Modules/Elastomer Technology division also recorded substantial revenue growth in 2011, driven primarily by 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 for transmission systems contributed additional revenue.

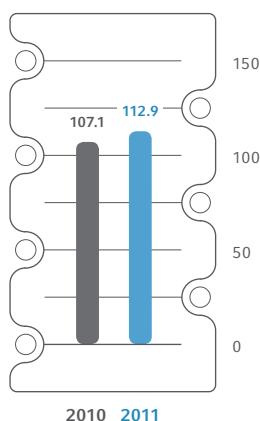
SALES IN THE ORIGINAL EQUIPMENT SEGMENT

in EUR million



SALES IN THE AFTERMARKET SEGMENT

in EUR million



In 2011, the E-Mobility division made its first contribution to Group revenue. 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 within this area.

The overall earnings performance of the Original Equipment segment was adversely affected by the year-on-year surge in commodity prices as well as the continued price-related pressures within the automotive industry. Having said that, commodity prices began to fall slightly over the course of the third quarter. The positive effects of lower prices generally tend to trickle through to ElringKlinger with a time lag, particularly in the case of alloy surcharges for high-grade steel. In the second and third quarters of 2011 in particular production levels close to maximum capacity at the company's German plants resulted in expensive additional shifts in the area of manufacturing and prompted higher logistics costs for extra deliveries.

Profitability was impacted by the as yet negative earnings contributions by the acquired Freudenberg and Hug companies, which are accounted for in the Original Equipment segment. In total, earnings before taxes within the Group's Original Equipment segment rose by 28.2%, i.e. at a slower rate than sales revenue, taking the figure to EUR 73.7 (57.5) million.

Aftermarket business particularly buoyant in non-domestic regions

The Aftermarket segment achieved particularly robust growth rates within the export markets.

In 2011, sales revenue generated by the Aftermarket segment grew by 5.4% to EUR 112.9 (107.1) million. Despite the volatile political situation, the Group 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 Western 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.

In many cases, customers increased the just-in-time volumes of components they required at very short notice 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.

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. Both entities were formerly owned by the Freudenberg Group. This has allowed the Aftermarket business of ElringKlinger AG to expand its range of products to include vehicles made by French and Italian manufacturers. As a result, the Group has considerably improved its competitiveness and its prospects for future growth within the French and Italian markets. 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 2011, the share of Aftermarket business in total sales generated by the ElringKlinger Group (before consolidation) fell to 10.9% (13.5%). However, 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 corporate takeovers. These were attributable almost entirely to the Original Equipment segment.

Earnings before taxes within the Aftermarket segment were down slightly. This was attributable partly to the negative effects of inventory valuation. Earnings before taxes contracted by 0.9% to EUR 21.3 (21.5) million. On this basis, the Aftermarket segment accounted for 15.6% of the Group's earnings.

Unfettered growth in Engineered Plastics

The Engineered Plastics segment recorded more buoyant demand not only from the automotive industry. Unit volumes supplied to customers from other sectors, such as mechanical, electrical and medical engineering, were also up in the year under review. Ultimately, this translated into revenue growth of 18.6% for this segment, taking the figure to EUR 84.8 (71.5) million.

A number of new product designs made of the melt-processable PTFE material Moldflon™ also made a significant contribution to sales over the course of 2011. Thanks to Moldflon™, PTFE components can be manufactured in a wide range of geometries, which extends the potential field of application for this high-performance plastic.

To some extent, the increase in raw material prices for PTFE had to be passed on to customers. In parallel, the start-up costs incurred as part of the continued penetration of the Chinese and Indian markets had an adverse effect. These markets will offer attractive growth prospects in the years to come. The ElringKlinger plant in Suzhou was equipped with its first production system for PTFE components for the Chinese subsidiary ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd. Thus, the Group will also be able to supply Chinese customers from its local production site in the future.

By contrast, improvements to production processes as well as economies of scale and the further reduction in reject rates had a positive impact on profitability.

In total, earnings before taxes rose by 45.0% to EUR 16.1 (11.1) million in 2011.

Industrial Parks segment benefits from one-off gain on disposal

Developments within this segment were dominated by the sale of the Ludwigsburg industrial park in 2011. The chapter entitled "Significant Events"* on page 40 includes further details relating to the disposal of the Ludwigsburg industrial park. Sales revenue reported for this segment contains rental income from the Ludwigsburg industrial park up to and including July 2011. As a result of the divestment, total rental income generated by the Industrial Parks segment declined to EUR 6.9 (8.1) million.

*  CF. PAGE 40

Following the disposal, the Industrial Parks portfolio includes the industrial park in Idstein, Germany, as well as Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary.

As a result of the gain achieved on disposal, the Industrial Parks segment posted earnings before taxes of EUR 23.8 (2.8) million. Adjusted for one-time income of EUR 22.7 million from the divestment, segment earnings before taxes amounted to EUR 1.1 million.

Continued demand for engineering services

Operating from sites in Idstein and Bietigheim-Bissingen, the Services segment within the ElringKlinger Group offers vehicle and engine manufacturers as well as other suppliers an extensive range of development and testing services.

The Group saw a marked increase in the number of project inquiries by manufacturers over the course of 2011. The Services segment recorded particularly buoyant demand for specialist applications associated with exhaust gas purification technology, such as SCR (Selective Catalytic Reduction) technology aimed at reducing nitrogen oxides.

In total, sales revenue generated in the Services segment rose by 17.9% to EUR 9.9 (8.4) million in 2011. Driven mainly by high levels of capacity utilization, earnings before taxes increased at a faster rate than sales in the period under review, rising to EUR 1.7 (1.0) million.

Solid financial performance despite higher material costs together with lead costs for E-Mobility – Dilutive effect of acquisitions

Despite higher costs associated with raw materials and significant lead costs within the area of E-Mobility, the overall financial performance of the ElringKlinger Group remained solid in 2011. Having said that, the significant boost in revenue and positive effects of ongoing efficiency improvements were offset to some extent by a disproportionately large increase in staff costs. Additionally, cost structures were influenced by the year-on-year increase in material prices in the first six months of 2011 in particular. The acquired entities are still operating with significantly lower gross profit margins relative to the other Group companies, a situation that put downward pressure on the Group's overall profit margin.

Having been brought forward by ElringKlinger from April to February 2011, the collective wage increase of 2.7% for the Group's German sites resulted in higher staff costs in the period under review. The rise in costs incurred by ElringKlinger AG was also largely attributable to the inputs required for the gradual expansion of the E-Mobility unit. Whereas staff costs within this area were relatively high, there were as yet no corresponding revenues within this area.

In 2011, expenses were also impacted by the staff profit-sharing bonus – set at EUR 1,000 per person and totaling EUR 2.5 million – payable in respect of fiscal 2010 to employees of ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH and Elring Klinger Motortechnik GmbH.

Rising commodity prices

Compared to the 2010 financial year, the costs of practically all the raw materials used by the company surged dramatically in 2011. Prices for the majority of commodities required by ElringKlinger trended at very high levels. In order to restrict material costs and secure the volumes required, ElringKlinger has negotiated long-term supplier contracts wherever possible. Rising costs are also counterbalanced by optimized product design, the use of new, more cost-effective materials and streamlining measures in production. There was only limited scope for increasing the contributions made by customers towards higher commodity prices.

Against the backdrop of the debt and financial crisis, together with signs of economic cooling in some cases, commodity prices began to retreat from mid-2011 onward, particularly with regard to nickel. There is usually some delay before these effects trickle through to the alloy surcharges that are of particular importance to ElringKlinger's business.

In the second and third quarters of 2011 in particular, several customers increased the volumes of components requested as part of their just-in-time production scheduling at short notice. At the same time, factory vacations were cancelled or significantly curtailed. This prompted overtime and extra shifts in production at ElringKlinger's sites in Germany, as well as necessitating non-scheduled deliveries. As a result, the company recorded a disproportionately large increase in costs attributable to manufacturing operations and logistics.

Gross profit margin diluted to 28% by acquisitions

At +33.6%, the total cost of sales increased at a faster rate than sales revenue in the year under review. The gross profit margin stood at 27.9% after 30.0% in 2010. The inclusion of the acquired entities of the Freudenberg Group, the Hug Group and the Hummel-Formen Group had a dilutive effect of approx. 1.5 percentage points on the Group's gross profit margin. In the fourth quarter of 2011, the Group returned to a gross profit margin of 29.0%.

In 2011, the ElringKlinger Group was able to reverse the one-time provisions of EUR 1.7 million recognized 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 Entgelt-rahmentarifabkommens – ERA). As a result, the cost of sales fell by EUR 1.0 million.

The cost of sales included EUR 1.1 million in non-recurring staff costs attributable to the integration of what was previously Burgmann Automotive GmbH into ElringKlinger AG.

Significant increase in R&D expense for new applications and E-Mobility

Research and development expenses within the ElringKlinger Group rose by EUR 9.3 million in 2011 compared with the previous financial year. In total, research and development costs increased by 22.9% to EUR 49.9 (40.6) million. Despite a significant expansion in the R&D budget, research and development expenses expressed in relation to Group revenues fell to 4.8% (5.1%) in the period under review as a result of dynamic revenue growth.

In addition to developing several new applications for existing technologies and production methods within its core business, ElringKlinger focused on significantly extending its activities in the new E-Mobility division in 2011. Around 60 engineers and technicians are currently working on customer projects within this division. While this area has incurred significant costs, as well as requiring other inputs, it has not yet made any significant revenue contributions. The second half of 2011 saw the ramp-up of the first industrial-scale machinery for the series production of cell contact systems required for lithium-ion batteries, which are used in all-electric vehicles and particularly in hybrids (Research and Development*).

*  CF. PAGE 72

In 2011, the company received EUR 4.1 (3.3) million in government grants for ongoing development projects in the area of E-Mobility. In parallel, however, the company incurred much higher expenses relating to development activities and prototyping.

Total R&D costs amounted to EUR 49.9 (40.6) million in 2011. Of this amount, EUR 6.7 (6.1) million was capitalized. At the same time, systematic depreciation/amortization amounted to EUR 4.9 (4.0) million, as a result of which this item had no significant effect on earnings.

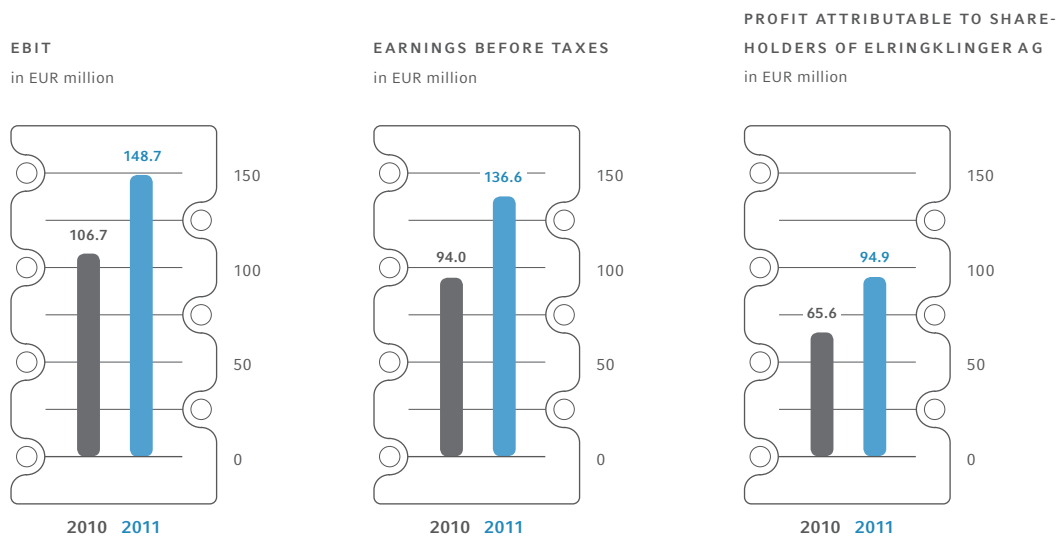
While selling expenses increased by 24.1%, general and administrative expenses rose at a slightly faster rate of 28.8%. On this basis, both of these cost items expanded at a slower rate than sales revenue. Allocations to pension provisions were raised in the fourth quarter due to the extension of Management Board contracts and the inclusion of amended terms within these contracts. This had a one-time effect of EUR 0.8 million on general and administrative expenses.

Other operating income buoyed by one-time gain from sale of Ludwigsburg industrial park

In the third quarter of 2011, the ElringKlinger Group recorded a non-recurring gain of EUR 22.7 million on the disposal of the Ludwigsburg industrial park, as outlined above. The increase in other operating income by EUR 23.1 million was largely due to this item. In total, other operating income rose to EUR 34.7 (11.6) million in 2011.

Other operating expenses up significantly in fourth quarter

Other operating expenses rose by EUR 6.0 million to EUR 11.6 (5.6) million in 2011. Thus, in percentage terms, they grew faster than sales revenue in the period under review. A disproportionately large amount of other operating expenses, EUR 9.1 million, was incurred in the fourth quarter of 2011.



EBITDA expands by 30.0%

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by EUR 56.6 million year-on-year to EUR 245.5 (188.9) million. Excluding one-off income from the sale of the industrial park, EBITDA was still up by EUR 33.9 million in 2011, taking the figure to EUR 222.8 million.

One-time write-down of merger surpluses in fourth quarter

Depreciation, amortization and write-downs increased by EUR 14.6 million to EUR 96.8 (82.2) million. This was attributable mainly to significant prior-year investments as well as capital expenditure on new production buildings and property, plant and equipment over the course of 2011.

Additionally, depreciation and write-downs of property, plant and equipment included one-time impairment losses of EUR 1.5 million recognized in the fourth quarter of 2011 in respect of the surpluses resulting from the first-time inclusion, in 1998, of Elring Klinger GmbH in the consolidated financial statements of the former parent company ZWL Grundbesitz- und Beteiligungs-AG.

The fourth quarter also saw losses on the disposal of non-current assets and write-downs of receivables amounting to EUR 4.1 million, which are included in other operating expenses.

Adjusted operating result at EUR 128.4 million

The Group managed to improve its operating result by 30.3% to EUR 151.1 (116.0) million in 2011. This significant growth rate was driven by more expansive sales as well as in particular by the one-time gain from the divestment of the industrial park. Adjusted for this one-time gain, the Group's operating result exceeded the previous year's figure by 10.7%, rising to EUR 128.4 million in total. This figure includes the negative effects of the purchase price allocation attributable to the entities of the Freudenberg Group, Hug Group and Hummel-Formen Group acquired in 2011, equivalent to EUR 2.2 million in total.

Adjusted for these non-recurring items, the operating margin stood at 12.4% (14.6%). Within this context, the negative contribution made by recently acquired entities has to be taken into account accordingly. Eliminating the dilutive effect on earnings associated with the acquired entities, the adjusted margin of ElringKlinger's core business was 13.9% – despite higher commodity prices and considerable start-up costs within the new E-Mobility division.

Adjusted EBIT rises by EUR 19.3 million

Earnings before interest and taxes (EBIT), which, in contrast to the operating result, take foreign exchange gains and losses into account, were adversely affected by net foreign exchange losses of EUR 2.4 million in 2011. Against this backdrop, EBIT rose by 39.4% to EUR 148.7 (106.7) million. Adjusted for the one-time gain outlined above, Group EBIT rose by 18.1% to EUR 126.0 million. This figure includes a charge of EUR 2.2 million relating to the purchase price allocation for the acquisitions. Adjusted EBIT before purchase price allocation stood at EUR 128.2 million.

Lower finance costs

Due to less pronounced foreign exchange losses and a year-on-year decline in interest expenses, the ElringKlinger Group managed to reduce its net finance costs significantly compared with the previous year. In total, net finance costs amounted to EUR 14.5 (22.1) million.

Finance costs fell by EUR 6.6 million year-on-year. As a result of the decline in variable interest rates, interest expense was down by EUR 0.6 million. Expenses relating to exchange differences were scaled back by EUR 6.0 million. In 2011, the appreciation of the Swiss franc against the euro once again necessitated a higher valuation of liabilities associated with the existing loan used to finance the acquisition of the Swiss SEVEX Group in 2008. ElringKlinger AG had financed this transaction in Swiss francs. As at December 31, 2011, the associated expenses amounted to EUR 1.4 (8.9) million.

Finance income rose by EUR 1.1 million year on year to EUR 15.8 (14.7) million, primarily as a result of the improvement by EUR 1.0 million in income from exchange differences. Interest income rose by EUR 0.1 million.

Earnings before taxes rise faster than operating result

Group earnings before taxes stood at EUR 136.6 (94.0) million in 2011. This corresponds to year-on-year growth of 45.3%. Excluding the one-time gain from the divestment of the industrial park, growth stood at 21.2%.

Net income after minority interests grows by 44.7%

Tax expenses totaled EUR 39.0 (25.4) million in 2011. The merger of Hug Infra AG, Hug Filtersystems AG and Hug Engineering AG into Hug Holding AG resulted in a taxable profit against which part of the existing loss carryforwards were utilized. This, in turn, led to a reduction of deferred tax assets, which was accounted for as tax expense of EUR 0.9 million. The tax rate was up on last year's figure at 28.6% (27.0%). On this basis, the ElringKlinger Group posted net income of EUR 97.6 (68.6) million, 42.3% up on the previous year.

*  CF. PAGE 61

As a result of the continued strategy aimed at further reducing minority interests through acquisition (Group Companies*, page 61), profit attributable to shareholders of ElringKlinger AG grew at a more pronounced rate than net income. Net income after minority interests (profit attributable to the shareholders of ElringKlinger AG) rose by 44.7% at the Group level to EUR 94.9 (65.6) million in 2011.

As at December 31, 2011, the number of ElringKlinger AG shares outstanding remained unchanged year on year at 63,359,990. Due to the seasoned equity offering of October 2010, the calculation of earnings per share in 2010 was based on the average number of shares (58,945,053). Correspondingly, this had a dilutive effect on earnings per share in 2011. On this basis, basic and diluted earnings per share totaled EUR 1.50 (1.11) in 2011.

Dividend includes special bonus

ElringKlinger AG is committed to a consistent dividend policy that allows shareholders to participate in the company's success in an appropriate manner. As a result of one-off income from the sale of the Ludwigsburg industrial park, net income was boosted by an additional EUR 16.5 million, having accounted for deferred taxes. Shareholders are to benefit from the one-off increase in net income and net retained earnings – beyond the proposed regular dividend of EUR 0.40 (0.35) per share for the financial year 2011. This is to be issued 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 shares entitled to a dividend in respect of fiscal 2011 remained unchanged.

Financial Position

The ElringKlinger Group remained solid with regard to its financial position and cash flows, recording an equity ratio of 50.1% together with positive operating cash flow as at December 31, 2011.

Total assets up by 22.8%

As at December 31, 2011, the Group's total assets stood at EUR 1,217.6 (991.3) million, thus moving beyond the threshold of one billion euros for the first time in 2011. This is a reflection of the dynamic level of growth achieved by the Group. Alongside significant investments in property, plant and equipment, the three acquisitions* transacted over the course of 2011 had a major bearing (Significant Events, page 40). The effects of these acquisitions* on the assets and liabilities of the ElringKlinger Group at the date of purchase are discussed in detail in the notes on page 140 et seqq.

*  CF. PAGE 40

*  CF. PAGE 140 ET SEQQ.



Property, plant and equipment increased by EUR 88.0 million in 2011, up from EUR 449.5 million to EUR 537.5 million. This was attributable mainly to substantial investments in new factory buildings, production systems and machines. The first-time consolidation of the former Freudenberg companies, the Hug Group and the Hummel-Formen Group contributed EUR 67.7 million to property, plant and equipment.

Owing to a reinterpretation of supply contracts, the treatment of tools* changed in the period under review. Until the transfer of economic ownership, they are now accounted for as inventories and allocated to current assets, rather than being recognized as non-current assets (Notes, page 144). Correspondingly, the overall increase in property, plant and equipment was less pronounced compared to the previous financial year.



CF. PAGE 144

Influenced to a large extent by the sale of the Ludwigsburg industrial park, investment property declined by EUR 13.0 million to EUR 13.1 (26.1) million.

Intangible assets rose to EUR 134.1 (101.4) million as at December 31, 2011, primarily as a result of the acquisitions.

In total, non-current assets expanded by EUR 110.9 million year-on-year to EUR 713.4 (602.5) million.

Working capital up due to revenue growth and acquisitions

The more expansive levels of production output prompted an increase in inventories held by the ElringKlinger Group. In parallel, ElringKlinger took advantage of the general contraction in commodity prices since mid-2011 to build up stocks on a more cost-effective basis. As at December 31, 2011, inventories totaled EUR 216.5 (138.6) million. In this context, it should be noted, as outlined above, that changes in the way supply contracts for tools are interpreted contributed to the increase in inventories. Excluding the effects of these changes, inventories would have expanded by only EUR 52.9 million or 38.2%. Inclusion of the entities acquired produced an increase in inventories – calculated at the respective dates of acquisition – of EUR 28.0 million in total, of which EUR 16.0 million was attributable to Hug.

On this basis, the share of inventories in total assets reached 17.8% (14.0%).

Capital tied up in trade receivables rose on the back of more expansive sales revenue, but also as a result of the acquisitions. Trade receivables rose to EUR 187.3 (138.2) million. Of this figure, EUR 20.3 million in total – calculated at the respective dates of first-time consolidation – was attributable to activities acquired in fiscal 2011.

Other current assets increased by a significant EUR 24.5 million compared to 2010. As at December 31, 2011, they amounted to EUR 33.7 (9.2) million. This was mainly due to a claim against an insurer* totaling EUR 14.4 million (Notes, page 169).



CF. PAGE 169

As at December 31, 2011, cash held by the ElringKlinger Group amounted to EUR 65.2 (101.2) million. The prior-year figure had been influenced to a large extent by proceeds from the seasoned equity offering completed in October 2010.

In total, current assets increased to EUR 504.1 (388.9) million.

Solid equity ratio of 50%

Group equity rose by 16.8% to EUR 610.1 (522.3) million, i.e. at a less pronounced rate than total equity and liabilities. Correspondingly, the equity ratio fell slightly to 50.1% (52.7%). Having said that, it remains well within the target range of 40%.

The Group was in a position to allocate a larger amount to revenue reserves from net income, despite the fact that the dividend payout was almost doubled to EUR 22.2 (11.5) million in 2011. As at December 31, 2011, revenue reserves amounted to EUR 376.8 (304.1) million.

Higher pension provisions due to acquisitions

Pension provisions rose from EUR 66.6 million in fiscal 2010 to EUR 79.1 million in the financial year under review. The year-on-year increase was attributable primarily to the expansion of pension benefit rights for entitled staff within the Group as a result of the acquisitions; the increase in provisions for pensions associated with the first-time consolidation of the respective entities was EUR 5.8 million. A further EUR 2.6 million resulted from the **new compensation structure*** agreed for the Management Board (Compensation Report, page 82), which contributed to higher pension provisions.

Current and non-current provisions saw a reduction in provisions for contingent losses relating to order backlog as a result of changed estimates. Provisions recognized in 2010 in connection with the Framework Collective Pay Agreement were reversed in 2011, which also contributed to a partial reduction in provisions. These developments were largely offset by higher provisions attributable to the acquisitions. In total, current and non-current provisions remained largely unchanged year on year at EUR 22.9 (21.1) million.

Acquisition-induced rise in net debt

Fueled mainly by essential financing associated with the acquisitions transacted in 2011 as well as by investment projects, current and non-current financial liabilities rose by 44.2% in total to EUR 287.4 (199.3) million. Non-current financial liabilities surged by EUR 38.9 million to EUR 161.3 (122.4) million. In parallel, current financial liabilities increased significantly to EUR 126.1 (76.9) million. The year-on-year changes within this area were also influenced by the entities acquired in the period under review. Calculated at the respective dates of first-time consolidation, they contributed a total of EUR 16.4 million in non-current and EUR 21.3 million in current financial liabilities.

As a result, **net financial debt*** (current and non-current financial liabilities less cash) rose to EUR 222.2 (98.1) million as at December 31, 2011. The year-on-year increase was also attributable to a decline in cash.

 CF. PAGE 82

 CF. GLOSSARY

Against the backdrop of more expansive production output and the concomitant rise in purchasing volumes, the Group recorded an increase in trade payables in the period under review. As at December 31, 2011, they were up to EUR 65.0 (46.4) million, thus significantly outpacing growth in sales revenue. Calculated at the respective dates of acquisition, the acquired entities contributed a total of EUR 15.1 million to trade payables.

Current and non-current liabilities include a customer claim of EUR 7.0 million against ElringKlinger AG in connection with a warranty case* (Notes, page 169). However, as other non-current liabilities fell by a net amount of EUR 13.2 million, total current and non-current liabilities remained largely unchanged year on year at EUR 89.5 (90.5) million.

* CF. PAGE 169

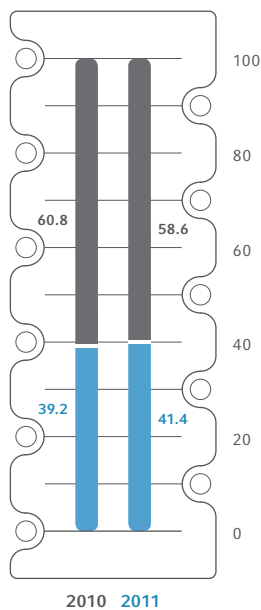
Deferred tax liabilities amounted to EUR 44.9 (34.7) million at the end of fiscal 2011. EUR 7.6 million of this year-on-year increase is due to the application of Section 6b of the German Income Tax Act (Einkommensteuergesetz – EStG) on the disposal of the Ludwigsburg industrial park.

In total, liabilities stood at EUR 607.5 (469.1) million. On this basis, they accounted for 49.9% (47.3%) of total equity and liabilities.

BALANCE SHEET STRUCTURE ELRINGKLINGER GROUP

ASSETS

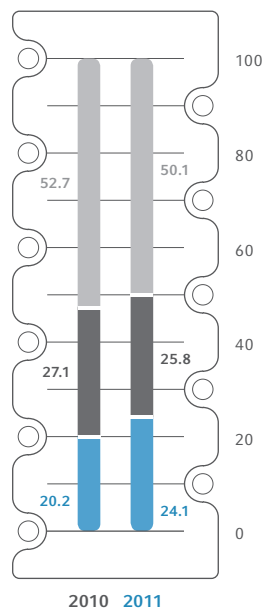
in % of Balance Sheet Total



■ Current Assets
■ Non-Current Assets

LIABILITIES AND SHAREHOLDERS' EQUITY

in % of Balance Sheet Total



■ Current Liabilities
■ Non-Current Liabilities
■ Shareholders' Equity

Cash Flows

The unrealized foreign currency gains and losses included in the statement of cash flows, previously accounted for in financing cash flows, have been recognized/adjusted in cash flows from operating activities in accordance with IAS 7.20 (b). Unrealized foreign currency gains and losses have been disclosed for the first time within the item classified as "Other non-cash expenses."

Operating cash flow dominated by strong growth

The ElringKlinger Group generated net cash from operating activities of EUR 74.5 (126.2) million in the financial year 2011.

Within this context, the inflow of cash was influenced by earnings before taxes, which rose by EUR 42.6 million in the period under review. The increase in depreciation, amortization and write-downs of non-current assets (less write-ups) to EUR 96.8 (82.2) million also had a positive impact. By contrast, the rise in working capital had a contrary effect. The dynamic rate of expansion in terms of production output translated into higher inventories and receivables in 2011.

Firstly, the ElringKlinger Group took advantage of the contraction in commodity prices from mid- 2011 onward to build up stocks at more favorable prices. Secondly, changes to the way service contracts* for tools are interpreted resulted in higher inventories (Notes, page 152). This accounted for a rise of EUR 22.4 million in inventories. On the back of significant revenue growth, trade receivables also expanded in the period under review. Furthermore, the above-mentioned claim against an insurer* (Notes, page 169) led to an increase by EUR 14.4 million in other assets not attributable to investing or financing activities. In total, inventories, trade receivables and other assets not attributable to investing or financing activities rose by EUR 95.9 (71.6) million.

Trade payables and other liabilities not attributable to investing or financing activities declined by EUR 17.3 million in 2011. Viewed separately, trade payables were up on the previous year's figure. At the same time, liabilities were further increased by the liability outstanding in connection with the above-mentioned warranty incident, amounting to EUR 7.0 million. However, the changes regarding the interpretation of supply contracts for tools had a contrary effect that more than offset the aforementioned factors. By contrast, trade payables and other liabilities not attributable to investing or financing activities had increased by EUR 26.2 million in fiscal 2010.

As regards the gains and losses from the disposal of non-current assets, a total of EUR 22.7 million was attributable to the gain on disposal of the Ludwigsburg industrial park. By contrast, in the fourth quarter of 2011 in particular the Group recorded losses on the disposal of machinery as well as in connection with the impaired surpluses from the first-time inclusion of Elring Klinger GmbH in the consolidated financial statements of the former parent company ZWL Grundbesitz- und Beteiligungs-AG. The net gain – after offsetting gains and losses – from the disposal of non-current assets amounted to EUR 17.5 million in 2011, compared to a net loss of EUR 1.6 million in the previous financial year.

*  CF. PAGE 152

*  CF. PAGE 169



Whereas provisions had been scaled up by EUR 2.1 million in 2010, a total of EUR 8.1 million in provisions was utilized or reversed in 2011.

Sale of industrial park has positive impact on cash flow from investing activities

The sale of the Ludwigsburg industrial park generated proceeds of EUR 34.0 million for the ElringKlinger Group. As a result, the total inflow of cash from the disposal of property, plant and equipment, intangible assets and investment property rose to EUR 36.5 (6.1) million in financial year 2011.

The cash outflow for investments in property, plant and equipment, investment property and intangible assets amounted to EUR 121.6 (134.3) million in 2011. On this basis, the investment ratio (investments in relation to sales revenue) for the ElringKlinger Group stood at 11.8% (16.9%), a level that comes closer to the long-term average. It should be noted that – as a result of changes to the definition of supply contracts – tools are no longer accounted for in cash flow from investing activities, but rather in inventories and therefore ultimately in cash flow from operating activities.

A significant portion of investments went into the completion of the new logistics center as well as construction work on a new fully automated plant for plastic housing modules at the site in Dettin- gen/Erms. The new operating facility covers 20,000 m² of production space and offers state-of-the-art manufacturing systems and tool technology. The plant produces 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 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.

In response to buoyant order intake in China, production space at the site in Suzhou is currently being expanded by an additional 5,000 m².

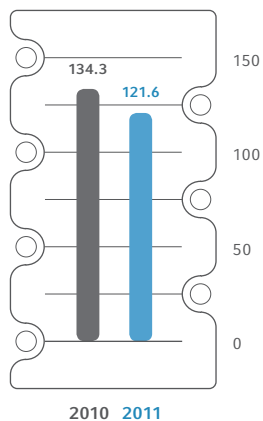
At the sites operated by the recently acquired former Freudenberg company, investments were directed at the automation of production processes for the purpose of streamlining existing cost structures. The focus here was on the French sites in Nantiat and Chamborêt.

Cash outflows for the acquisition of subsidiaries (less cash) amounted to EUR 62.4 (0) million in 2011.

In total, net cash used in investing activities stood at EUR 147.4 (128.1) million, which exceeded net cash generated from operating activities. Thus, the ElringKlinger Group recorded operating free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions) of minus EUR 10.5 (-1.9) million in 2011.

**PAYMENTS FOR INVESTMENTS IN PROPERTY,
PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND
INTANGIBLE ASSETS**

in EUR million



Decline in cash flow from financing activities

While the ElringKlinger Group had generated net cash from financing activities of EUR 74.0 million in 2010, mainly as a result of proceeds from the seasoned equity offering, net cash from financing activities amounted to EUR 35.4 million in 2011.

The dividend payout to shareholders of ElringKlinger AG rose from EUR 11.5 million to EUR 22.2 million. In total, distributions made to shareholders and minority interests increased from EUR 12.2 million to EUR 23.0 million.

At the same time, a total of EUR 39.4 (24.0) million in non-current financial liabilities was repaid. Current financial liabilities were increased by EUR 51.7 million (previous year: reduced by EUR 11.7 million), while long-term loans of EUR 41.1 (2.2) million were taken out by the Group.

In net terms, financial liabilities were expanded by EUR 53.4 million. In the previous year, they had been scaled back by EUR 33.5 million.

As at December 31, 2011, cash held by the ElringKlinger Group amounted to EUR 65.2 (101.2) million.

Group Companies

Scope of consolidation extended following three acquisitions

The financial year 2011 was dominated to a large extent by three acquisitions (**Significant Events***). As regards the integration of the new subsidiaries, the initial focus was on simplifying the existing legal structures. Additionally, optimization measures were put in place at an operating level for the purpose of enhancing earnings capacity to Group level.

*  CF. PAGE 40

For detailed information on the fundamental ElringKlinger Group structure and organization, please refer to the section entitled “**Overview of ElringKlinger’s Activities and Structure**”* on page 28.

*  CF. PAGE 28

Integration of Metal Flat Gaskets business formerly owned by the Freudenberg Group

The Metal Flat Gaskets business comprised three companies: Metallic Gaskets Nantiat SAS based in Nantiat, France, Oigra Meillor s.r.l. based in Turin, Italy, and Burgmann Automotive GmbH based in Eurasburg, Germany.

The name of the company based in France was changed to ElringKlinger Meillor SAS. In 2011, ElringKlinger took important steps aimed at strengthening the company for the future and reorganizing its production activities. To this end, a production line for cylinder-head gaskets at the former Burgmann Automotive GmbH plant in Gelting was relocated to France, where additional new machinery was also installed.

The company in Italy was merged into ElringKlinger S.p.A. effective from September 1, 2011. In order to streamline administrative structures, the facility in Milan was closed and existing functions were relocated to Turin at the site of Oigra Meillor s.r.l.

After an in-depth assessment, ElringKlinger Spezialdichtungen GmbH was retained as a plant of ElringKlinger AG in recognition of this facility’s expertise in the area of mica and graphite seals. The company was merged into ElringKlinger AG retrospectively as of January 1, 2011.

Currency risk at Hug mitigated

Following the majority acquisition of the Hug Group, measures were put in place to simplify the existing legal structures of this entity. At the date of acquisition, the Hug Group consisted of the following companies: Hug Holding AG with its subsidiaries Hug Infra AG, Hug Filtersystems AG and Hug Engineering AG, as well as the subsidiaries of Hug Infra AG (Hug Engineering GmbH, Magdeburg, Germany, Hug Engineering S.p.A., Milan, Italy, Hug Engineering Inc., Austin, Texas, USA). Additionally, the entity holds an interest of 10% in Codinox Beheer B.V., Enschede, Netherlands.

Hug Infra AG, Hug Filtersystems AG and Hug Engineering AG were merged into Hug Holding AG retrospectively as of May 1, 2011. As from this date, the company has been trading as Hug Engineering AG, operating with its three sales subsidiaries Hug Engineering GmbH, Magdeburg, Germany, Hug Engineering S.p.A., Milan, Italy, and Hug Engineering Inc., Austin, Texas, USA, as well as holding an interest in Codinox Beheer B.V., Enschede, Netherlands.

In order to improve the operational profitability of the Swiss Hug Group, measures were initiated to reduce currency risk. Hug generates the majority of its sales revenue in euros, while most of the costs incurred are denominated in Swiss francs. In order to avoid the associated foreign exchange losses, ElringKlinger AG acquired ThaWa GmbH Thaler Warenautomaten, Saxony-Anhalt, effective from January 3, 2012. The latter is to operate as an “extended workbench” for Hug. This will allow significant cost items to be transferred to the euro area (Events after the Reporting Period*, page 107).

Competitive edge in tooling technology: acquisition of the Hummel-Formen Group

Effective from October 1, 2011, ElringKlinger AG acquired the Hummel-Formen Group. It includes Hummel-Formen GmbH and Hummel-Formen Kunststofftechnik GmbH in Lenningen, Germany, as well as HURO Supermold S.R.L. and HURO Invest S.R.L. in Timisoara, Romania. The existing organizational structures within the Hummel-Formen Group are also to be streamlined, with plans to merge the two German entities into one another and do the same to the two Romanian entities.

ElringKlinger AG outpaced by Group companies

The 2011 financial year saw a general improvement in the global automotive markets. The majority of the subsidiaries within the ElringKlinger Group benefited from this trend. Most of the Group companies achieved revenue growth within the double-digit percentage range. Within this context, growth rates were particularly impressive in the case of the subsidiaries based in China, Japan, Brazil and the NAFTA region.

In 2011, the Group companies recorded year-on-year revenue growth of 40.5%. This rate of expansion was much more pronounced – as was the case in 2010 – than the 16.0% gain achieved by ElringKlinger AG. Excluding the entities acquired in 2011, the increase in revenue achieved by the Group companies – standing at 22.0% – would still have been substantially higher than the rate of growth recorded by the parent company.

In total, the subsidiaries generated sales of EUR 636.7 (453.2) million in 2011. Thus, the subsidiaries and investees once again recorded more revenue than the parent company.

The revenue contribution of foreign Group companies was 86.0% (84.4%), while that of domestic subsidiaries was 14.0% (15.6%).

Part of the significant growth recorded in the period under review was attributable to the entities acquired in 2011. Domestically, EUR 10.7 million in sales came from acquired activities. The foreign acquisitions contributed a total of EUR 72.4 million to Group sales.

At the same time, the earnings contributions of Group companies developed favorably in the period under review. The subsidiaries and investees generated earnings before taxes of EUR 69.5 (63.7) million in 2011. Earnings contributed by the acquired entities were still in negative territory, which had a dilutive effect. Starting from a high prior-year base, growth amounted to 9.1%.

Investment focus on growth market of China

In 2011, 42.5% (55.4%) of capital expenditure was attributable to subsidiaries and investees. At 8.1% (16.4%) the investment ratio in respect of Group companies remained solid.



Among the key investments at the Group company level were new production systems for ElringKlinger do Brasil Ltda., ElringKlinger Abschirmtechnik (Schweiz) AG as well as ElringKlinger USA, Inc. Within this area, the emphasis was on machinery and equipment for new projects relating to underbody shielding components.

In response to significant order intake, initial steps were taken at ElringKlinger China, Ltd., Suzhou, in the region of Shanghai, to increase the size of the production building by 5,000 m². The facility had already undergone expansion in 2010. The growth rate of around 50% achieved in 2011 is among the highest within the Group and highlights the positive route taken by the company in Asia.

Acquisition of remaining ownership interest in Turkey

The ElringKlinger Group is fully committed to scaling back minority interests in the Group to the largest extent possible.

Effective from October 17, 2011, ElringKlinger AG acquired from the minority shareholder the remaining 10% interest in ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş., Turkey. Thus, ElringKlinger AG now holds a 100% interest in this subsidiary and is well positioned in this region. The Turkish automobile market has undergone dynamic growth in recent years. In 2011, for instance, it achieved a new record of 864,439 vehicles sold.

The full takeover of the Turkish company had no significant effect on earnings in 2011.

For the purposes of streamlining the Group's organizational structures, the Turkish entity Kitek Kalip ve Ileri Teknoloji Makine Sanayi ve Ticaret Limited Sirketi (Kitek Ltd.) was liquidated effective from December 2, 2011.

Employees

Headcount up by around one-third due to buoyant demand and acquisitions

Driven by strong demand from customers worldwide as well as several new product ramp-ups, the majority of the Group's production sites were operating at very high levels of capacity utilization during 2011. In order to be able to accommodate higher output volumes at production level, the ElringKlinger Group expanded its workforce in areas associated with manufacturing operations. At the company's headquarters in Dettingen/Erms, meanwhile, the E-Mobility division also underwent significant expansion with regard to staff deployed in this area. Furthermore, the acquisitions transacted in 2011 contributed to the Group's higher headcount in the period under review.

As at December 31, 2011, the ElringKlinger Group employed 6,193 (4,676) people worldwide. Compared with the previous financial year, this represents an increase of 32.4%, i.e. the headcount was up by 1,517. On this basis, the number of employees grew slightly faster than sales revenue over the course of 2011. The annual average headcount for the Group was 5,779 (4,453) in total.

As a result of the acquisitions, a total of 807 employees joined the ElringKlinger Group. At the end of the year, the metal flat gaskets business taken over from the Freudenberg Group as well as the Swiss-based Hug Group in which ElringKlinger acquired a majority interest employed 353 and 225 people respectively. Following the acquisition of the Hummel-Formen Group, the number of staff employed within the Group rose by an additional 229 people. Excluding the acquired entities mentioned above, the headcount would have increased by just 15.2%, i.e. at a slower rate than revenue growth within ElringKlinger's core business (19.3%).

High capacity utilization at German sites

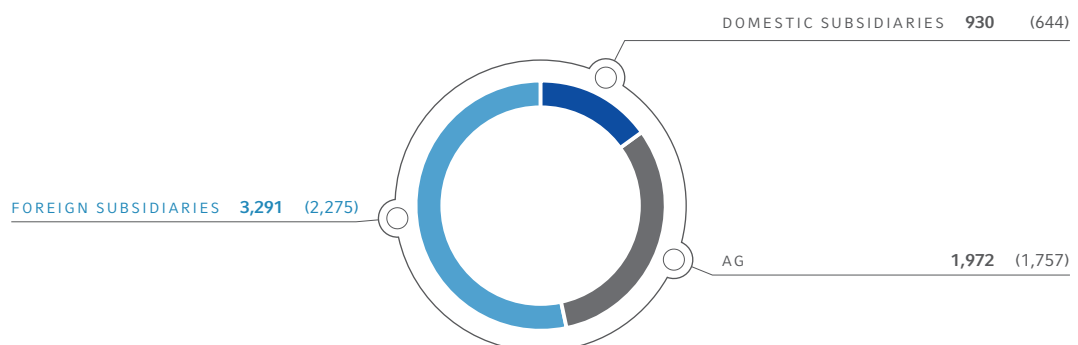
Over the course of 2011, additional employees were recruited at the German sites of the ElringKlinger Group, the aim being to meet the requirements of rising demand and new product ramp-ups in production. By curtailing the factory holiday period and operating with additional shifts, the company managed 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 its 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.

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. The headcount at ElringKlinger Kunststofftechnik GmbH rose from 533 to 577. As at December 31, 2011, the Group employed a total of 2,902 (2,401) people at the domestic level, which includes the acquired Hummel-Formen Group; this represents a year-on-year increase of 20.9%.

Proportion of staff employed abroad moves beyond 50% for first time

Responding to buoyant growth within the international markets, the Group expanded its non-domestic staffing levels at a more pronounced rate during the year under review. What is more, the majority of employees joining the Group as part of the acquisitions were based abroad. 2011 marked the first time ever that more than half of the Group's workforce was employed at the foreign subsidiaries and investees. In total, 53.1% of staff (3,291 people) were employed at non-domestic ElringKlinger companies, compared to 48.7% (2,275 people) in 2010.

ELRINGKLINGER GROUP EMPLOYEES WORLDWIDE December 31, 2011 (prior year)





Expansion in Asia

The percentage increase in the number of people employed abroad was attributable primarily to the significant level of organic growth generated by the ElringKlinger Group in Asia. In particular, the growing importance of China for the ElringKlinger Group was reflected in higher staffing levels at the local production sites. As part of the company's efforts to expand capacity at the locations in Changchun and Suzhou, the local headcount rose to 592 (352). This corresponds to a year-on-year increase of 68.2%, the highest growth rate within the ElringKlinger Group. ElringKlinger also recruited additional staff at its plant in Pune, India, expanding the local workforce to 103 (74). For further information on staff development and HR policies within the ElringKlinger Group, including corresponding indicators, please refer to the chapter entitled "Sustainability"*.

*  CF. PAGE 68

Procurement

The main task of the ElringKlinger Group's purchasing department is the procurement of commodities and materials for production. The key raw materials used by the ElringKlinger Group are C-steel*, alloyed high-grade steels (particularly nickel alloys), aluminum, polymer granules, rubber and polytetrafluoroethylene (PTFE*). In 2011, materials procurement for the Group's domestic and international companies was again overseen primarily by the Central Purchasing department of ElringKlinger AG at the headquarters in Dettingen/Erms, Germany.

*  CF. GLOSSARY

*  CF. GLOSSARY

One of the main challenges faced by procurement management in 2011 was how best to ensure that the requisite volumes of raw materials and primary products were supplied to production on time. In response to the dynamic rise in demand, some of the Group's customers increased the volume of components they requested as part of their just-in-time scheduling at very short notice. As a result, the ElringKlinger Group'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 necessary for rubber production. Nevertheless, thanks to the close and long-standing relationships that ElringKlinger has with its suppliers, ElringKlinger was always able to guarantee the efficient provision of volumes required for production purposes. However, the company had to accept price increases on certain raw materials.

Purchasing volume increases by 32%

The noticeable growth in sales generated by the ElringKlinger Group in 2011 was reflected in a significant increase in purchasing volume in the period under review. It expanded by 32.1% year on year to EUR 654.6 (495.7) million. Of this figure, EUR 53.8 million is attributable to companies acquired in fiscal 2011. 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, property, plant and equipment and real estate. The total cost of materials

was EUR 423.7 (308.0) 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.

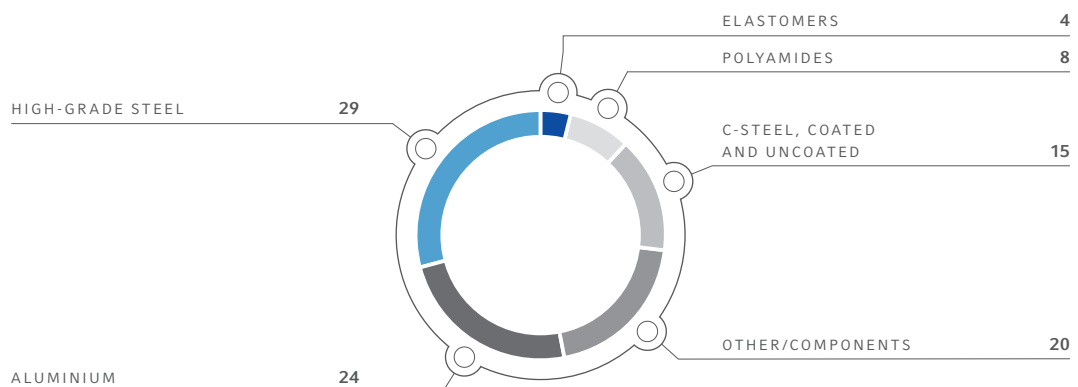
Strong demand prompts further rise in commodity prices

Buoyant demand within the manufacturing sector as a whole led to shortages in the supply of steels, polymer granules, rubber and PTFE. 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, the ElringKlinger Group's expenditure on raw materials once again increased year on year.

The price of some raw materials purchased by ElringKlinger 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 drop relatively quickly in line with price movements on the London Metal Exchange. Nickel prices eased considerably in the third quarter of 2011. ElringKlinger 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 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 to guarantee the volumes required for production. These long-term supply contracts provide the Group with a fixed, calculable base. The Group also looks to counteract price increases by qualifying more inexpensive suppliers, expanding its global supplier base and sourcing new materials.

RAW MATERIAL CHARGE WITHIN ELRINGKLINGER GROUP 2011 in %





Rise in energy prices partially offset by long-running contracts

The significant increase in production output contributed to higher energy consumption within the Group. It rose by 13.7% to 191.1 (168.1) MWh (absolute energy consumption: electricity, gas and other energy sources). Despite higher market prices for electricity and gas, the rise in energy costs was limited to 27.2%. In 2011, these costs totaled EUR 15.9 (12.5) million.

As early as 2008, ElringKlinger 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 already negotiated new supply contracts for 2014. Additionally, it commissioned its own combined heat and power plant at its site in Dettingen/Erms 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*).



Continued expansion of international supplier structure

In terms of supplier management, ElringKlinger always makes every effort to develop its existing suppliers and, at the same time, look for new supply-side partners. In 2011, the focus was on reviewing and qualifying international suppliers. As a result of more expansive purchasing volumes in the respective local markets, the Group is able to scale back its logistics costs and mitigate currency risk. At the same time, this often allows ElringKlinger to provide other Group companies with more cost-effective sources of supply. To this end, regular quality and cost analyses are carried out across the Group.

With capacities continuing to be further expanded at ElringKlinger's Asian sites in 2011, particularly China, the Group made efforts to establish links with new local suppliers. They were audited in accordance with international ISO standards and comply with the exacting quality and environmental guidelines defined by the ElringKlinger Group. ElringKlinger is committed to minimizing its dependency on single suppliers. In 2011, the Group's top 30 suppliers supplied around 50% of volumes purchased.

Over the course of 2011, ElringKlinger 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. The new concept is to be implemented throughout the Group in 2012.

Every year, ElringKlinger 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 the ElringKlinger Group. The company places great emphasis on achieving environmental efficiency in all its business activities at the Group level. Within this context, environmental considerations are central to the Group's product development and production processes. ElringKlinger 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 will publish 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 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 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 a "prime" investment rating.

* INTERNETLINK

Green product portfolio and eco-friendly production processes – relative CO₂ emissions down 14%

The reduction of fuel consumption and 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 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 that centers on 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 "Research and Development" section (**Research and Development***) and on the corporate website at www.ElringKlinger.de* under the heading "Products."

* CF. PAGE 72

* INTERNETLINK

The ElringKlinger Group always strives to optimize the use of resources in order to make its production processes as environmentally-friendly as possible. Each month, the 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 ElringKlinger production facilities 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 the ElringKlinger Group's key objectives is to reduce its relative CO₂ emissions by 3% per annum. In 2011, this target was not only reached, but exceeded, with levels of 62.5 metric tons in relation to sales of one million euros. This represented a reduction of 13.6% compared to the previous year (72.3 metric tons). Absolute CO₂ emissions totaled 64,600 (57,500) metric tons. This includes emissions generated by the supply and consumption of electricity, gas and heating oil. Excluding the new Freudenberg locations and the Hug Group, both of which were acquired in 2011, CO₂ emissions totaled 62,400 metric tons. The average CO₂ emissions generated by the ElringKlinger vehicle fleet amounted to 159 g/km (159 g/km).

One of the key factors contributing to the reduction in CO₂ emissions was the composition of the electricity mix in the period under review. In 2011, ElringKlinger procured a relatively large proportion of its electricity from renewable sources. A specific emissions factor is used as a basis for calculating CO₂ emissions relating to electricity consumption. It is lower for green electricity. This had a positive impact on CO₂ emissions. Additionally, the combined heat and power plant (CHP), which began operation at the site in Dettingen/Erms in mid-2011, also contributed to the reduction in company-specific CO₂ 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 operation 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 m² of production space. The roof, approx. 3,000 m² 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.

THE ELRINGKLINGER GROUP – KEY ENVIRONMENTAL INDICATORS

	2011 incl. acquisitions*	2011 excl. acquisitions	2010
CO ₂ emissions in metric tons	64,600	62,400	57,500
CO ₂ emissions in metric tons per EUR 1 million in sales	62.5	65.7	72.3
Absolute energy consumption (electricity, gas and other energy sources) in MWh	196,000	181,800	168,100
Absolute energy consumption in MWh per EUR 1 million in sales	189.8	191.5	211.3
Of which electricity consumption in MWh	119,500	110,600	98,700
Electricity consumption in MWh per EUR 1 million in sales	115.7	116.5	124.0
Water consumption in m ³	162,200	156,900	129,200
Solvents in metric tons	930	850	850
Total waste in metric tons	42,600	39,900	34,500
Of which metal waste in metric tons	35,700	33,700	28,500

* Incl. the former Freudenberg companies integrated in 2011 and the majority takeover of the Hug Group; the Hummel-Formen Group, which was also acquired in 2011, has not yet been included.

Besides lowering its energy consumption in 2011, ElringKlinger 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.

Investment in the future: sustainable HR policies

Reflecting its commitment to sustainable corporate management, ElringKlinger provides its staff with a working environment that is both motivating and socially balanced. As early as 2007, a Corporate Code was introduced across the whole Group. 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. In 2011, the average number of sick days per employee essentially remained at the same level as the previous year. And at 5.7% (3.3%), the Group's staff turnover rate for the year remained below the industry average. The year-on-year increase was largely a result of the significant expansion in employee numbers in countries such as China, where it is quite normal for staff turnover rates to be higher than in Germany. At ElringKlinger AG, employee terminations remained around the same level as the previous year at 1.1% (0.8%).

A major part of the ElringKlinger Group's HR function is the recruitment of talented young people and the provision of employee training. For many decades now, ElringKlinger 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 around 120 students preparing diploma, bachelor's and master's theses and offered internships for both school pupils and students.

At ElringKlinger, all staff are offered training opportunities to suit their particular needs. In addition to training in specific areas, the Group offered general skills courses, including project management, team seminars, software skills and foreign languages in 2011. 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. 17 young professionals are currently taking part in this program.

During the year under review, the Group spent EUR 0.8 (0.5) million on training and professional development.

ElringKlinger allows its staff to participate appropriately in the company's success. In 2011, the staff of ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH and Elring Klinger Motortechnik GmbH received a bonus of EUR 1,000 each for the previous financial year.

ElringKlinger 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 enforce the principles relating to diver-

sity as set out in the Corporate Governance Code. Following the appointment of Dr. Margarete Haase in 2011, there are now two female members on the Supervisory Board.

The figures given below reflect the long-term approach pursued by ElringKlinger 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.

THE ELRINGKLINGER GROUP - KEY HR INDICATORS

	as at Dec. 31, 2011	as at Dec. 31, 2010
Absolute number of employees	6,193	4,676
Of which men	69.5%	68.7%
Of which women	30.5%	31.3%
Average number of employees	5,779	4,453
Breakdown of age groups		
Less than 30 years old	26.8%	26.6%
30 to 50 years old	54.8%	55.0%
Over 50 years old	18.4%	18.4%
Percentage of vocational trainees/apprentices	2.3%	2.7%
Interns and thesis students	117	84
Staff turnover rate	5.7%	3.3%
Average number of sick days per employee	8.5	8.2
Employees covered by collective agreements	3,927	3,521
Number of qualification interviews conducted	5,091	2,259
Share of part-time employees	4.5%	4.7%
Employees on permanent contracts	5,530	3,940
Number of employees with severe disabilities	178	122
Number of employees in management positions*	260	-
Of which women*	32	-
Of which local nationals*	178	-
Work-related accidents leading to more than 3 days off work	178**	196
Work-related fatalities*	0	-
Absolute number of employees		
In partial retirement*	78	-
On maternity leave*	25	-
On parental leave*	45	-
Number of improvement suggestions submitted	1,150	823
Number successfully implemented	490	308
Number rejected*	166	-

* Published for the first time in 2011, therefore no prior-year figures available

** Limited comparability with previous year due to changes in the assessment method according to international standards

ElringKlinger takes its social responsibilities very seriously

ElringKlinger 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. This harmonization also benefits disabled people, as it allows them to have a more regular working day.

ElringKlinger 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 makes a significant contribution to improving science and its teaching in Germany.

Focusing on sustainable development

ElringKlinger remains 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

Three dimensions to innovation: optimization of the combustion engine, exhaust gas technology and e-mobility

In 2011, R&D activities at ElringKlinger focused on two drive concepts: the optimization of the combustion engine 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 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 to immediately start working on the next generation of concepts. In



2011, as in previous years, this strategy again allowed the ElringKlinger Group 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, 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 increasingly demanding 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 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 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 stepped up its investment in and expenditure on research and development in both established product areas and, increasingly, the new E-Mobility division.

Following its establishment two years ago, ElringKlinger's Battery Technology unit alone now employs 56 people. The largest proportion of investments and staff recruitment in the R&D-related areas of activity was attributable to the site in Dettingen/Erms, Germany.

As at December 31, 2011, the number of people employed in the ElringKlinger Group's R&D-related departments rose to 416 (316). Over the course of the financial year 2011, the ElringKlinger Group increased its R&D expenditure by a further EUR 9.3 million to EUR 49.9 (40.6) million.

In 2011, R&D expenditure as a proportion of Group sales revenue was 4.8% (5.1%) in accordance with IFRS 2011, down on the previous year's figure. This does not take into account expenditure attributable to the application of new products, which would have driven up R&D expenditure noticeably in relation to Group sales revenue. The 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 has a dedicated in-house patents department to protect its technological know-how and intellectual property rights. In 2011, alone, it filed 45 patent applications and industrial property rights.

To safeguard its development know-how and key process advantages, ElringKlinger has concentrated the Group's R&D activities at the sites of ElringKlinger AG in Germany, ElringKlinger Abschirmtechnik (Schweiz) AG and Hug Engineering AG (both in Switzerland). In 2011, the Centers of Excellence established at these locations provided most of the development services required by the entire ElringKlinger Group. In addition, the Group began to expand its local capacities close to its markets for applications technology in North America, China and Japan.

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 in 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 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 considerable 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 is a market leader in supplying cylinder-head gaskets for diesel engines. In addition, the Group 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 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 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 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 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.



CF. GLOSSARY

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 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'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 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 therefore 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.

The Shielding Technology division initiated its first joint projects with the Swiss exhaust treatment specialist Hug Engineering AG, which became part of ElringKlinger in 2011. In this area, ElringKlinger Abschirmtechnik (Schweiz) AG developed several shielding components used for the thermal encapsulation of Hug exhaust gas purification systems in construction machinery engines.

In the year under review, the first products were also 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 under 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 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 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 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 showcased at the IAA motor show in 2011.

Hummel-Formen has filed a patent for its highly efficient and accurate JoinMelt production process that uses hot gas welding to join plastic components while they are still in the mold. Not only does this eliminate one work step, the process is less expensive and delivers a significant improvement in component quality compared to standard methods.

Hug – We reduce emissions

In acquiring the Hug Group, based in Switzerland, ElringKlinger 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. In the ElringKlinger Group's R&D network, those technologies and applications previously used predominantly in niche markets such as ship engines, diesel locomotives, construction machinery and special vehicles, and in stationary generators and power plants, will increasingly be targeted at larger serial applications for commercial vehicles.

Hug's soot particle filter solutions are based on a ceramic honeycomb structure in silicon carbide (SiC), which allows the exhaust gases to flow through the porous honeycomb walls. In the process, more than 99% of particles of all sizes, even PM10 particulate matter, are removed. Even in the standard version, the filters feature a catalytic coating in order to burn off the soot that has deposited in the filter.



CF. GLOSSARY

The Hug product range also includes catalysts for selective catalytic reduction (SCR*) of nitrogen oxides by means of urea solution injection and for the catalytic oxidation of hydrocarbons and carbon monoxide. This provides the basis for the development of complete exhaust gas purification systems tailored to the specific application.

In 2011, a no-maintenance diesel particulate filter for trucks was developed and successfully trialed. Compared with other filter designs available on the market, its ash load has been significantly reduced. There is no need for laborious cleaning of the filter after around 200,000 km in use, offering a significant saving for fleet operators in particular.

The combination of Hug's high-performance filter substrate and ElringKlinger's environmentally friendly CleanCoat coating material – which is free from precious and heavy metals – also looks very 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. An initial 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 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.



A further focus in the area of exhaust gas technology within the ElringKlinger Group was on identifying and developing new, more efficient and less expensive substrate materials for oxidation and SCR catalytic converters as well as diesel particulate filters.

The increasingly stringent threshold values for the emission of soot particles are also affecting existing vehicles to an ever greater extent. Accordingly, there is considerable potential for retrofit solutions with filters to reduce particulate emissions. In 2011, development and applications engineering activities at Hug also included several application projects in the retrofit area, for example for buses.

In January 2012, the Hug “mobiclean R” filter system received the coveted CARB approval for on-road diesel vehicles in California, USA. This opens up another interesting market for Hug filters equipped with the CleanCoat coating.

E-mobility division significantly expanded

In 2011, ElringKlinger significantly expanded its E-Mobility division – established back in 2010 – to ensure that the company is well positioned to respond in good time to the automotive industry’s migration towards electromobility. Building on the material and process expertise available at ElringKlinger, 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 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 was able to successfully launch the first automated serial production plant for cell contact systems.

As regards battery technology, ElringKlinger 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 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, the Group 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 a particularly 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 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 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 an initial 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, the ElringKlinger Group set up a specialized test and development facility 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’s Battery Technology unit 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 pressed ahead with ongoing projects and undertook important steps on the journey from a laboratory solution to a marketable product. ElringKlinger has now started up the first pilot production line for SOFC stacks (**Solid Oxide Fuel Cell***).

Working with two partner companies, ElringKlinger made solid progress on the further development of a SOFC high-temperature fuel cell unit. Combined with a heat exchanger and reformer, 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-fueled 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 already in 2011 and subjected to extensive testing.

ElringKlinger 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 also 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 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.

*  CF. GLOSSARY

In process engineering terms, ElringKlinger 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 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 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, the ElringKlinger Group is on the whole ideally positioned to outpace the market in the coming years. The acquisition of Hug strengthens and complements existing development expertise and offers considerable future potential in the area of exhaust gas purification technology.

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 60 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 60 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 tranche is limited to the amount of annual fixed salary payable. 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 the right to a pension if their contract has expired, they have reached 65 years of age and have 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 investees.

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 60 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 60 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 315 (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 AktG 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 170.



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 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 Group 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 management teams at the Group's domestic and non-domestic companies as well as by the various 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 the ElringKlinger Group 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 guard against them. The head of the Group's 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 the ElringKlinger Group 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 the parent company as well as at the Group companies. 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, inter alia, at ElringKlinger Automotive Components (India) Pvt. Ltd., India, as well as at the former Freudenberg entities ElringKlinger Meillor SAS, France, and Oigra Meillor s.r.l., Italy, acquired in 2011. 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 have been 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, which also cover the Group's subsidiaries, 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 the Group and compile the information required for the preparation of the 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.

ElringKlinger has compiled an accounting manual on the basis of International Financial Reporting Standards. All Group companies are required to apply the standards outlined in this manual as a basis of the financial reporting process. All the principal valuation standards such as those covering inventories, tools and receivables under IFRS are specified in mandatory form within the manual. Mandatory accounting standards are also in use across the Group as a way of ensuring uniform treatment of the same issues.

All Group companies are obliged to comply with a pre-defined schedule for preparation of the Group financial statements. Each Group company is responsible for drawing up its separate financial statements in accordance with local accounting rules and IFRS, with the exception of the German Group companies, whose financial statements are prepared by the Accounts department at ElringKlinger AG. Internal Group clearing accounts are reconciled by means of balance confirmations. The financial reports of Group companies are stored in a separate database containing not only financial data but also information that is of importance to the notes to the consolidated financial statements and the Group management report. The data and information are checked prior to release and consolidation in the respective centralized departments.

SAP is used by the German as well as some of the foreign subsidiaries within the ElringKlinger Group. As for the other companies, various IT systems are currently in use. SAP is also 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; as regards 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 ElringKlinger Group'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. These are performed by two accountancy firms.

Accounting processes and procedures at ElringKlinger AG and its Group companies 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.

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 the ElringKlinger Group.

On the other hand, ElringKlinger 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 makes every effort to factor in economic risks at the forward planning stage. The Group's forecasts are based on a prudent assessment of the likely macroeconomic situation (**Report on Expected Developments***).

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

ElringKlinger 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 Group'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 the ElringKlinger Group. As a consequence, the risk of defaults on outstanding accounts has declined further. In the unlikely event of the insolvency of one of ElringKlinger's ten biggest customers, the default risk concerning unpaid receivables would be approx. EUR 20 million.

In recent years, the Group 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 has an exceptionally broad and regionally diverse client structure. In 2011, the Group's three largest customers accounted for approx. 31% of Group sales revenue.

Price risks

The ElringKlinger Group also faces a risk of higher prices for its input materials. Materials constitute the Group'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 the Group'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 the Group's purchasing costs.

The prices contracted by the company to procure aluminum and carbon steel in 2012 are slightly below the high level paid in 2011. With regard to input costs, the risk of extreme price increases thus remains manageable. Nevertheless, raw material prices saw another rise before year-end. The ElringKlinger Group is making strong 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 Group 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 Group 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 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 also monitors not only price movements but also the availability of the commodity groups it requires for production.

ElringKlinger 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 many 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 subject to major price fluctuations.

Use of derivative instruments

The ElringKlinger Group only uses derivative financial instruments in specific instances. Their purpose is to protect the Group 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 (Notes "Derivative financial instruments."*)

Currency risks

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

By contrast, the Group's exposure to transactional exchange rate risks is small. In almost all the Group'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 Group's net finance result. 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 accounts 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 the Group's net finance result. Looking ahead, this risk has now been reduced by the decision of Switzerland's central bank to keep a lower exchange rate limit of EUR 1.20/CHF.

EFFECTS OF FOREIGN EXCHANGE MOVEMENTS ON THE GROUP'S NET INCOME

	Swiss franc	Euro	US dollar	Others	Total
Local currency +10%	3,090	1,792	- 1,360	- 192	3,330
Local currency -10%	- 3,090	- 1,792	1,360	192	- 3,330

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 would place a greater interest burden on the Group and have a negative impact on the net finance result.

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 the ElringKlinger Group is very stable. This is due to the high level of cash flow generated from operating activities. As at December 31, 2011, the Group's net debt to EBITDA (earnings before interest, taxes, depreciation and amortization) ratio stood at the moderate figure of 0.9. The Group can still draw on agreed but currently unused credit lines totaling approx. EUR 90 million. Most of the Group's financing requirements are covered by medium- to long-term borrowings (Notes*). 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 could jeopardize the company's existence as a going concern.

As such, the Group 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 the Group. Nearly half of all the Group's workforce is based in Germany. Consequently, any more pronounced wage cost inflation in Germany especially would have a negative impact on earnings. This would also undermine the Group'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 the Group'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 in 2011, the Group again raised the percentage of temporary staff at its German sites to around 12% of the total workforce. The company has established a range of labor flexibility measures that would allow it to respond quickly to any unexpected and severe decline in demand. These measures include working time accounts, shift models and adjustments to temporary staffing capacity.

The metal workers' union 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 the Group's earnings performance. This pressure is eased to some extent by above-average growth in markets and employee numbers in countries such as China, Brazil and India. Wage levels in these regions are below the Group average.

All in all, wage cost inflation constitutes a significant risk to the earnings and financial situation. In order to maintain the Group'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

The ElringKlinger Group'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 Group 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 could result in downward pressure on prices.

The current development focus within the industry is dominated by a massive expansion of alternative drive technologies. ElringKlinger 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 Group's R&D ratio, which is above the industry average. In addition, from 2005 to 2011, the ElringKlinger Group spent between 11.0% and 16.0% of its consolidated 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.

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 the Group's earnings. A decline in the Group's profit margin cannot be ruled out, at least not on a temporary basis. In addition, the level of new investment may be higher than originally anticipated. It may also be necessary to write down the value of goodwill as a result of year-end impairment tests.

Where new technologies have been purchased by the Group, 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'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 the Group'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 Group 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 Group's two data centers has now been moved to the 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, e.g. when introducing new systems at subsidiaries.

In 2011, the Group 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 Group.

Legal risks/Warranty risks

As a manufacturer and supplier to the automotive industry, ElringKlinger may be exposed to warranty and liability risks. The level of risk in this area depends on the level of sales. 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 addresses its exposure to legal risks by recognizing appropriate provisions in the Group's 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 countries.

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 positioned itself early on to meet this demand through the construction of two large production facilities in China and a state-of-the-art factory in India. The Group is also planning to build a new production site in the ASEAN region in the near future. Including exports, the Group generated almost a quarter of its total revenue for 2011 in Asia.

ElringKlinger stands 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 countries and 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 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 Group 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's portfolio and development work are strategically focused on efforts to reduce fuel consumption and emissions as well as 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 more than 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, the trend towards downsizing in the combustion engine market (**Research and Development***) 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 over 50% of all new vehicles will be supplied as hybrids.

Plug-in hybrids* in particular offer an opportunity for ElringKlinger 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.

The addition of new products from the Hug Engineering portfolio – from diesel particulate filters to complete exhaust gas purification systems – provides ElringKlinger with further attractive sales opportunities in the context of measures to combat climate change. Most industrialized and emerging countries have now adopted emissions legislation, so over the next few years exhaust gas cleaning systems will be required for nearly all engines. This applies not only to the area of personal mobility but also to stationary systems, agricultural applications, buses, diesel locomotives and ships.

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 harder 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.

*  CF. PAGE 72

*  CF. GLOSSARY

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

Overall assessment of risks and opportunities

Over recent years, the systems established by the ElringKlinger Group on identifying and managing 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 Group’s successful management of the crisis in 2008/2009.

Thanks to the Group’s solid equity base – with an equity ratio of 50.1% – and financial strength, ElringKlinger 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, the ElringKlinger Group 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 Group as a going concern.

In recent years, ElringKlinger 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 exhaust gas purification as well as 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, the ElringKlinger Group is in a good position to continue outgrowing the automotive market as a whole in the years ahead while maintaining a manageable risk profile.

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 have 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 wane 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 in 2012 between the various regions. 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 bases its forecasts on estimated production figures. The budget defined by the ElringKlinger Group 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 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, the US market is expected to see the number of new registrations rise by 5.0 to 6.0% in 2012, taking the figure to more than 13 million units (2011: 12.8 million vehicles). 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 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 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 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 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. The product portfolio of Hug Engineering AG also offers great potential within this segment, the emphasis being in particular on exhaust gas purification technology for commercial vehicles.

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. Suppliers are responsible for an increasingly large part of the value creation process. This necessitates significant expenditure on research and development, as well as appropriate financing capabilities. Industry consolidation looks set to continue against the backdrop of these challenges.

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.

Order intake robust

The Group's situation in terms of orders placed by customers remained robust as at December 31, 2011. Despite the dynamic gains already recorded over the course of 2011, order intake continued to point upwards. In total, order intake rose by 22.8% to EUR 1,089.0 (886.6) million in 2011.

At EUR 272.6 (227.3) million, order intake for the fourth quarter of 2011 was also well up on the figure recorded in the buoyant final quarter of 2010.

Order backlog for the ElringKlinger Group totaled EUR 448.4 (333.1) million as at December 31, 2011. This represents an increase of 34.6% on the previous year's figure.

The revenue and earnings targets set by the Group are underpinned accordingly by existing orders in hand.

Performance of acquired entities

The dilutive effects on the Group's operating margin due to the inclusion of the entities acquired in 2011, which in total produced a negative contribution to earnings before taxes, will be less pronounced in 2012.

The measures currently being implemented for the purpose of raising efficiency levels – including extensive automation as well as the alignment of manufacturing processes and product designs – will result in cost savings. At the same time, these measures will help to gradually guide earnings at the recently acquired former Freudenberg companies as well as Hug Engineering AG towards a level comparable to that of the Group in terms of profit margin.

By further developing the low-cost facility in Thale as an extended workbench of Hug Engineering AG, the adverse effects that a strong Swiss franc has on Hug's operating margin will be reduced and staff costs will be scaled back during the course of the year 2012.

Cost situation

ElringKlinger will continue to optimize its production processes in 2012, achieving cost savings mainly by focusing on efforts to further expand the level of automation. The aim is to improve efficiency by at least 3%. Within this context, the emphasis of streamlining programs will be on the subsidiaries and investees.

The second half of 2011 saw a reduction in prices for some key materials – particularly with regard to alloy surcharges – compared to the price peaks in mid-2011. As regards its purchasing prices, ElringKlinger tends to benefit from such reductions only after an interval of several months. Having said that, commodity prices still remained high when viewed across a longer time frame. It should also be noted that raw material prices picked up again towards the end of 2011. However, looking at 2012, there are currently no signs of a return to the dynamic price momentum seen within the commodity markets in 2010 and 2011. ElringKlinger AG took advantage of the periodic 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, ElringKlinger expects the price situation to remain relatively stable in 2012.

On the back of a moderate expansion planned in the Group's headcount, together with foreseeable wage increases, staff costs are expected to rise. However, at present, ElringKlinger anticipates that the total percentage increase in staff costs will be less pronounced than the rate of growth achieved in sales revenue. Given the fact that 46.9% of ElringKlinger's workforce are employed in Germany, there is some uncertainty as to the future direction taken by wage costs in respect of staff subject to collective agreements, particularly in view of the collective pay increase expected for April 1, 2012. The pay rise under collective bargaining agreements is currently being negotiated between the metal workers' union IG Metall and the employer organizations.

General and administrative expenses are expected to increase only slightly compared to 2011, rising more slowly relative to projected revenue growth. This will be aided by further centralization of administrative functions within the parent company.

Further growth targeted for revenues and earnings (adjusted for one-time income)

Based on the economic projections outlined above and assuming that vehicle production as a whole will continue to expand slightly, the ElringKlinger Group anticipates that it will be able to achieve organic revenue growth of 5 to 7% in 2012. Within this context, it should be noted that the level of revenue growth achieved in fiscal 2011 was significantly higher than originally forecast.

The Group also expects to see an additional revenue contribution of around EUR 20 million from the consolidation of recently acquired Hug Engineering AG and Hummel-Formen Group, which in 2012

will be included in the consolidated group for a full annual period for the very first time. In 2011, the two acquired entities were included in the scope of consolidation of the ElringKlinger Group on a pro-rata basis: from May 1, 2011, in the case of the Hug Group and from October 1, 2011, in the case of the Hummel-Formen Group.

However, the EBIT margin of the Group's core business will be diluted to some extent in 2012 as a result of the as yet weaker margins recorded by the acquired entities and the purchase price allocations associated with these acquisitions as well as the substantial lead costs incurred in the E-Mobility division. Despite these effects, ElringKlinger expects earnings before interest and taxes, adjusted for non-recurring items, to increase at a more pronounced rate compared to revenue growth. Adjusted earnings before interest and taxes for the Group (EUR 126.0 million in 2011) as a whole are expected to be in the range of EUR 145 to 150 million.

Outlook for segments

Benefiting from scheduled ramp-ups and slight growth in global vehicle production, the Original Equipment segment looks set to gain further momentum in 2012 both in terms of revenue and earnings. Due to the significant proportion of sales generated in this segment, currently standing at 80.1%, the largest part of revenue and earnings growth within the Group will be attributable to Original Equipment.

Against the backdrop of growing demand for PTFE components in a number of sectors together with a solid position in terms of orders, the Engineered Plastics segment is also expected to generate further revenue and earnings growth. New product launches, including those relating to sealing and guide rings as well as compressor pistons made of the new injection-moldable material Moldflon, will play a prominent role within this area. Additionally, market cultivation will continue in China and India, two countries that are expected to make more substantial contributions to sales revenue in the future.

The Aftermarket segment plans to further extend its product range in 2012. By contrast, the scrap-age scheme incentives offered by many European governments in the past has led to a reduction in the age of vehicles currently in use, thus adversely affecting the potential spare part sales in Germany and Western Europe. However, this effect is likely to be more than offset by growth within the international markets – led by Eastern Europe, the Middle East and Africa – as well as by additional market share. Overall, therefore, the Aftermarket segment is also expected to see an increase in revenue and earnings in 2012.

Supported by a number of new product designs, together with its targeted positioning in technology niches undergoing structural growth and a strong presence in the emerging markets, the ElringKlinger Group also considers itself well positioned both for 2013 and the medium-term future. On the back of moderate growth in global car production, the Group anticipates that it can raise sales revenue by 5 to 7% annually. Earnings before interest and taxes are expected to grow at a faster rate relative to this percentage growth. As regards profitability in the medium term, the ElringKlinger

Group will again be targeting an EBIT margin of 16 to 18%. This will depend to a large extent on the performance of the acquired entities and the ramp-up of new products in the E-Mobility division.

Lower investment ratio

Following substantial capital expenditure on property, plant and equipment in recent years, driven primarily by large-scale projects, investment requirements look set to return to more normal levels in 2012 and 2013. The investment ratio, i.e. capital expenditure as a percentage of Group sales, will be lower. After EUR 112.7 million in 2011, ElringKlinger AG plans to expend between EUR 95.0 and 100.0 million on property, plant and equipment as well as investment property. 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 for plastic housing modules completed at the beginning of 2012 at the site in Dettingen/Erms. In 2012, additional production machinery will be purchased for this plant.

Furthermore, ElringKlinger AG is committed to 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 further increased within the existing production lines.

Budget also includes investments in systems for precision welding and canning of particulate filters and exhaust gas purification systems at ThaWa GmbH Thaler Warenautomaten, Thale, which is undergoing further expansion as an extended workbench for Hug Engineering AG.

Sufficient financial scope

In 2011, the considerations payable for acquired companies as well as some of the financing associated with large-scale projects and investments within the E-Mobility division were covered by the proceeds from the seasoned equity offering in 2010.

The existing cash inflow from internal funding is sufficient to cover the Group'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 likely to exceed the payments for investments currently budgeted for property, plant and equipment. Thus, the expansion of promising areas such as electromobility and exhaust gas purification technology as well as the financing of further organic growth for the Group has been secured.

What is more, the ElringKlinger Group has access to funding of around EUR 90 million in the form of lines of credit provided by several banks. This financing could be utilized if and when favorable opportunities for external growth or technology-related acquisitions arise.

Reduction in net debt

Swelled to EUR 222.2 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, the Group's net financial debt is expected to be 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 the ElringKlinger Group 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

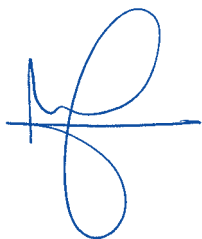
After the reporting period, ElringKlinger acquired metal-housing producer ThaWa GmbH Thaler Warenautomaten, based in Thale, Saxony-Anhalt/Germany, as well as AGD Group Entwicklungs- und Vertriebs GmbH, Gütersloh. The provisional purchase consideration was EUR 3.0 million. The sale to ElringKlinger AG 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 also be assigned other production processes in the future. 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.

Together, ThaWa GmbH Thaler Warenautomaten and AGD Group Entwicklungs- und Vertriebs GmbH employ 53 people in total. In fiscal 2011, sales revenue stood at EUR 4.5 million. Inclusion in the scope of consolidation of the ElringKlinger Group will take place as of January 1, 2012.

Dettingen/Erms, March 15, 2012

The Management Board



Dr. Stefan Wolf



Theo Becker

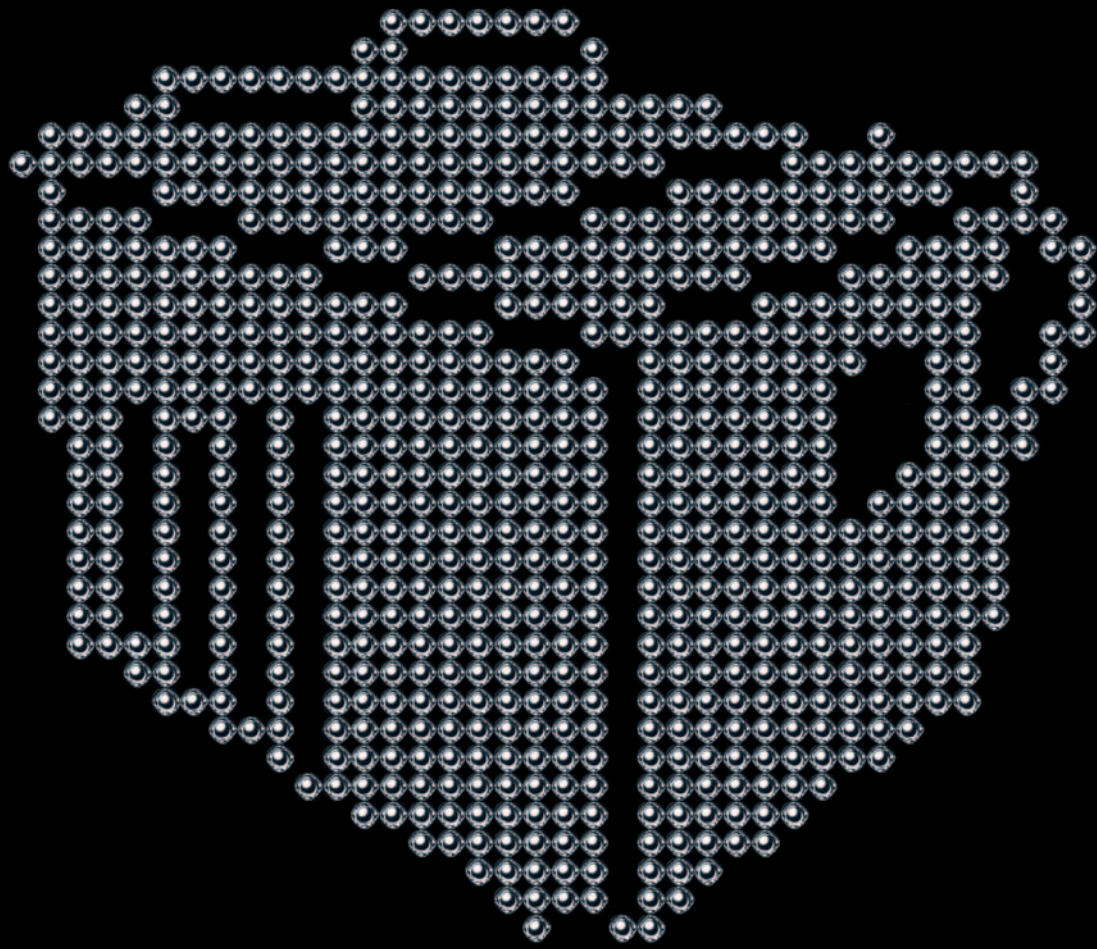


Karl Schmauder



“Due to increasingly stringent emission control legislation, there will be virtually no engines in the future without exhaust gas treatment systems. This represents a huge market around the globe, for both retrofits and original equipment supplies. Our no-maintenance diesel particulate filters and complete exhaust gas purification systems for various types of engine do their part to provide cleaner air.” /// ADRIAN FAUST, Head of

Engineering at Hug Engineering AG, an ElringKlinger Group company



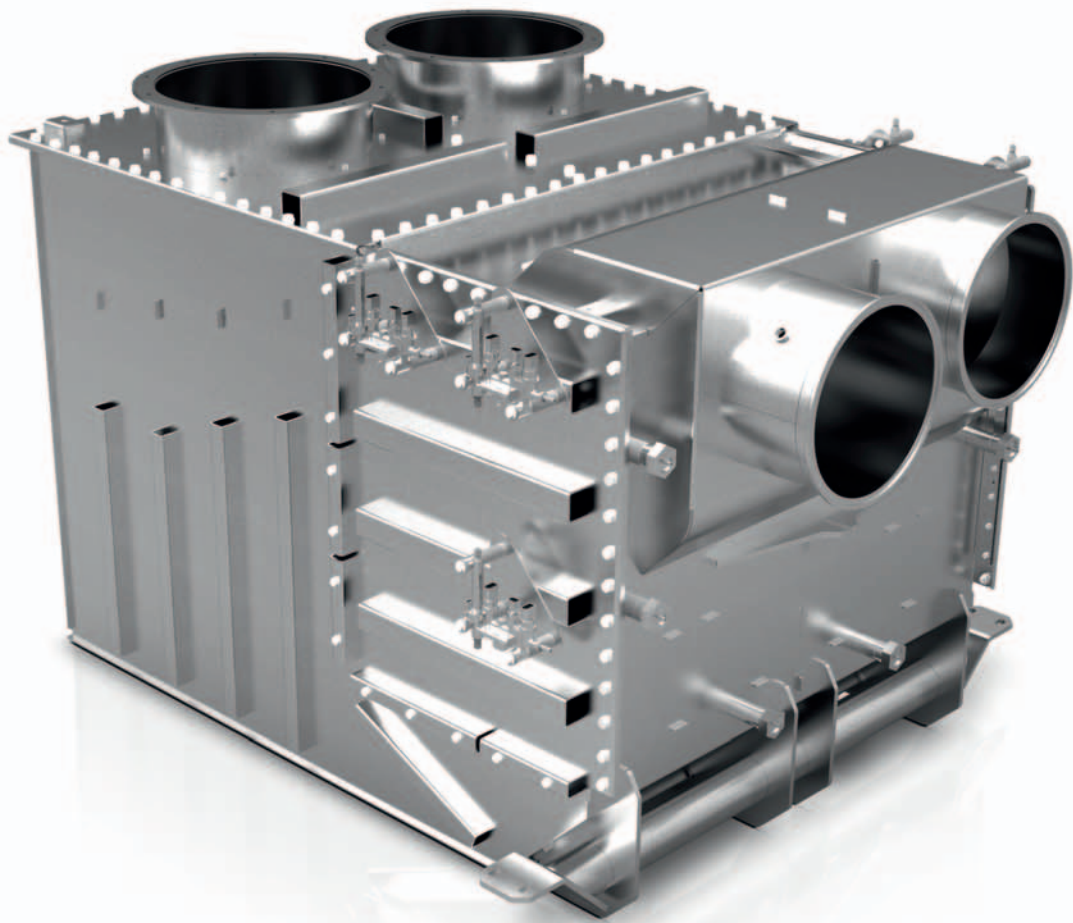
EXHAUST GAS TECHNOLOGY

99%

reduction in soot particles

Particulates and exhaust gas emissions are harmful to people and the environment.

Around the globe – and particularly in the fast-growing emerging economies – the increasingly stringent environmental regulations to reduce soot particles and emissions of carbon monoxide, nitrous oxides and hydrocarbons can no longer be met without efficient exhaust gas purification systems. This applies not only to mobile applications such as trucks (EURO VI) and cars but also to buses, locomotives, ships, construction and agricultural machines as well as to stationary units in power plants and emergency power generators. With the help of particulate filters, catalytic converters and control system technology from Hug, soot particles and other exhaust gas emissions such as NO_x can be reduced by up to 99% to ensure full compliance with statutory exhaust gas emission standards. The motto: “Every engine needs a Hug!”



Combined exhaust gas purification system with oxidation catalyst, diesel particulate filter and SCR catalyst for NO_x reduction

Joint Corporate Governance Report by the Management Board and Supervisory Board of ElringKlinger AG

 CF. GLOSSARY

We believe that good corporate governance* is of essential importance to the sustained success of a business. Within this context, responsible, value-driven management and transparency with regard to corporate communication are considered to be key elements underpinning sound governance in all areas of the enterprise. Embracing and pursuing these values of good corporate governance helps to enhance the confidence of shareholders and the capital markets as a whole, as well as the trust placed in the company by its employees, customers and suppliers. With this mind, the German Corporate Governance Code is to be seen as a guide to implementing generally accepted standards of good, sustainable corporate governance. ElringKlinger is committed to developing its corporate governance on a continual basis, thus securing the long-term success of the company and honoring the trust placed in it by investors.

The Management Board and the Supervisory Board undertook a thorough review of the provisions set out in the German Corporate Governance Code in the version of May 26, 2010, and determined to what extent the recommendations presented in the Code shall be applied, having previously taken into careful consideration the interests of the company and its shareholders. The Declaration of Conformity passed on December 4, 2011, in respect of the German Corporate Governance Code is included in a subsequent section of this report and has also been published on the company's website.

Transparency for investors and the public

ElringKlinger is committed to an open and transparent approach with regard to corporate policy and communication. The company provides its shareholders with prompt and comprehensive information about company developments by utilizing communication vehicles such as the Internet, road shows, analyst meetings and events for private investors as well as by means of financial reports issued on a regular basis and ad hoc and press releases.

Corporate bodies, management and supervisory structure

As is the case with all German stock corporations, ElringKlinger operates on the basis of a dual system of corporate governance. The division of responsibilities between the Management Board and the Supervisory Board is governed by the German Stock Corporation Act, the Articles of Association and the by-laws and terms of reference for the Management Board and the Supervisory Board.

The Management Board directs the company and manages its business on a day-to-day basis. At present, it is composed of three members, who are appointed by the Supervisory Board. The duties performed by the Management Board are assigned on the basis of functional criteria. The Management Board is obliged to observe the interests of the company and increase enterprise value on a sustainable basis. Notwithstanding the individual duties assigned to each member, the members of the



Management Board are jointly responsible for directing the company, deciding in particular on fundamental and significant issues relating to corporate policy, planning and the strategic direction of the company. The Management Board is responsible for preparing the annual financial statements and submitting quarterly and half-yearly reports.

The Supervisory Board monitors the activities of the Management Board and acts in an advisory capacity. It consists of twelve members; in its present composition, it has been elected to discharge its duties until the end of the Annual General Meeting of Shareholders responsible for ratifying the acts of the Supervisory Board members for fiscal year 2014. Of the twelve members, six were elected by the employees of the German-based operating sites and six by the company's shareholders, as specified by the German Codetermination Act. The Management Board and Supervisory Board work together closely for the purpose of determining the strategic route to be taken by the Group and safeguarding the long-term and sustained success of the company as a whole. The Supervisory Board meets in regular intervals, at least once a quarter. The Management Board reports on business performance, planning, strategy and implementation of the latter. It also submits a risk report at each Supervisory Board meeting. The Supervisory Board monitors compliance with statutory provisions and company-specific guidelines. Significant decisions made at Management Board level, such as acquisitions or the purchase and sale of property, are subject to the prior approval of the Supervisory Board. In between Supervisory Board meetings, the Management Board informs the Supervisory Board promptly and comprehensively about the company's course of business as well as its corporate planning, strategy and risk management. The Supervisory Board places great emphasis on the effectiveness of the risk management system and therefore requests detailed and regular reports on the tools and measures that make up the internal control system. The work of the Supervisory Board is conducted both through the plenum itself as well as through committees.

At present, members of the Supervisory Board form an Audit Committee, a Personnel Committee and – pursuant to the provisions set out in the German Codetermination Act – a Mediation Committee. The tasks, responsibilities and internal organization of the committees are in accordance with the authoritative statutory provisions and the requirements of the German Corporate Governance Code. The Audit Committee comprises four members. It is responsible for monitoring procedures related to financial reporting and discussing the annual financial statements prepared by the company with the independent auditor. The Personnel Committee comprises five members, including the Chairperson of the Supervisory Board. The Personnel Committee is responsible for preparing appointments to the Management Board and drawing up employment contracts. Definitive decisions are always made by the full Supervisory Board. The Mediation Committee consists of the Chairperson of the Supervisory Board, his Deputy as well as one member each elected by the Supervisory Board members representing the company's employees and the Supervisory Board members representing the company's shareholders. The sole duty of the Mediation Committee is to submit to the Supervisory Board recommendations for the appointment of Management Board members if the plenum of the Supervisory Board is unable to pass a resolution on such matters with the requisite majority.

Shareholders

Shareholders exercise their voting right at the General Meeting of Shareholders. Each share is equipped with one vote. The General Meeting of Shareholders takes place once a year on a regular basis within the first six months of the fiscal year. The agenda as well as documents and reports compiled for shareholders are also published on the company's website. For the purpose of facilitating the exercise of voting rights, the company organizes proxy vote representatives for shareholders upon request. These representatives then vote on behalf of the shareholder and in accordance with his/her instructions at the General Meeting of Shareholders. This does not affect the right of shareholders to seek their own representation by a proxy of their choice, who is then authorized to vote on their behalf. Among the standard resolutions to be passed by the General Meeting of Shareholders are those relating to the appropriation of profit, the ratification of the acts of the Management Board and the Supervisory Board as well as the appointment of the independent auditor. Beyond this, capital measures and other amendments to the Articles of Association require the approval of the General Meeting of Shareholders. Shareholders may submit counter-motions and questions relating to the individual items on the agenda, and also have the right to request the court appointment of a special auditor to review specific matters insofar as certain conditions have been met.

Declaration of Conformity

Pursuant to Section 161 of the German Stock Corporation Act (Aktengesetz – AktG), the supervisory board and management board of exchange-listed stock corporations are obliged to issue an annual declaration stating that the recommendations of the “Code of the Government Commission on German Corporate Governance” have been and will continue to be complied with and, if applicable, specifying which recommendations have not been or will not be applied. Any departures from the recommendations must be explained.

The Management Board and Supervisory Board of ElringKlinger AG hereby issue a Declaration of Conformity pursuant to Section 161 AktG, stating that the Company has complied with, currently complies with and will in future comply with the recommendations of the “Government Commission German Corporate Governance Code” in the version dated May 26, 2010, with the following exceptions.

SECTION 2.3.2:

As in the past, in 2012 the invitation to the Annual General Meeting of Shareholders will again be dispatched by mail.

At present, for organizational reasons the company does not comply with the Code's recommendation on the electronic dispatch of the invitation to the General Meeting of Shareholders. As the company generally has no records of the e-mail addresses of its shareholders, from the company's perspective any additional dispatch would be associated with disproportionate time and effort without actually offering any substantive benefits for shareholders. Within this context, it should also be noted that the invitation to the General Meeting of Shareholders has been and will continue to be available for download from the company's website.

**SECTION 2.3.3:**

The Company does not provide shareholders' acclamation by postal vote.

The articles of association of a corporation can stipulate that shareholders may cast their vote by postal vote. The articles of association of the company do not provide such a possibility.

SECTION 3.8:

The deductibles agreed as part of the company's D&O insurance are the same for the Supervisory Board and the Management Board; based on the current employment contracts, these deductibles differ from those outlined in Section 3.8 of the Code.

As regards the D&O insurance policy for the Management Board, the company made use of statutory provisions whereby existing agreements with the Management Board concerning a deductible do not have to be adjusted in line with legal requirements during the applicable transitional period. Correspondingly, the company will not adjust the D&O insurance deductible for the Supervisory Board. The company is of the opinion that inconsistency in the treatment of the Management Board and the Supervisory Board would be inappropriate.

SECTION 4.1.5:

When filling managerial positions in the enterprise, suitability and qualification of the candidates were taken into consideration by the Management Board primarily.

When filling managerial positions the Management Board orients itself by requirements of the corresponding position and looks for the best possible individual, fulfilling these requirements. If there are more candidates with similar qualifications, the Management Board takes diversity into consideration and aims for an appropriate consideration of women without making these criteria a principal of priority. From the point of view of the company such regulation would be counterproductive, especially in view of the comparatively small number of managerial positions to be filled.

SECTION 4.2.5:

The compensation report, within the context of the management report, outlines the basic system of compensation. Rather than being presented in the compensation report, details of Management Board remuneration are disclosed in the notes to the financial statements.

The company presents data relating to Management Board compensation in an itemized format, i.e. separately for each member. Contrary to the recommendation, the components of compensation are disclosed in the notes to the financial statements. From the company's perspective, there is no need for additional disclosure, and thus presentation of duplicate information, in the compensation report.

SECTION 5.1.2:

When appointing the Management Board, the Supervisory Board orients itself by suitability and qualification. No age limit has been set for members of the Management Board.

The members shall be selected prior to their suitability and qualification. In the company's view, the special weighting of further criteria given by the Code would limit the selection of potential candidates for the Management Board. Thereby, it has to be considered that the Management Board temporarily exists of only three members.

There is no general age limit for Management Board members. The main focus for ElringKlinger is on the qualifications as well as the experience required by candidates to be appointed to the board. Given the provisions set out in the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – AGG), which does not apply directly to this case but at the very least provides a basis for analogous application, the company is of the opinion that the approach of specifying an age limit is inappropriate.

SECTION 5.3.3:

At present there is no Nomination Committee to propose possible candidates for the election of shareholder representatives to the Supervisory Board.

Given the current size of the company's Supervisory Board, both the Management Board and the Supervisory Board are of the opinion that there is no need to form a Nomination Committee.

SECTION 5.4.1:

Regarding the composition of the Supervisory Board, concrete objectives will not be predefined and according to this not published in the Corporate Governance Report. No age limit has been set for members of the Supervisory Board.

Relevant selection criteria for the appointment of the Supervisory Board are also suitability, experience and qualification. A commitment to specifications concerning prospective appointments constricts flexibility without ulterior advantage for the company. This applies all the more as the representatives of the shareholders can temporarily only elect six members of the Supervisory Board with codetermination. Within this context, the specifications mentioned in the Code's recommendation are per se further important criteria for the constitution of the Supervisory Board. So because of the mentioned reasons there is no need of a predefinition of concrete objectives.

No general age limit has been set for members of the Supervisory Board, as the expertise of the individual members is considered an overriding priority. Within this context, experience in particular is seen as an integral element. Given the provisions set out in the German General Equal Treatment Act, which does not apply directly to this case but at the very least provides a basis for analogous application, the company is of the opinion that the approach of specifying an age limit is inappropriate.

SECTION 5.4.3:

Proposals regarding candidates for the Chair of the Supervisory Board are not disclosed to shareholders. The election of the Chairperson of the Supervisory Board is the sole responsibility of the Supervisory Board, as it is best placed to assess the suitability of the candidates. Against this background, the company is of the opinion that prior disclosure of the names of candidates for the Chair of the Supervisory Board would not be appropriate.

**SECTION 5.4.6:**

The compensation report, within the context of the management report, outlines the basic system of compensation. Rather than being presented in the compensation report, details of Supervisory Board remuneration are disclosed in the notes to the financial statements.

The company presents data relating to Supervisory Board compensation in an itemized format, i.e. separately for each member. Contrary to the recommendation, the components of compensation are disclosed in the notes to the financial statements. From the company's perspective, there is no need for additional disclosure, and thus presentation of duplicate information, in a compensation report.

SECTION 6.6:

No reports of the kind specified in Section 6.6 of the Code are made beyond the statutory disclosure requirements.

The company is of the opinion that transparent corporate communication is essential, particularly in order to maintain shareholder confidence. All relevant information is disclosed by the company in accordance with statutory requirements, which have been extended significantly in recent years.

This information can also be accessed from the company's website. From the company's perspective, the other details recommended for disclosure under Section 6.6 of the Code are of no additional value to investors. The company believes that transparency is not dependent on the volume of information disclosed but rather on the quality and relevance of such information. Against this background, the company has chosen not to apply the Code's recommendations beyond those specified as required by law.

SECTION 7.1.3:

Details relating to stock option programs and securities-based incentive systems as elements of Management Board compensation are presented in the notes to the financial statements rather than in the corporate governance report.

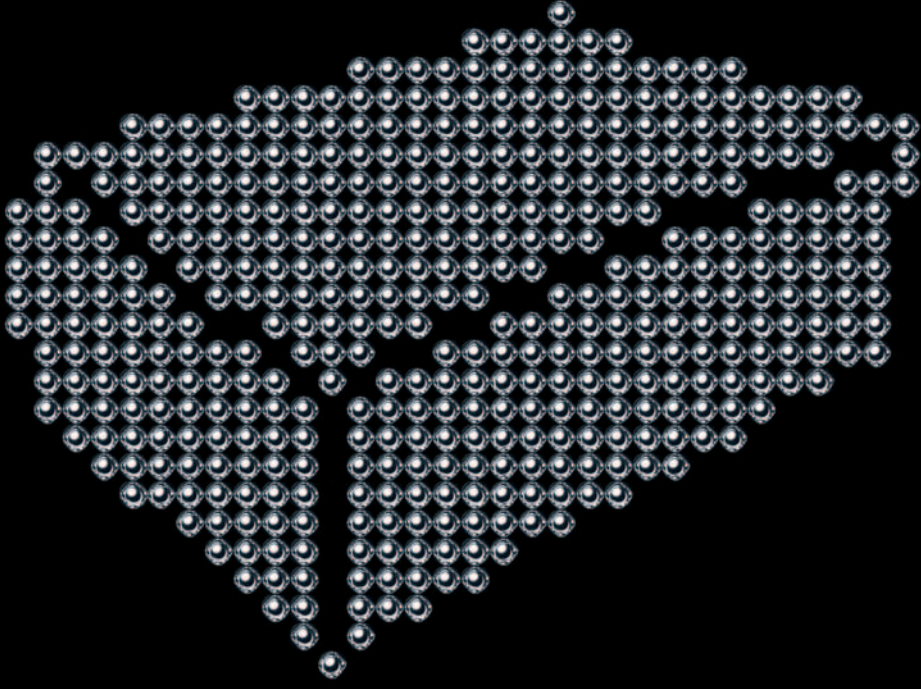
Management Board compensation has to be disclosed in the notes to the financial statements.

Explanations concerning the compensation system are given in the compensation report as a section within the management report, insofar as the compensation system contains elements relating to the recommendation outlined in Section 7.1.3. In the company's opinion, it would be inappropriate to present duplicate information in the corporate governance report.



"The future calls for new drive solutions. And we have lost no time in paving the way to these technologies of the future, for example with our cell contact systems and pressure equalization for lithium-ion batteries, which in the coming years will be used particularly in hybrid vehicles but also in purely electric cars." /// JAN GROSHERT,

Head of Development, E-Mobility division



E-MOBILITY

50%

hybrids

The reduction of fuel consumption and exhaust gas emissions are key issues in the automotive industry when it comes to developing new drive systems. In this area, the focus is on the electric motor, regardless of whether it is battery-powered or uses a fuel cell. Even if it is not yet completely clear which drive technology will prevail in the long term, one thing is sure: industry forecasts predict that more than 90% of new vehicle registrations in 2025 will still have an internal combustion engine. Nevertheless, the combination of a combustion engine and an electric motor is becoming increasingly important and is a technology that will bridge the gap to the new era of the automobile. More than half of new vehicles on the roads will then feature hybrid drive systems or hybrid components.



Cell contact system for lithium-ion batteries that provide electrical connection between individual cells and modules featuring integrated thermal and electronic monitoring

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Group Income Statement

of ElringKlinger AG, January 1 to December 31, 2011

	Note	2011 EUR k	2010 EUR k
Sales revenue	(1)	1,032,820	795,657
Cost of sales	(2)	- 744,166	- 557,016*
Gross profit		288,654	238,641*
Selling expenses	(3)	- 67,440	- 54,292
General and administrative expenses	(4)	- 43,365	- 33,660*
Research and development costs	(5)	- 49,916	- 40,598*
Other operating income	(6)	34,737	11,578
Other operating expenses	(7)	- 11,550	- 5,635
Operating result		151,120	116,034
Finance income		15,834	14,716
Finance costs		- 30,322	- 36,780
Net finance costs	(8)	- 14,488	- 22,064
Earnings before taxes		136,632	93,970
Income tax expense	(9)	- 39,040	- 25,359
Net income		97,592	68,611
of which: attributable to non-controlling interests	(20)	2,717	2,994
of which: attributable to shareholders of ElringKlinger AG	(20)	94,875	65,617
Basic and diluted earnings per share in EUR	(10)	1.50	1.11

* Prior-period figures adjusted; see disclosure in the consolidated notes

Group Statement of Comprehensive Income

of ElringKlinger AG, January 1 to December 31, 2011

	Note	2011 EUR k	2010 EUR k
Net income		97,592	68,611
Currency translation difference		6,538	30,845*
Actuarial losses from pension commitments, net after tax		- 4,208	- 2,902
Changes recognized directly in equity		2,330	27,943
Total comprehensive income		99,922	96,554
of which: attributable to non-controlling interests		3,505	3,533
of which: attributable to shareholders of ElringKlinger AG		96,417	93,021

* Prior-period figures adjusted; see disclosure in the consolidated notes

Group Statement of Financial Position

of ElringKlinger AG, as at December 31, 2011

	Note	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k	Jan. 1, 2010 EUR k
ASSETS				
Intangible assets	(11)	134,133	101,417*	91,419*
Property, plant and equipment	(12)	537,545	449,494	386,178
Investment property	(13)	13,071	26,094	27,400
Financial assets	(14)	2,621	1,547	1,610
Non-current income tax assets	(15)	3,355	3,409	4,323
Other non-current assets	(15)	1,730	1,758	782
Deferred tax assets	(9)	20,991	18,749	15,164
Non-current assets		713,446	602,468*	526,876*
Inventories	(16)	216,467	138,649	101,468
Trade receivables	(17)	187,279	138,195	106,761
Current income tax assets	(17)	1,539	1,658	2,387
Other current assets	(17)	33,706	9,175	9,264
Cash	(18)	65,153	101,190	25,580
Current assets		504,144	388,867	245,460
		1,217,590	991,335*	772,336*

* Prior-period figures adjusted; see disclosure in the consolidated notes

	Note	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k	Jan. 1, 2010 EUR k
LIABILITIES AND EQUITY				
Share capital		63,360	63,360	57,600
Capital reserves		118,238	118,238	2,747
Revenue reserves		376,847	304,148	250,051
Other reserves		22,208	21,204*	- 5,254*
Equity attributable to the shareholders of ElringKlinger AG	(19)	580,653	506,950*	305,144*
Non-controlling interest in equity	(20)	29,458	15,340	13,166
Equity		610,111	522,290*	318,310*
Provisions for pensions	(21)	79,132	66,645	61,837
Non-current provisions	(22)	7,402	10,378	6,015
Non-current financial liabilities	(23)	161,348	122,359	164,269
Deferred tax liabilities	(9)	44,900	34,686	31,633
Other non-current liabilities	(24)	21,069	34,313	37,356
Non-current liabilities		313,851	268,381	301,110
Current provisions	(22)	15,499	10,721	10,651
Trade payables	(24)	65,019	46,405	35,712
Current financial liabilities	(23)	126,145	76,876	56,234
Tax payable	(9)	18,546	10,440	9,051
Other current liabilities	(24)	68,419	56,222	41,268
Current liabilities		293,628	200,664	152,916
		1,217,590	991,335*	772,336*

* Prior-period figures adjusted; see disclosure in the consolidated notes

Group Statement of Changes in Equity

of ElringKlinger AG, January 1 to December 31, 2011

Note	Share Capital EUR k	Capital- reserve EUR k	Revenue reserves EUR k
	(19)	(30)	(30)
Balance as of Dec. 31, 2009/ Balance as of Jan. 1, 2010	57,600	2,747	250,051
Capital increase	5,760	115,491	
Dividend distribution			- 11,520
Purchase of shares in controlled entities			
Total comprehensive income			65,617
Net income			65,617
Changes recognized directly in equity			
Balance as of Dec. 31, 2010/ Balance as of Jan. 1, 2011	63,360	118,238	304,148
Capital increase			
Dividend distribution			- 22,176
Changes in scope of consolidated financial statements			
Purchase of shares in controlled entities			
Total comprehensive income			94,875
Net income			94,875
Changes recognized directly in equity			
Balance as of Dec. 31, 2011	63,360	118,238	376,847

Other reserves

Revenue reserves from SoRIE / OCI EUR k	Equity impact of controlling interests EUR k	Currency translation differences EUR k	IAS 8 adjustment EUR k	Equity attributable to the shareholders of ElringKlinger AG EUR k	Non-controlling interests in equity EUR k	Group equity EUR k
		(19)			(20)	
- 1,410	0	- 6,079	2,235	305,144	13,166	318,310
				121,251	27	121,278
				- 11,520	- 719	- 12,239
	- 946			- 946	- 667	- 1,613
- 2,845		22,527	7,722	93,021	3,533	96,554
65				,617	2,994	68,611
- 2,845		22,527	7,722	27,404	539	27,943
- 4,255	- 946	16,448	9,957	506,950	15,340	522,290
				0	5,548	5,548
				- 22,176	- 834	- 23,010
				0	5,915	5,915
	- 538			- 538	- 16	- 554
- 4,032		15,531	- 9,957	96,417	3,505	99,922
	94			,875	2,717	97,592
- 4,032		15,531	- 9,957	1,542	788	2,330
- 8,287	- 1,484	31,979	0	580,653	29,458	610,111

Group Statement of Cash Flows

of ElringKlinger AG, January 1 to December 31, 2011

	Note	2011 EUR k	2010 EUR k
Earnings before taxes		136,632	93,970
Depreciation/Amortization (less write-ups) of non-current assets	(11) - (14)	96,790	82,213
Net interest	(8)	12,069	12,746
Changes in provisions		- 8,145	2,059
Gains/losses on disposal of non-current assets		- 17,519	1,576
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		- 95,888	- 71,627*
Change in trade payables and other liabilities not resulting from financing and investing activities		- 17,281	26,183*
Income taxes paid	(9)	- 28,041	- 22,751
Interest paid		- 8,306	- 9,482
Interest received		67	259
Other non-cash expenses		4,090	11,020*
Net cash from operating activities		74,468	126,166
Proceeds from disposals of intangible assets and of property, plant and equipment and investment properties		36,501	6,088
Proceeds from disposals of financial assets		788	565
Payments for investments in intangible assets	(11)	- 8,956	- 6,987
Payments for investments in property, plant and equipment and investment properties	(12), (13)	- 112,653	- 127,339
Payments for investments in financial assets	(14)	- 728	- 470
Payments for the acquisition of subsidiaries, less cash		- 62,385	0
Net cash from investing activities		- 147,433	- 128,143
Proceeds from the issue of shares		0	121,278
Contributions from capital increases from minority shareholders		5,548	0
Payments to minorities for the purchase of shares		- 554	- 1,613
Dividends paid to shareholders and minorities		- 23,010	- 12,239
Change in current financial liabilities	(23)	51,684	- 11,693*
Additions to non-current financial liabilities	(23)	41,128	2,188
Repayment of non-current financial liabilities	(23)	- 39,386	- 23,950
Net cash from financing activities		35,410	73,971
Changes in cash		- 37,555	71,994
Effects of currency exchange rates on cash		1,518	3,616
Cash at beginning of period	(18)	101,190	25,580
Cash at end of period	(18)	65,153	101,190

* Prior-period figures adjusted; see disclosure in the consolidated notes



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General information

As parent company of the Group, ElringKlinger AG is filed in the commercial register at the local court of Stuttgart (Amtsgericht) under the number HRB 361242. The company is domiciled in Dettingen/Erms (Germany). The address is ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms. The articles of incorporation are dated October 6, 2010. The registered company name is ElringKlinger AG.

The financial year is the calendar year.

The object of ElringKlinger AG and its subsidiaries (the "ElringKlinger Group") is the development, manufacture and distribution of technical and chemical products, in particular of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. The Company also offers services relating to the technology used in its products. The corporate object also encompasses the administration and commercial exploitation of landed property.

Accounting principles

The consolidated financial statements of ElringKlinger AG as of December 31, 2011, have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the supplementary commercial law regulations pursuant to § 315 a (1) HGB. All IFRSs and IFRICs mandatory for the financial year 2011 have been observed.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are in thousand EUR (EUR k).

The income statement was prepared in accordance with the cost of sales method. In order to enhance the clarity of presentation, various items in the statement of financial position and in the income statement have been combined.

The following regulations and amendments to existing regulations became mandatory for the 2011 financial year for the first time, but did not impact the Group's assets, liabilities, financial position and profit or loss in 2011:

IAS 32 Financial Instruments: Presentation – Classification of rights issues

The revised version of IAS 32 clarifies that rights issues, options or warrants in a fixed number of treasury shares in a currency other than their functional currency must be recorded as equity so long as these are issued pro rata to all existing shareholders in the same class. The Amendment becomes mandatory for financial years beginning on or after February 1, 2010.

IFRS 1 First-time adoption of IFRS

The Amendments to IFRS 1 gives first-time adopters the same transition provisions that Amendments to IFRS 7 provides to current IFRS preparers. The Amendments take effect for financial years beginning on or after July 1, 2010.

IAS 24 Related party disclosures

The revised version of IAS 24 clarified the definitions of a related company and/or person and expanded the scope of reportable related-party transactions to include onerous transactions. Moreover, a provision simplifying disclosure requirements was introduced for entities controlled, jointly controlled or significantly influenced by the state. The revised Standard is effective for annual reporting periods beginning on or after January 1, 2011.

IFRIC 14 Prepayments of minimum funding requirements

The Amendment of IFRIC 14 is relevant in rare cases where an entity is subject to a minimum funding requirement and makes contribution prepayments in order to comply with the minimum funding requirements. The Amendment allows the entity to recognize the benefit from such a prepayment as an asset in these cases. The Amendment "Prepayments of minimum funding requirements" becomes mandatory on January 1, 2011.

IFRIC 19 Extinguishing financial liabilities with equity instruments

IFRIC 19 provides guidance for recognizing equity instruments that a debtor issues to extinguish all or part of a financial liability after renegotiating the conditions of that financial liability. The Interpretation takes effect for financial years beginning on or after July 1, 2010.

The following Standards, which have been approved but are not yet mandatory for the 2011 financial year, have not yet been applied by ElringKlinger:

IFRS 9 Financial instruments

The intent of IFRS 9 is to reduce the complexity of the present IAS 39, thus simplifying and rendering more transparent the recognition of financial instruments. For example, IFRS 9 will divide all financial assets into two recognition and measurement categories in the future: those measured at amortized costs and those measured at fair value. IFRS 9 becomes mandatory for financial years beginning on or after January 1, 2015.

IAS 27 Separate financial statements

IAS 27 was amended to "Separate financial statements" and now applies only to individual financial statements. The provisions regarding the definition of control previously contained in IAS 27 are now contained in IFRS 10 "Consolidated financial statements." As per the IASB, the revised version of IAS 27 becomes mandatory for financial years beginning on or after January 1, 2013.

IAS 28 Investments in associates and joint ventures

IAS 28 "Investments in associates and joint ventures" replaces the previous version "Investments in associates." The adoption of IFRS 11 and IFRS 12 expanded the scope of IAS 28 to include, in addition to associates, the users of the equity method in joint ventures. As per the IASB, IAS 28 becomes mandatory for financial years beginning on or after January 1, 2013.

IFRS 10 Consolidated financial statements

IFRSs 10, 11, and 12 set new standards for consolidated financial statements. As per the IASB, the new standards become mandatory for financial years beginning on or after January 1, 2013; IAS 27 "Consolidated and separate financial statements" must be applied for earlier reporting years. The objective of IFRS 10 is to define the term "control" for all entities uniformly. The Standard provides application guidance for this purpose.

IFRS 11 Joint arrangements

The Standard supersedes IAS 31 "Investments in joint ventures." IFRS 11 abolishes the previous option to use proportionate consolidation for joint ventures.

IFRS 12 Disclosure of interests in other entities

IFRS 12 is a summary of all disclosures which consolidated entities, equity interests, joint arrangements, associates, joint ventures, and non-consolidated structured entities must make in the notes. The new Standard has extensive disclosure requirements for non-consolidated structured entities in particular.

IFRS 13 Fair value measurement

IFRS 13 uniformly governs the fair value measurement for all IFRSs. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements. The application of this Standard is mandatory for financial years beginning on or after January 1, 2013.

IAS 19 Employee benefits

The Amendments to IAS 19 implemented new requirements for the accounting of employee benefits. The scope of the adjustments made spans from fundamental changes, such as the elimination of the corridor method, which served the purpose of smoothing volatilities from pension obligations over time, the definition and recognition of "termination benefits," and the calculation of expected income from plan assets to general clarifications and reformulations. The application of this Standard is mandatory for financial years beginning on or after January 1, 2013.

The following Standards, which have been approved but are not yet mandatory for the 2011 financial year, are not expected to have an impact on ElringKlinger:

IFRS 7 Financial instruments: disclosures

The Amendment to IFRS 7 expands the disclosure requirements when transferring financial assets. This affects, for example, the sale of trade receivables or asset backed securities transactions. The application of this Standard is mandatory for financial years beginning on or after July 1, 2011.

IFRS 1 Severe hyperinflation and removal of fixed dates for first-time adopters

On the one hand, the Amendment to the IFRS replaces the reference to a fixed transition date of '1 January 2004' with 'the date of transition to IFRSs'. On the other hand, the Amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity is unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The application of this Standard is mandatory for financial years beginning on or after July 1, 2011.

IAS 12 Deferred taxes: Recovering of underlying assets

The Amendment of IAS 12 implements a requirement simplifying the treatment of temporary tax differences associated with applying the fair value model from IAS 40. Accordingly, unless proven otherwise, it is assumed that, in principle, realizing the carrying amount through the sale is decisive for measuring the deferred taxes for investment property valued at the fair value. The application of this Standard is mandatory for financial years beginning on or after January 1, 2012.

IAS 1 Presentation of financial statements

IAS 1 has led to a change in how items are grouped in other comprehensive income. Thus, the items that could later be reclassified into the net income must be recorded separately from the items that are not reclassified. This provides the readers of the financial statements with an improved understanding of the effects of the individual items of the other comprehensive income on future net income. The application of this Standard is mandatory for financial years beginning on or after July 1, 2012.

IFRIC 20 Stripping costs in the production phase of a surface mine

IFRIC 20 governs the treatment of the costs that are incurred from the removal of overburden during the stripping operations of a surface mine.

IAS 32 Financial instruments: Offsetting financial assets and financial liabilities and IFRS 7 disclosures

The Amendments to IFRS 7 and IAS 32 were issued in December 2011 and become mandatory for the first time for the financial year beginning on or after January 1, 2013, and January 1, 2014, respectively. The Amendments are intended to address existing inconsistencies by providing supplementary guidance. However, the current underlying provisions for offsetting assets and financial liabilities will remain in force. The Amendment also defines supplementary disclosures. The Amendments will not affect the accounting policies applied by the Group, but will lead to additional disclosures.

IFRS 7 and IFRS 9 Mandatory effective date and transition disclosures

The IASB has published the amendment "Mandatory effective date and transition disclosures," which changes the effective date of IFRS 9 for financial years beginning on or after January 1, 2015. The requirements simplifying comparative figures and the associated disclosures in IFRS 7 were also amended. The amendments to IFRS 9 and IFRS 7 apply to financial years beginning on or after January 1, 2015 (subject to EU endorsement).

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2011, include the annual financial statements of seven (2010: 4) domestic and 26 (2010: 20) foreign subsidiaries in which ElringKlinger AG holds, either directly or indirectly, more than 50% of the shares or is able to control the entity's financial and business policy for other reasons (control relationship). Inclusion begins at the time the control relationship exists and ends when control is deemed to no longer exist.

The consolidated financial statements include two joint ventures, ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, and their two subsidiaries were proportionately consolidated in accordance with IAS 31. Under proportionate consolidation, all assets and liabilities, expenses and income of the joint venture are included in the consolidated financial statements in proportion to the shares held in the venture (50%).

The business activity of ElringKlinger Korea Co. Ltd. is the production and distribution of cylinder head gaskets, specialized gaskets and cam covers. ElringKlinger Marusan Corporation is engaged in the production and distribution of cam covers and cylinder head gaskets.

On the basis of the proportion held in joint ventures, the following amounts are attributable to the Group:

	2011 EUR k	2010 EUR k
Non-current assets	12,299	12,412
Current assets	27,466	23,954
Non-current liabilities	1,457	1,681
Current liabilities	8,954	8,599
Income	33,157	30,765
Expenses	31,670	29,257

An overview of the 33 entities included and the four joint ventures is provided on the following page.

Schedule of Shareholdings and Scope of Consolidation

as at December 31, 2011

Name of company	Domicile	Capital share in %
Parent company		
ElringKlinger AG ¹	Dettingen /Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Domestic		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg /Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	74.50
Hug Engineering GmbH ²	Magdeburg	66.67
Hummel-Formen GmbH	Lenningen	90.00
Hummel-Formen Kunststofftechnik GmbH ³	Lenningen	90.00
Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Hug Engineering AG	Elsau (Switzerland)	66.67
Elring Klinger (Great Britain) Ltd.	Redcar (United Kingdom)	100.00
Oigra Meillor s.r.l.	Settimo Torinese (Italy)	100.00
Hug Engineering S.p.A. ²	Milan (Italy)	33.42
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (United Kingdom)	90.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
Codinox Beheer B.V. ²	Enschede (Netherlands)	6.67
HURO Supermold S.R.L. ³	Timisoara (Rumania)	76.50
HURO Invest S.R.L. ³	Timisoara (Rumania)	90.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger North America, Inc.	Plymouth, Michigan (USA)	100.00
Elring of North America, Inc.	Branchburg, New Jersey (USA)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
Hug Engineering Inc. ²	Austin (USA)	66.67
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
Elring Gaskets (Pty) Ltd.	Johannesburg (South Africa)	51.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd. ⁴	Qingdao (China)	74.50
Shares in joint ventures (included in the financial statements using proportionate consolidation)		
Foreign		
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	50.00
ElringKlinger Marusan Corporation	Tokyo (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd. ⁵	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd. ⁵	Tokyo (Japan)	23.45

¹ ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of consolidated subsidiaries

² Subsidiary of HUG Engineering AG

³ Subsidiary of Hummel-Formen GmbH

⁴ Subsidiary of ElringKlinger Kunststofftechnik GmbH

⁵ Subsidiary of ElringKlinger Marusan Corporation

Acquisition of non-controlling interests

On October 17, 2011, ElringKlinger AG acquired a 10% interest in ElringKlinger TR Otomotiv Sanayi ve Ticaret A.S., previously held by minority shareholders, increasing ElringKlinger's interest to 100%. The acquisition price amounted to EUR 400 k. The incidental costs totaled EUR 38 k; these were included in administrative expenses. Following the release of outstanding deposits, the remaining amount of EUR 319 k was recognized directly in equity.

Acquisitions of companies

Freudenberg

With effect from January 1, 2011, ElringKlinger AG completed its acquisition of the static flat seals business line from Freudenberg & Co. KG, Weinheim, Germany. The acquisition included 100% of shares in Burgmann Automotive GmbH, Eurasburg, Germany, and Oigra Meillor s.r.l., Turin, Italy, and the unit of static flat seals of Freudenberg-Meillor S.A.S., Nantiat, France, which were consolidated under the newly formed Metallic Gastkets Nantiat S.A.S., Nantiat, France. The company was renamed ElringKlinger Meillor S.A.S. in 2011. In the course of the acquisition, Burgmann Automotive GmbH was merged with ElringKlinger AG with retroactive effect from January 1, 2011. A parcel of land and multiple patents were acquired in addition to the three companies.

A purchase price of EUR 34,488 k was agreed for the acquisition of the company. The incidental costs of acquiring the company amounted to EUR 435 k as of the end of the reporting period; these were recognized as administrative expenses.

The goodwill (EUR 5,152 k) resulting from the acquisition was paid primarily for the positive earnings prospects and the anticipated synergies from the integration into the ElringKlinger Group.

The acquisition of the three entities contributed EUR 52,967 k to the revenue of the ElringKlinger Group in 2011 and reduced earnings before taxes by EUR 2,468 k.

It is not anticipated that a portion of the recognized goodwill will be deductible for income tax purposes.

As of the acquisition date, the acquisition had the following impact on the assets and liabilities of the Group:

	Fair value EUR k
Intangible assets	2,227
Property, plant and equipment	26,505
Deferred tax assets	2,329
Inventories	8,022
Trade receivables	10,936
Other assets	1,515
Cash	51
Provisions	-7,291
Deferred tax liabilities	-817
Other liabilities	-14,141
Net assets	29,336
Goodwill	5,152
Purchase price	34,488

No contingent liabilities were identified in the course of the acquisition.

Valuation allowances of EUR 6 k were taken for trade receivables.

Hug Group

With effect from May 1, 2011, ElringKlinger AG acquired 66.67% of the shares in Hug Holding AG, Elsau, Switzerland. This company was renamed Hug Engineering AG in 2011. Hug's core business is developing, engineering, and producing exhaust abatement systems for catalytic exhaust after treatment and diesel particulate filters for stationary and mobile applications.

A purchase price of CHF 21,667 k (EUR 16,835 k) was agreed for the acquisition of the company. The incidental costs of acquiring the company amounted to EUR 154 k as of the end of the reporting period; these were recognized as administrative expenses. Furthermore, in the context of the purchase agreement, a capital increase of CHF 20,000 k (EUR 15,540 k) had been agreed, and ElringKlinger AG had assumed CHF 13,333 k (EUR 10,360 k) of that amount. There was a liability of EUR 1,817 k stemming from the acquisition price as of December 31, 2011.

The goodwill (EUR 5,398 k) resulting from the acquisition was paid primarily for the positive earnings prospects.

The acquisition contributed EUR 29,053 k to the revenue of the ElringKlinger Group in 2011 and reduced the earnings before taxes by EUR 2,404 k.

Had the acquisition already been completed as of January 1, 2011, the management estimates that the consolidated revenue would be EUR 40,000 k and that the consolidated earnings before taxes would be EUR - 3,500 k.

It is not anticipated that a portion of the recognized goodwill will be deductible for income tax purposes.

As of the acquisition date, the acquisition had the following impact on the assets and liabilities of the Group:

	Fair value EUR k
Intangible assets	7,578
Property, plant and equipment	25,788
Financial assets	214
Deferred tax assets	1,933
Inventories	16,041
Trade receivables	7,347
Other assets	2,742
Cash	2,116
Provisions	- 3,571
Deferred tax liabilities	- 3,690
Liabilities	- 39,074
Net assets	17,424
Non-controlling interests	- 5,987
Goodwill	5,398
Purchase price	16,835

No contingent liabilities were identified in the course of the acquisition.

The fair value of trade receivables amounted to EUR 7,347 k. The gross amount of the trade receivables due amounted to EUR 7,759 k, of which it is anticipated that EUR 412 k will not be collected.

Hummel-Formen

With effect from October 1, 2011, ElringKlinger AG assumed legal ownership of 90% of the shares in the Hummel-Formen Group, which is domiciled in Lenningen, Germany. Due to contractual arrangements, 100% of the shares were already attributable to ElringKlinger AG. A liability with a fair value of EUR 1,576 k was recognized on October 1, 2011 for the acquisition of the remaining 10%. The liability is measured at amortized cost using the effective interest method, and amounted to EUR 1,580 k as of December 31, 2011. In addition to Hummel-Formen GmbH and Hummel-Formen Kunststofftechnik GmbH, two subsidiaries in Romania also belong to the Hummel-Formen Group. The acquisition enabled ElringKlinger to bolster its expertise with regard to tooling technology and expand its know-how in the field of lightweight engineering, particularly with respect to processing fiber-reinforced composites.

A purchase price of EUR 17,720 k was agreed for the acquisition of the company (100%). The incidental costs of acquiring the company amounted to EUR 143 k as of the end of the reporting period; these were recognized as administrative expenses.

The acquisition contributed EUR 1,582 k to the revenue of the ElringKlinger Group in 2011 and reduced the earnings before taxes by EUR 122 k.

Had the acquisition already been completed as of January 1, 2011, the management estimates that the consolidated revenue would be EUR 13,500 k and that the consolidated earnings before taxes would be EUR 550 k.

Valuation allowances of EUR 23 k were taken for trade receivables.

It is not anticipated that a portion of the recognized goodwill will be deductible for income tax purposes.

As of the transaction date, the acquisition had the following effects on the assets and liabilities of the Group:

	Fair value EUR k
Intangible assets	1,503
Property, plant and equipment	15,455
Financial assets	928
Deferred tax assets	106
Inventories	3,907
Trade receivables	2,010
Other assets	1,947
Cash	140
Provisions	- 1,778
Deferred tax liabilities	- 2,066
Liabilities	- 12,771
Net assets	9,381
Non-controlling interests	71
Goodwill	8,268
Purchase price	17,720

No contingent liabilities were identified in the course of the acquisition.

Disposals

With effect from September 30, 2011, ElringKlinger AG sold the land and buildings of the Ludwigsburg industrial park for EUR 34.0 million. The carrying amount at the date of the sale amounted to EUR 11.3 million. The realized earnings before taxes of EUR 22.7 million are recognized in the group income statement under other operating income and are allocated to the Industrial Parks segment. ElringKlinger AG sold the industrial park in order to sharpen its focus on its core business.

Adjustment of accounting policies and changes in estimates

After reviewing how expenses are allocated to the function costs, ElringKlinger adjusted the previous year's cost of sales, development costs and administrative costs in the income statement. The proper allocation of expenses increased the cost of sales by EUR 890 k and administrative costs

by EUR 2,218 k, and reduced development costs accordingly. The adjustment did not affect any other figures, in particular net income.

In previous years, the goodwill of three foreign subsidiaries was erroneously not translated at the closing rate as pursuant to IAS 21.47. The foreign currency translation was conducted as of December 31, 2011 in accordance with IAS 8.41 and retroactively adjusted. This led to an increase in goodwill, equity, and comprehensive income. The adjustment is recorded as a separate line item in the statement of changes in equity as of January 1, 2010. This resulted in an adjustment of the following items in the statement of financial position:

	Dec. 31, 2010 EUR k	Jan. 1, 2010 EUR k
Goodwill	9,957	2,235
Other reserves	9,957	2,235
Equity attributable to the shareholders of ElringKlinger AG	9,957	2,235

No other disclosures were affected by the adjustment to the statement of financial position.

The adjustment of the measurement did not affect the basic and diluted earnings per share.

In accordance with IAS 7.20(b), unrealized currency effects erroneously recognized as from financing activities in the group statement of cash flows are now recognized as from operating activities. This resulted in a EUR 10,011 k increase in cash flows from operating activities in 2010. Prior-year figures have been adjusted for improved comparability.

In the previous year, the provisions for onerous contracts were determined on the basis of the three year plan. For financial year 2011 and in future, the order backlog at the end of the year will continue to be used as a basis for determining the need for provisions for onerous contracts. Basing the calculation on the three-year plan would result in an additional notional obligation of EUR 6,048 k.

In the majority of cases, customers acquire the beneficial ownership of tools on account of the changed interpretation of supply agreements. This means that the requirement that the tools concerned are capitalized in long-term assets no longer applies. The tools are recognized under inventories until the transfer of beneficial ownership.

Summary of the principal accounting and measurement methods

The consolidated financial statements were prepared on the basis of historical acquisition and manufacturing costs with the exception of assets and liabilities for which measurement at fair value is mandatory in accordance with IFRS.

The fundamental accounting and measurement methods applied in preparing the consolidated financial statements are described below:

Consolidation methods

Assets and liabilities of the domestic and foreign companies included in the consolidated financial statements are recognized and measured according to the accounting policies that apply uniformly across the ElringKlinger Group.

Upon acquisition of a company, the assets and liabilities of the subsidiaries acquired are measured at their fair value at the time of acquisition. If the purchase price of the interest exceeds the identified assets and liabilities to be measured at fair value, the excess is capitalized as goodwill. If the difference is negative, the identifiable assets and liabilities are remeasured, as are the acquisition costs. Any remaining negative difference is recorded in income.

Under the subsequent consolidation in accordance with the corresponding assets and liabilities, realized hidden reserves and built-in losses are adjusted, written off or released. Capitalized goodwill is not amortized, but is subject to annual impairment testing in accordance with IFRS 3.

If additional shares of an already fully consolidated subsidiary are acquired, the difference between the purchase price and non-controlling interests is recognized in equity.

The minority interest held by shareholders outside the Group must be shown as a separate line item under group equity.

Results for subsidiaries acquired or sold in the course of the year are included in the group income statement from the effective time of acquisition or until the effective time of divestment.

The financial year of all companies included, except for that of the Indian subsidiary, corresponds to the financial year of the parent company. In case of differing reporting dates, interim financial statements are prepared as of the reporting date of the parent company.

All receivables, liabilities, sales revenues, other income and expenses within the scope of consolidation are eliminated. Accumulated results from intergroup supplies of inventories are eliminated from inventories or non-current assets.

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

Foreign currency transactions are translated in the individual financial statements of ElringKlinger AG and its consolidated companies at the rates current as of the transaction date. As of the end of the reporting period, assets and liabilities in foreign currency are measured at the closing rate. Differences arising on translation are recorded in income.

The financial statements of the foreign companies are translated into euros since this is the functional currency of the parent company. Since subsidiaries and joint ventures operate their businesses independently in financial, economic and organizational respects, the functional currency is identical to the relevant national currency of the company. For reasons of simplification, the expenses and income from financial statements of entities included in the consolidated financial statements which were originally prepared in foreign currencies are translated at the average rate for the year. The average rate for the year is calculated on the basis of daily rates. Assets and liabilities are translated at the closing rate. Currency differences are reported as separate items in equity with no effect

on net income. In the event of a disposal of a consolidated entity, accumulated currency differences are recorded as part of the sales profit or loss.

The rates used for currency translation are shown in the table below:

Currency	Abbr.	Closing rate Dec. 31, 2011	Closing rate Dec. 31, 2010	Average exchange rate 2011	Average exchange rate 2010
US dollar (USA)	USD	1.29320	1.33800	1.39887	1.32091
Pound (United Kingdom)	GBP	0.83670	0.86250	0.87124	0.85601
Franc (Switzerland)	CHF	1.21650	1.25250	1.23198	1.36998
Canadian dollar (Canada)	CAD	1.31920	1.33700	1.38082	1.36522
Real (Brazil)	BRL	2.41370	2.22110	2.33703	2.32703
Peso (Mexico)	MXN	18.07250	16.59260	17.43407	16.69878
RMB (China)	CNY	8.14350	8.82050	9.02397	8.92888
WON (South Korea)	KRW	1,499.59000	1,500.89000	1,542.59167	1,528.50083
Rand (South Africa)	ZAR	10.47630	8.88490	10.15627	9.65535
Yen (Japan)	JPY	100.07000	108.80000	111.32833	115.29333
Forint (Hungary)	HUF	312.82000	277.84000	280.84250	276.38500
Turkish lira	TRY	2.44600	2.06610	2.35696	1.99815
Leu (Romania)	RON	4.33090	4.28370	4.23938	4.21751
Indian rupee	INR	68.58550	59.82760	65.47647	60.23459

Accounting policies

Goodwill

The goodwill is attributable to cash-generating units (segments) as follows:

	2011 EUR k	2010 EUR k
Original Equipment	98,841	78,511*
Engineered Plastics	4,816	4,816
Aftermarket	1,658	1,604
Total	105,315	84,931

*Prior-year figures adjusted.

Goodwill is capitalized and subjected to impairment testing on an annual basis. If the value is no longer recoverable, impairment is recorded. Otherwise, the valuation of the prior year is retained. Impairment of goodwill is not reversed, even if the impairment has ceased to apply.

ElringKlinger conducts an impairment test of goodwill at least once annually. Regular annual impairment testing of goodwill is performed as of the closing date on December 31. During impairment tests, the recoverable amount of the cash-generating unit is compared to its carrying amount. The value in use that is applied is the recoverable amount.

The values in use of the cash generating units are determined by discounting future cash flows. This calculation is based on the following key assumptions:

A detailed plan of the cash flows for the cash generating units is established over the forecast period of five years. Subsequent periods are accounted for by a perpetual annuity determined on the basis of the average for the years 2012 to 2016.

The plan is based on expected future market developments taking into consideration the business development thus far. The material assumptions relate to the development of revenue and earnings after taxes.

The discount factor applied as of December 31, 2011 was the weighted average cost of capital (WACC) before taxes of 10.58% (2010: 11.06%). The WACC is determined on the basis of the basic interest rate for risk-free bonds (20-year industrial bonds), the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread as a premium over the risk-free rate was derived from a rating of a peer group.

As in the previous year, the discount rate was used without applying a growth discount to determine the terminal value.

The impairment test performed as of December 31, 2011 did not result in the impairment of goodwill. If a capital cost rate is assumed to be 1% higher or lower, this does not result in a goodwill impairment.

Goodwill from business combinations prior to April 1, 2004 is mainly capitalized and otherwise offset against reserves. Upon divestment of a consolidated company, any goodwill related to it is included in calculating the deconsolidation result. The goodwill that was offset against reserves, however, is not considered in determining the profit or loss made on the divestment.

Intangible assets

Purchased intangible assets, mainly patents, licenses and software, are recognized at cost.

Internally generated intangible assets, with the exception of goodwill, are capitalized if it is sufficiently probable that use of the asset is associated with a future economic benefit, the costs of the asset can be determined reliably, and the technical and economic feasibility along with the ability and intent to market it are ensured. The manufacturing costs of internally generated intangible assets are determined on the basis of directly attributable individual costs as well as their proportion of directly attributable overheads.

With the exception of goodwill, all intangible assets in the Group have determinable useful lives and are amortized over these useful lives using the straight-line method. Patents, licenses and software generally have useful lives of 10 years. Capitalized development costs and basic standard software have useful lives of 5 years. If the actual useful life is materially longer or shorter than 10 or 5 years, this actual useful life is recognized.

Property, plant and equipment

Tangible assets used in business operations for a period longer than one year are measured as property, plant and equipment at cost less scheduled straight-line depreciation in accordance with their use as well as any necessary impairment. The manufacturing cost of self-constructed property, plant and equipment is determined on the basis of directly attributable individual costs and their proportion of overhead cost. The allowable alternative of revaluation is not applied.

Depreciation is calculated throughout the Group based on the following useful lives:

Category of property, plant and equipment	Years
Buildings	15 to 40
Plant and machinery	12 to 15
Special tooling	3
Operating and office equipment	5 to 15

The useful lives and the depreciation methods and residual carrying amounts are reviewed periodically in order to ensure that the depreciation method and period are consistent with the expected useful lives.

Investment property

Investment property is measured at cost less straight-line depreciation. It is reported separately under non-current assets.

The useful lives of investment property are 40 years in the case of buildings and 20 years in the case of external facilities.

Impairment of property, plant and equipment and of intangible assets other than goodwill

Pursuant to IAS 36, property, plant and equipment and intangible assets are subjected to impairment testing at the end of each reporting period if evidence of impairment exists. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized against the recoverable amount. The recoverable amount is the larger of the following two amounts: Net realizable value less anticipated costs to sell or the value in use. If the recoverable amount for an individual asset cannot be determined, an estimate of the recoverable amount is made at the next higher level cash generating unit.

In the event that the recoverable amount exceeds the carrying amount in subsequent periods, a reversal is recognized up to, at most, depreciated cost.

Impairments and reversals are recorded in income.

Financial instruments

Under IAS 39, a financial instrument is a contract that constitutes a financial asset for one entity and a financial liability for another entity, or an equity instrument.

Original financial instruments

Financial instruments held within the Group are divided into the following categories:

- Financial assets measured at fair value through profit or loss
- Financial liabilities measured at fair value through profit or loss
- Loans and receivables
- Financial instruments available for sale
- Financial investments held to maturity
- Other financial liabilities that are measured by the effective interest rate method at amortized cost.

At their acquisition date, financial instruments are categorized on the basis of their intended use. Financial assets include cash, trade receivables and other loans and receivables and derivative financial assets held for trading.

Financial liabilities include trade payables, bank debt, derivative financial liabilities held for trading and other financial liabilities.

Financial assets

Derivatives are recorded in the statement of financial position on the day of the trade and all usual purchases and sales of financial assets are recorded in the statement of financial position on the exercise date, i.e., on the day that the Group has entered the obligation to purchase or to sell an asset.

Upon initial recognition, financial assets are measured at fair value. In the case of all financial investments that are not classified as "measured at fair value through profit or loss," transaction costs directly attributable to the purchase are included.

Financial assets that are not classified as "fair value through profit or loss" are reviewed for impairment at the end of each reporting period. If the fair value of the financial asset is lower than its carrying amount, the carrying amount is written down to its fair value. This reduction represents an impairment loss and is recognized as an expense. Any impairment previously recognized as an expense is reversed and credited to the income statement if warranted by events occurring after the original recognition of the impairment.

Changes to the fair value of financial assets classified as available for sale are recognized in equity after taking deferred taxes into account. Any arising foreign exchange gains or losses are recognized through profit or loss.

The fair values recognized in the statement of financial position generally correspond to the market prices of the financial instruments. If market prices are not available, the fair values are calculated using recognized measurement models and with recourse to current market parameters. The measurement methods include using the most recent transactions between knowledgeable, willing and independent business partners (i.e., at arm's length), comparison with a current fair value of another, substantially identical, financial instrument and the analysis of discounted cash flows.

A financial asset is derecognized if the contractual rights to receive cash flows from this financial asset have expired or have been transferred. In the framework of the transfer, all significant risks and rewards connected with ownership of the financial asset or the power of control over the asset must be transferred.

Financial assets acquired for the purpose of sale in the near future (financial instruments held for trading) are **recognized at their fair value through profit or loss**. Within the ElringKlinger Group, these are derivatives which do not meet the prerequisites for hedge accounting.

Financial assets resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as **loans and receivables**. Current assets and liabilities

classified in this category are measured at acquisition cost, whereas the non-current financial assets and liabilities are measured at amortized cost in accordance with the effective interest method.

Cash includes cash in hand, bank deposits and short-term deposits with an original term of less than three months. This item is measured at amortized cost.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables based on the creditworthiness of the customer concerned. Within the ElringKlinger Group, an allowance for trade receivables is recognized for individual risks identified. Impairments of trade receivables are initially recognized in an adjustments account. The impaired receivable is retired when it is considered unrecoverable.

Financial instruments are recorded in the category **“financial investments held to maturity”** when the Group has the intent and the legal ability to hold them until maturity.

The assets categorized as **available for sale** relate to securities measured at fair values.

Financial liabilities

Financial liabilities comprise, in particular, trade payables, bank debt, derivative financial liabilities and other liabilities.

Upon initial recognition, financial liabilities are measured according to fair value less any transaction costs directly attributable to borrowing.

Financial liabilities are retired when the liability on which the obligation is based is settled, terminated or has expired.

At ElringKlinger, financial liabilities **measured at amortized cost** include trade payables and interest-bearing loans. They are measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liability is retired or has been redeemed.

Financial liabilities measured at fair value through profit or loss comprise the financial liabilities held for trading purposes, in this case, derivatives, including any embedded derivatives that have been separated from the host contract, if applicable, since these do not qualify for hedge accounting as a hedging instrument. Gains or losses are recognized in the income statement.

Derivative financial instruments and treatment of hedges

Under IAS 39, all derivative financial instruments such as currency, price and interest swaps as well as forward exchange transactions, must be recognized at market values, independent of the purpose or the intent of the agreement under which they were concluded. Since no hedge accounting is applied in the ElringKlinger Group, the changes in the fair value of the derivative financial instruments are always recognized in profit or loss.

Derivative financial instruments used in the ElringKlinger Group are forward exchange, interest and price hedge transactions. The purpose of derivative financial instruments is to reduce the negative effects of currency, interest and price risks on the assets, liabilities, financial position and profit or loss of the Group. There were two interest rate swaps and two nickel hedging contracts as of the end of the reporting period.

Inventories

Inventories are recognized at cost or the lower net realizable value. Raw materials, supplies and consumables as well as merchandise are measured at the average adjusted cost. Manufacturing cost of work in progress and finished goods are determined on the basis of directly attributable individual costs and their proportion of production overheads. The proportion of overhead cost attributable to these products is determined on the basis of normal staffing levels. Manufacturing cost does not include distribution cost and borrowing cost. General administrative overheads are included in manufacturing cost if related to production. Net realizable value represents the estimated sales price less all estimated costs through completion as well as the cost of marketing, sale and distribution. Markdowns are made for detectable impairment due to lack of marketability and quality defects, and to account for declining sales prices.

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

Cash

Cash includes cash in hand, checks and bank deposits available on demand. No cash equivalents are held. Cash is recognized at amortized cost.

Provisions for pensions

Provisions for pensions are calculated on the basis of the projected unit credit method in accordance with IAS 19. When measuring pension provisions, in addition to the pensions and vested benefits known at the end of the reporting period, expected future increases in pensions and salaries are taken into account with a prudent estimate of the relevant variables and biometric assumptions.

Actuarial gains and losses resulting from the difference between the expected and actual accounting changes in headcount, as well as differences arising from changes to accounting assumptions, are recognized in full in the period in which they occur. Recognition of these actuarial gains and losses is not on the income statement but rather under comprehensive income or loss on the statement of group equity.

In determining the discount interest rates, the company is guided by the interest rates observed in capital markets for corporate bonds with matching maturities and first class credit ratings (AA rating or better) with similar terms.

Provisions

Provisions are recorded when a past event gives rise to a present obligation to a third party, utilization of the obligation is probable and the anticipated amount of the obligation can be estimated reliably.

The measurement of these provisions is at the present best estimate of the expenses necessary to fulfill the obligation. If appropriate, the amount of the provision corresponds to the present value of the expenditures expected to be necessary to meet the obligations. Refund claims are capitalized separately, if applicable.

Leases

In lease relationships in which the Group is the lessee, beneficial ownership of the leased items is attributed to the lessee in accordance with IAS 17 to the extent that the lessee bears all risks and rewards associated with ownership of the leased item (finance leases). The depreciation methods and useful lives correspond to those of comparable purchased assets. The leased object is capitalized at the time the contract is concluded at its fair value or, if lower, at the present net value of the future minimum lease payments. Initial direct costs are accounted for as part of the asset. The lease obligations which correspond to the carrying amount of the leased object are shown under financial liabilities.

If beneficial ownership under a lease rests with the lessor (operating leases), the lessor recognizes the leased object on its statement of financial position. The lease expenditures incurred are then recorded as expenses over the term of the lease using the straight-line method.

Recognition of income and expense

Sales revenues are measured at the fair value of the consideration received or to be received and represent the amounts that are to be obtained for goods and services in the normal course of business. The revenues are shown net of sales deductions, discounts and value added taxes.

Sales revenues are recorded when the performances due have been rendered and the principal risks and rewards have passed to the purchaser and receipt of the payment can be reliably expected.

Interest income is recognized on an accrual basis, taking into account the outstanding loan amount and the applicable interest rate. The applicable interest rate is specified in the loan agreement and discounts the estimated future inflows of funds over the term of the financial asset to the net carrying amount.

Income from services is recognized as soon as the services are rendered.

Dividend income from financial investments is recorded at the time the payment claim arises.

Other income is recognized on an accrual basis in accordance with the substance of the underlying contract.

Operating expenses are recorded in the income statement on the basis of a direct relationship between costs incurred and the corresponding income at the time of performance or at the time of origination.

Research and development costs

Research costs are expensed at the time they are incurred. Development costs are also recognized at the time they are incurred unless they meet the criteria for capitalization as internally generated intangible assets under IAS 38.57.

- It must be possible to reliably determine development costs.
- Technical and economical feasibility have been achieved, as well as commercial viability.
- There must be sufficient probability that development activities will provide a future economic benefit to the company.

Capitalized costs are included under intangible assets. Other development costs are recognized as an expense when incurred.

Government grants

The Group receives government grants primarily for development projects. These are recorded in income in the period when they are received and reported as other operating income, since the expenses have already been incurred.

Borrowing costs

Borrowing costs directly associated with the acquisition, construction, or production of qualifying assets are added to the production costs of these assets until the period in which the assets are largely available for their intended use or for their sale. Interest not capitalized pursuant to IAS 23 is recognized on an accrual basis as expense or income using the effective interest method. The actual borrowing costs are capitalized if a financing loan can be definitively assigned to a specific investment. Unless a direct relationship can be established, the Group's average interest rate for borrowed capital for the current period is used. The Group's average interest rate for borrowed capital for the 2011 financial year amounted to 4.25% (2010: 4.98%).

Income taxes and deferred taxes

The income tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is determined on the basis of the taxable income for the relevant year. Taxable income differs from net income for the year as shown in the income statement, since it excludes expenses and income which will be tax deductible in earlier or later years or those which will never become taxable or tax deductible. The liability of the Group for current tax expense is calculated on the basis of applicable tax rates or tax rates established by law as of the end of the reporting period.

Deferred taxes are the expected tax charges and benefits from the differences in the carrying amounts of assets and debts in the tax base of the individual companies compared with the valuations

in the consolidated financial statements under IFRS. The balance sheet liability method is applied. Such assets and liabilities are not recognized if the temporary difference is the result of (i) goodwill arising from a purchase of interests (a share deal) or (ii) from the first-time recognition of other assets and debts resulting from occurrences that do not affect the taxable income or the net income for the year. Deferred taxes are recorded on all taxable temporary differences when it is probable that taxable profits will be available against which the deductible temporary differences can be offset. Otherwise, deferred tax assets are recognized on loss carryforwards to the extent that their future use may be anticipated.

The carrying amount of the deferred tax assets is examined each year at the end of the reporting period and is reduced if it is no longer likely that sufficient taxable income will be available.

Deferred taxes are measured at the future tax rates, i.e., those that are expected to apply at the time of realization.

Changes in deferred tax assets are recognized in the income statement as tax income or expense unless they relate directly to items recognized under equity with no effect on income; in that case, deferred taxes are also reported under equity with no effect on income.

Contingent liabilities and contingent assets

No contingent liabilities are recognized. Unless the possibility of an outflow of resources with economic benefit is remote, they are disclosed in the notes. Contingent assets are not recognized in the financial statements. If the inflow of economic benefits is probable, they are disclosed in the notes.

Use of estimates

Financial statements are prepared in accordance with the pronouncements of the IASB using estimates which influence valuations of items on the statement of financial position, the nature and the scope of contingent debts and contingent receivables as of the end of the reporting period and the amounts of income and expenses in the reporting period. At ElringKlinger, the assumptions and estimates relate mainly to the specification of useful lives, the recoverability of receivables, the recoverability of inventories, the recognition and measurement of provisions, the measurement of goodwill and the realization of future tax benefits. Actual results may deviate from these estimates. Changes are recognized through profit or loss at the time better insights are available.

Warranty obligations may arise by force of law, by contract or for policy reasons. Provisions are recognized for the expected claims arising from warranty obligations. A claim may be expected especially if the warranty period has not yet expired, if warranty expenses have been incurred in the past, or if there is concrete evidence of warranty incidents are imminent. The warranty risk is determined on the basis of the circumstances from individual estimates or from past experience, and appropriate provisions are recognized.

The use of estimates for other items in the group statement of financial position and the group income statement are described in the accounting principles for the respective items. This affects in

particular to the matters: Impairments of goodwill, impairments of property, plant and equipment, impairment of receivables and the valuation of pension provisions.

Risks and uncertainties

According to current estimates, the risks for 2012 stem primarily from the development of automotive sales in western Europe. Consumer behavior would also be negatively impacted if the sovereign debt crisis were to flare up again. In particular in the European periphery states there exists the risk that automotive sales would decrease significantly in short order. However, the potential high, single-digit decline in the demand for vehicles in western Europe should be offset globally by increasing demand in North America and Asia.

Nevertheless, on the whole, a strong decline in the worldwide production of vehicles is currently not foreseeable. A scenario comparable with the situation in 2008/2009 can be considered unlikely.

The dynamic recovery in the worldwide production of vehicles in 2010 and 2011 translated to a significant improvement in the earnings situation for nearly all customers of the ElringKlinger Group. In this respect, the risk of bad debt losses has further decreased on the side of customers.

The price trend for materials and the availability of materials could negatively affect the Group's earnings in 2012. This general risk could not be accounted for in the consolidated financial statements as it is neither quantifiable nor appreciable at the moment.

Provisions are recognized for risks arising from litigation if an entity of the ElringKlinger Group is the defendant and the weight of evidence supports a negative outcome. The provision is recognized in the amount that the entity will probably lose in the case of a negative outcome. This amount includes any payments to be made by the entity such as compensation or severance pay and the expected costs of the lawsuit. In litigation in which the entity itself is the plaintiff, provisions are set up for the cost of the lawsuit only.

Individual disclosures on the Group Income Statement

Sales revenues

Sales revenues increased by EUR 237,163 k in comparison with 2010 to reach EUR 1,032,820 k.

Sales revenues of the Group are made up as follows:

	2011 EUR k	2010 EUR k
Sale of goods	1,020,613	783,527
Proceeds from the rendering of services	5,586	4,324
Income from rental and leasehold	6,621	7,806
Total	1,032,820	795,657

Breakdown by geographical markets:

	2011 EUR k	2010 EUR k
Domestic	319,298	245,620
Foreign	713,522	550,037
Total	1,032,820	795,657

Cost of sales

The cost of sales shows the costs incurred to obtain the sales revenues.

Cost of sales includes:

	2011 EUR k	2010 EUR k
Cost of materials	423,655	307,968*
Personnel expenses	173,011	132,767
Depreciation and amortization	74,422	63,401
Other expenses	73,078	52,880
Total	744,166	557,016

*Prior-year figures adjusted

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Selling expenses

Selling expenses increased by EUR 13,148 k compared to 2010 to reach EUR 67,440 k. Selling expenses mainly include personnel expenses, material and marketing costs, as well as amortization and depreciation related to sales activities.

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General and administrative expenses

General and administrative expenses include personnel expenses and material costs as well as the amortization and depreciation related to the administrative area. General and administrative expenses rose by EUR 9,705 k compared to 2010 to reach EUR 43,365 k.

5

Research and development expenses

Research and development expenses include the personnel expenses, depreciation and amortization attributable to these activities, as well as the cost of experimental materials and tools, unless these development costs are required to be capitalized under the conditions set forth in IAS 38.57. Development costs in the amount of EUR 6,725 k were capitalized in the 2011 financial year. Amortization of capitalized development costs included in this line item of the income statement amounted to EUR 4,906 k in 2011.

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Other operating income

	2011 EUR k	2010 EUR k
Income from disposals of non-current assets	23,811	700
Government grants	4,069	3,288
Release of provisions/deferred income	2,149	1,786
Reimbursements from third parties	2,018	2,423
Insurance reimbursements	238	1,921
Fair value changes of derivative instruments	0	669
Other	2,452	791
Total	34,737	11,578

Other operating income includes out-of-period income from the reversal of provisions and deferred income (EUR 2,149 k; 2010: EUR 1,786 k). The sale of the land and buildings of the Ludwigsburg industrial park led to other operating income of EUR 22,673 k.

Other operating expenses

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	2011 EUR k	2010 EUR k
Losses on disposal of fixed assets	3,384	2,272
Allowances for receivables	779	582
Other	7,387	2,781
Total	11,550	5,635

Other expenses includes impairment charges on property, plant and equipment (EUR 1,755 k) resulting from a physical inventory and expenses for recognizing provisions and deferred income (EUR 1,381 k).

Net finance costs

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	2011 EUR k	2010 EUR k
Finance income		
Income from currency differences	14,824	13,874
Interest income	984	842
Other	26	0
Finance income, total	15,834	14,716
Finance costs		
Expenses from currency differences	- 17,234	- 23,190
Interest expense	- 13,053	- 13,588
- thereof from derivative financial instruments	- 193	- 285
Other	- 35	- 2
Finance costs, total	- 30,322	- 36,780
Net finance costs	- 14,488	- 22,064

Of the interest expenses, EUR 3,778 k (2010: EUR 3,353 k) are related to interest portions of pension plans and the remainder to bank interest and interest expense from the discounting of long-term provisions.

Borrowing costs for qualifying assets in the amount of EUR 813 k were capitalized in the reporting year; this represents a corresponding improvement in the result.



Expenses for taxes on income

The income tax expense is composed as follows:

	2011 EUR k	2010 EUR k
Current tax expense	32,046	25,074
Deferred taxes	6,994	285
Tax expense reported	39,040	25,359

The taxes on income are corporation and municipal trade taxes including the solidarity surcharge of the domestic Group companies as well as comparable income taxes of the foreign Group companies.

The income tax rate calculated for the companies in Germany is 27.5% (2010: 27.5%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 16.0% and 42.0% (2010: between 16.9% and 42.0%). The average foreign tax rate is 26.7% (2010: 23.9%).

Deferred taxes are calculated by applying the tax rates in force or expected to be in force in the different countries at the time of realization as the law presently stands.

The following table shows a reconciliation between the income tax expense that might theoretically be expected to arise for the Group under application of the current domestic rate of 27.5% (2010: 27.5%) and the income tax expense actually reported.

	2011 EUR k	2010 EUR k
Earnings before taxes	136,632	93,970
Expected tax rate	27.5%	27.5%
Expected tax expense	37,606	25,842
Change in the expected tax expense due to:		
- Lump-sum tax on dividend	317	346
- Permanent differences	1,881	366
- Difference in basis of assessment of local taxes	420	0
- Use or lapse of non-capitalized tax loss carryforwards	1,148	10
- Recognized capitalized tax loss carryforwards	- 4,027	0
- Prior-period taxes	- 118	122
- Deviations due to changes in tax rate	1,111	- 1,685
- Other effects	701	358
Actual tax expense	39,040	25,359
Actual tax rate	28.6%	27.0%

Retained earnings of EUR 24,885 k at German and non-German subsidiaries will be distributed to ElringKlinger AG in the coming years. The tax expense in relation to distributions in Germany amounted to EUR 342 k (2010: EUR 295 k) and was recorded as a deferred tax liability. Further retained earnings of German and non-German subsidiaries are intended to be permanently reinvested in those operations.

In financial year 2011, deferred tax assets on actuarial losses amounted to EUR 1,473 k (2010: EUR 970 k).

Deferred tax assets on tax loss carryforwards have been recognized in the amount of EUR 3,613 k. No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 2,745 k, since it was not expected that the deferred tax assets would be utilized in the foreseeable future. The tax loss carryforwards amounted to EUR 20,630 k, of which EUR 19,153 k will be realized within the next five years. Additional adjustments on deferred tax assets are not necessary.

Tax deferrals relate to the following line items:

Balance sheet items	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k
Intangible assets	63	88	6,353	3,568
Property, plant and equipment	932	61	27,228	26,869
Investment property	0	0	438	1,772
Financial assets	8	6	28	132
Other non-current assets	182	62	0	0
Inventories	2,163	1,732	1,466	890
Trade receivables	272	322	346	193
Other current assets	64	0	829	118
Cash and cash equivalents	0	0	0	692
Provisions for pensions	8,522	6,414	0	0
Non-current provisions	1,165	1,658	37	0
Non-current financial liabilities	62	67	15	8
Other non-current liabilities	728	2,631	0	0
Current provisions	1,606	1,644	35	18
Trade payables	33	0	11	33
Current financial liabilities	94	700	7	93
Other current liabilities	1,484	3,135	7,765	5
Deferred taxes associated with investments in subsidiaries	0	0	342	295
Tax loss carryforwards	3,613	229	0	0
Shown in the statement of financial position	20,991	18,749	44,900	34,686

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Basic and diluted earnings per share

To obtain the basic earnings per share, the period profit attributable to the shareholders of the parent company is divided by the number of individual shares.

Diluted earnings per share correspond to basic earnings per share and are calculated as follows:

	2011	2010
Profit attributable to shareholders of ElringKlinger AG in EUR k	94,875	65,617
Average number of shares	63,359,990	58,945,053
Earnings per share in EUR	1.50	1.11

Individual disclosures on the Group Statement of Financial Position

Intangible assets

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	Development costs (internally generated) EUR k	Goodwill (purchased) EUR k	Patents, licenses, software (purchased) EUR k	Intangible assets under construction (purchased) EUR k	Total EUR k
Acquisition / manufacturing costs					
Balance as of Jan. 1, 2011	23,083	98,141	24,638	205	146,067
Currency changes	150	1,797	621	0	2,568
Change consolidated group	17	18,818	11,599	0	30,434
Additions	6,725	0	2,038	134	8,897
Reclassifications	0	0	261	- 202	59
Disposals	1,863	226	595	0	2,684
Balance as of Dec. 31, 2011	28,112	118,530	38,562	137	185,341
Depreciation and amortization					
Balance as of Jan. 1, 2011	12,429	13,210	19,011	0	44,650
Currency changes	109	5	160	0	274
Change consolidated group	3	0	297	0	300
Additions	4,906	0	3,482	0	8,388
Disposals	1,863	0	541	0	2,404
Balance as of Dec. 31, 2011	15,584	13,215	22,409	0	51,208
Net carrying amount as of Dec. 31, 2011	12,528	105,315	16,153	137	134,133
Acquisition / manufacturing costs					
Balance as of Jan. 1, 2010	17,298	90,052*	29,749	34	137,133
Currency changes	686	8,314*	291	0	9,291
Additions	6,098	0	684	205	6,987
Reclassifications	0	0	29	- 34	- 5
Disposals	999	225	6,115	0	7,339
Balance as of Dec. 31, 2010	23,083	98,141*	24,638	205	146,067
Depreciation and amortization					
Balance as of Jan. 1, 2010	8,996	13,168	23,550	0	45,714
Currency changes	475	42	202	0	719
Additions	3,957	0	1,345	0	5,302
Disposals	999	0	6,086	0	7,085
Balance as of Dec. 31, 2010	12,429	13,210	19,011	0	44,650
Net carrying amount as of Dec. 31, 2010	10,654	84,931	5,627	205	101,417

* Prior-year figures adjusted

All amortization of intangible assets is contained under the following line items in the income statement:

	2011 EUR k	2010 EUR k
Cost of sales	878	503
Selling expenses	950	98
General and administrative expenses	986	589
Research and development costs	5,540	4,054
Total	8,354	5,244

Property, plant and equipment

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	Land and buildings EUR k	Technical plant and machinery EUR k	Other plant, office equipment EUR k	PPE under construction EUR k	Total
Acquisition/manufacturing cost					
Balance as of Jan. 1, 2011	196,381	576,118	113,492	62,511	948,502
Currency changes	3,077	2,123	- 13	- 112	5,075
Change consolidated group	34,877	44,846	5,371	1,100	86,194
Additions	9,824	24,530	12,682	65,268	112,304
Reclassifications	11,226	39,160	1,238	- 51,683	- 59
Disposals	6,083	13,683	8,576	2,456	30,798
Balance as of Dec. 31, 2011	249,302	673,094	124,194	74,628	1,121,218
Depreciation and amortization					
Balance as of Jan. 1, 2011	52,300	354,518	92,190	0	499,008
Currency changes	655	1,501	46	0	2,202
Change consolidated group	174	15,599	2,403	0	18,176
Additions	5,590	74,859	5,241	0	85,690
Impairments	1,610	335	0	0	1,945
Reclassifications	61	- 61	0	0	0
Disposals	4,468	10,760	8,120	0	23,348
Balance as of Dec. 31, 2011	55,922	435,991	91,760	0	583,673
Net carrying amount as of Dec. 31, 2011	193,380	237,103	32,434	74,628	537,545
Acquisition/manufacturing cost					
Balance as of Jan. 1, 2010	160,010	507,274	118,358	35,139	820,781
Currency changes	8,192	23,779	1,254	1,597	34,822
Additions	17,173	44,989	5,336	59,658	127,156
Reclassifications	11,039	19,233	1	- 30,268	5
Disposals	33	19,157	11,457	3,615	34,262
Balance as of Dec. 31, 2010	196,381	576,118	113,492	62,511	948,502
Depreciation and amortization					
Balance as of Jan. 1, 2010	45,144	290,674	98,785	0	434,603
Currency changes	2,658	12,128	750	0	15,536
Additions	4,355	67,389	3,985	0	75,729
Reclassifications	0	161	- 161	0	0
Disposals	- 143	15,834	11,169	0	26,860
Balance as of Dec. 31, 2010	52,300	354,518	92,190	0	499,008
Net carrying amount as of Dec. 31, 2010	144,081	221,600	21,302	62,511	449,494

Property, plant and equipment contains technical equipment capitalized by the Group as beneficial owner under finance lease arrangements in the amount of EUR 813 k (2010: EUR 434 k). In 2011,

depreciation expense on assets under finance lease arrangements amounted to EUR 276 k (2010: EUR 52 k).

In 2011, impairment charges on land and buildings and technical equipment amounted to EUR 1,945 k. No impairments were recognized in the previous year.

Purchase commitments to acquire property, plant and equipment amounted to EUR 38,077 k as of December 31, 2011 (December 31, 2010: EUR 32,319 k).



Investment property

	Investment property EUR k	Investment property under construction EUR k	Total EUR k
Acquisition/manufacturing cost Balance as of Jan. 1, 2011	51,958	93	52,051
Currency changes	- 1,560	- 11	- 1,571
Additions	188	220	408
Disposals	27,923	206	28,129
Balance as of Dec. 31, 2011	22,663	96	22,759
Depreciation and amortization Balance as of Jan. 1, 2011	25,957	0	25,957
Currency changes	- 415	0	- 415
Additions	742	0	742
Disposals	16,596	0	16,596
Balance as of Dec. 31, 2011	9,688	0	9,688
Net carrying amount as of Dec. 31, 2011	12,975	96	13,071
Acquisition/manufacturing cost Balance as of Jan. 1, 2010	52,325	89	52,414
Currency changes	- 395	- 2	- 397
Additions	169	14	183
Disposals	141	8	149
Balance as of Dec. 31, 2010	51,958	93	52,051
Depreciation and amortization Balance as of Jan. 1, 2010	25,014	0	25,014
Currency changes	- 96	0	- 96
Additions	1,180	0	1,180
Disposals	141	0	141
Balance as of Dec. 31, 2010	25,957	0	25,957
Net carrying amount as of Dec. 31, 2010	26,001	93	26,094

Investment property includes the Idstein and Kecskemét-Kádafalva (Hungary) industrial parks. The Ludwigsburg industrial park was sold with effect from September 30, 2011. The fair value determined using the discounted cash flow method is EUR 15,427 k (2010: EUR 33,785 k). This was

determined by discounting the surplus of expected future rental payments (lease agreements) over the expected cash expenses to the valuation date. The capitalization factor applied was an interest rate of 10.13% (2010: 10.00%). Measurement of the fair values was not carried out by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR 6,621 k (2010: EUR 7,806 k). Expenses directly connected with this financial investment amounted to EUR 5,718 k (2010: EUR 5,216 k). Material contractual commitments to acquire or maintain investment property did not exist as of the end of the reporting period.

Financial assets

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	Non-current securities EUR k	Other financial assets EUR k	Total EUR k
Acquisition cost Balance as of Jan. 1, 2011	1,511	38	1,549
Currency changes	2	13	15
Change consolidated group	0	1,141	1,141
Additions	642	86	728
Disposals	631	156	787
Balance as of Dec. 31, 2011	1,524	1,122	2,646
Depreciation and amortization Balance as of Jan. 1, 2011	2	0	2
Impairments	25	0	25
Disposals	2	0	2
Balance as of Dec. 31, 2011	25	0	25
Net carrying amount as of Dec. 31, 2011	1,499	1,122	2,621
Fair value Dec. 31, 2011	1,540	1,122	
Acquisition cost Balance as of Jan. 1, 2010	1,569	41	1,610
Currency changes	34	0	34
Additions	470	0	470
Disposals	562	3	565
Balance as of Dec. 31, 2010	1,511	38	1,549
Depreciation and amortization Balance as of Jan. 1, 2010	0	0	0
Additions	2	0	2
Revaluations	0	0	0
Balance as of Dec. 31, 2010	2	0	2
Net carrying amount as of Dec. 31, 2010	1,509	38	1,547
Fair value Dec. 31, 2010	1,547	38	

Of the long-term securities, EUR 1,384 k (2010: EUR 1,376 k) is pledged in full to secure pension claims.

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Non-current income tax assets and other non-current assets

Non-current income tax benefits contain mainly the corporate tax credit of ElringKlinger AG capitalized at present value in the amount of EUR 3,355 k (2010: EUR 3,409 k). The corporation tax credit will be disbursed to ElringKlinger AG in ten equal annual installments from 2008 until 2017.

Other non-current assets include an advance payment on future licensing expenses amounting to EUR 581 k (2010: EUR 632 k).

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Inventories

	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k
Raw materials, consumables and supplies	64,438	48,642
Work in progress	32,988	15,589
Finished goods and merchandise	113,642	71,978
Advance payments	5,399	2,440
Total	216,467	138,649

Under inventories, markdowns of EUR 13,890 k (2010: EUR 9,961 k) have been made to account for marketability risks.

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Trade receivables, current income tax assets and other current assets

For trade receivables and other current assets, impairments of EUR 3,790 k (2010: EUR 2,858 k) were recognized for specific identifiable risks and likely use of discounts.

The carrying amount of the trade receivables and other assets corresponds to their fair values.

Trade receivables do not bear interest and are generally due in 30 to 120 days.

The adjustment account for trade receivables has developed as follows:

	2011 EUR k	2010 EUR k
Balance as of Jan. 1	2,858	3,749
Addition	1,941	1,107
Reversal/utilization	- 739	- 2,206
Exchange rate effects	- 270	208
Balance as of Dec. 31	3,790	2,858

All expenses and income from impairment of trade receivables are presented under other operating expenses or income.

A breakdown of the due dates of the trade receivables is provided below:

	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k
Neither overdue nor impaired:	147,196	102,746
Overdue, not impaired:		
– less than 30 days	23,619	22,319
– from 31 to 60 days	5,349	5,127
– from 61 to 90 days	3,105	3,061
– from 91 to 180 days	251	434
– more than 180 days	346	131
Total:	32,670	31,072
Impaired	7,414	4,377
Carrying amount	187,279	138,195

Receivables overdue by between 91 and 180 days were impaired by EUR 3,992 k and receivables overdue by more than 180 days were impaired by EUR 3,284 k during the 2011 financial year. Other impairments on receivables were recognized in the amount of EUR 138 k.

Neither with regard to the overdue receivables nor to the impaired receivables has anything been identified that indicated the debtors will not meet their payment obligations.

The other current assets include receivables in relation to VAT and other taxes (EUR 8,828 k; 2010: EUR 4,994 k).

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.

Cash

The item cash comprises cash and deposits held by the Group on current accounts. As in the prior year, there were no cash equivalents.

The carrying amount of these assets corresponds to their fair value.

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Equity

The changes in individual items of equity in the Group are shown separately in the “Statement of changes in equity”*.

*  CF. PAGE 128 ET SEQQ.

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. Each registered share represents a theoretical interest of EUR 1.00 of the nominal capital. Profit is 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.

Under the German Stock Corporation Act (AktG), the distributable dividend is measured by the retained earnings, which are shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In the financial year 2011, ElringKlinger AG distributed to its shareholders a dividend of EUR 22,176 k (EUR 0.35 per share) from the retained earnings for 2010. In the financial year 2010, the distribution was EUR 11,520 k (EUR 0.20 per share) from the retained earnings for 2009.

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

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Non-controlling interests in equity and net income

ElringKlinger AG holds less than 100% in some of the companies that have been included in the consolidated financial statements. In accordance with IAS 27, the relevant minority interests are reported under equity in the group statement of financial position, separately from the equity attributable to the shareholders of the parent company. Similarly, minority interests in the net profit and in total comprehensive income are reported separately in the group income statement and in the reconciliation to total comprehensive income.

Provisions for pensions

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The pension obligations of the Group's foreign companies mainly take the form of defined contribution plans while in the case of domestic companies, pension obligations take the form of defined benefit and defined contribution plans.

Under the **defined contribution plans** the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Once the contributions are paid, the Company has no further obligations, such as follow-up contribution payments. Contribution payments for the current year are reported under personnel expenses in the relevant year; in the current year, the Group's contribution payments totaled EUR 14,602 k (2010: EUR 11,983 k) and are allocated to the relevant function costs.

The **defined benefit plans** are accounted for in the group through the recognition of provisions for pensions that are determined by the projected unit credit method in accordance with IAS 19. In addition to the pensions and vested benefits known at the end of the reporting period, expected future increases in pensions and salaries are taken into account with a prudent estimate of the relevant variables.

Under the defined benefit plans, the employees receive life-long pension payments once they have reached a certain age or suffered invalidity. In addition, survivors also receive benefits. The amount of the benefit is determined by the length of service with the Company and the employee's ending salary. For employees subject to collective bargaining, the eligible service period is limited to 30 years. For executive employees, the benefit is limited to 35% or 45% of the final salary, whereby in certain cases the benefits from prior commitments do not count toward this limit.

In 2011, the Company's pension system in Germany was partially modified. In order to secure pension payments going forward, the obligations to certain executive employees in Germany were transferred to a pension fund and a reinsured provident fund. This does not affect the amount of benefits. The assets received by the pension fund constitute plan assets within the meaning of IAS 19.7 and are therefore netted against the obligation to the plan beneficiaries. The assets of the provident fund do not meet the criteria for classification as plan assets and are treated as reimbursement rights.

The assets were measured as of December 31, 2011 in Germany using the 2005 G mortality tables of Prof. Klaus Heubeck and abroad on the basis of standard national mortality tables and the following assumptions:

Measurement as of	Dec. 31, 2011	Dec. 31, 2010
Discount rate	1.80 – 6.10%	1.60 – 7.00%
Expected return on plan assets	3.50%	3.50%
Expected return on reimbursement rights	4.10%	-
Expected salary increases (in %)	2.00%	2.00%
Future pension increases	2.00%	2.00%

In Germany, the expected return on plan assets and reimbursement rights was derived from the long-term return expected by the pension fund and the reinsurer of the claims against the provident fund. For foreign funds, the expected return was based on the expectations of the pension fund.

The changes in the present value of defined benefit obligations can be broken down as follows:

	2011 EUR k	2010 EUR k
Present value of pension benefits as of Jan. 1,	77,935	72,534
Change consolidated group	17,068	0
Current service cost	2,887	1,741
Interest expense	3,778	3,398
Disbursements/utilization	- 5,216	- 4,608
Actuarial gains/losses	5,681	3,815
Past service costs	1,227	0
Currency differences	542	3,908
Other changes	1,436	- 2,853
Present value of pension benefits as of Dec. 31,	105,338	77,935

The change to the consolidated group contains additions of the pension plan assets of the Hug Engineering AG in the amount of EUR 16,400 k and Oigra Meillor s.r.l. totaling EUR 668 k.

The other changes relate primarily to the acquisition of the pension benefits of Burgmann Automotive GmbH.

The table below shows the changes to the plan assets over the course of the financial year:

	2011 EUR k	2010 EUR k
Market value as of Jan. 1	11,290	10,697
Change consolidated group	12,795	0
Expected return on plan assets	708	434
Employer contributions	1,749	1,054
Plan participant contributions	1,960	1,685
Service costs	- 3,562	- 3,226
Actuarial gains/losses	- 277	- 185
Other	1,211	- 1,138
Currency effects	332	1,969
Market value as of Dec. 31	26,206	11,290

The increase in plan assets was due to the transfer of vested benefits of certain beneficiaries to the pension fund and to the changes in the group of consolidated companies. The change to the consolidated group contains additions of the pension plan assets of the Hug Engineering AG in the amount of EUR 12,795 k.

The assets of the reinsured provident fund relate to the reinsurance life policies entered into by the beneficiaries. The actual return on plan assets amounted to EUR 401 k (2010: EUR 248 k) and on reimbursement rights EUR 4 k (2010: EUR 0 k).

In 2012 liquidity is likely to be reduced due to contributions to plan assets and the reimbursement rights and by direct Group benefit payouts, which are likely to amount to EUR 2,084 k (p.y.: EUR 3,674 k).

The following amounts are reported in the income statement for defined benefit plans:

	2011 EUR k	2010 EUR k
Current service cost	2,887	1,741
Interest expense	3,778	3,398
Past service costs	1,227	0
Expected return on plan assets	- 699	- 397
Total pension expense	7,193	4,742

The service cost and past service costs are recognized as part of the personnel expenses of the functional areas.

The full amount of actuarial gains and losses during the current year is recognized under other comprehensive income. Changes are shown in the table below:

	2011 EUR k	2010 EUR k
Newly recognized actuarial gains and losses	5,681	3,815
Cumulative total of all actuarial gains and losses taken directly to equity	11,563	5,882

The amount of the Group's obligation as reported on the statement of financial position is derived as follows:

	2011 EUR k	2010 EUR k
Present value of pension obligations	105,338	77,935
Fair value of plan assets	26,206	11,290
Reported pension provision	79,132	66,645
Fair value of reimbursement rights	118	0

The table below provides an overview of the obligation, fair value of plan assets and experience-based adjustments resulting from differences between actual and assumed developments:

	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k	Dec. 31, 2008 EUR k	Dec. 31, 2007 EUR k
Present value of pension obligations	105,338	77,935	72,534	65,764	52,239
Fair value of plan assets	- 26,206	- 11,290	- 10,697	- 10,750	- 175
Funded/unfunded status	79,132	66,645	61,837	55,014	52,064

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Current and non-current provisions

Current and non-current provisions can be broken down as follows:

	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k
Current provisions	15,499	10,721
Non-current provisions	7,402	10,378
Total	22,901	21,099

The provisions relate to:

	Personnel obligations EUR k	Warranty obligations EUR k	Expected losses in orders on hand EUR k	Litigation costs EUR k	Other risks EUR k	Total EUR k
Balance as of Jan. 1, 2011	11,014	1,683	6,534	885	983	21,099
Exchange rate difference	60	0	42	17	- 2	117
Utilization	799	1,232	3,363	0	138	5,532
Utilization	3,318	68	5,965	392	426	10,169
Reversal	2,866	867	4,096	137	116	8,082
Unwinding of discount	427	- 4	121	0	11	555
Addition	2,454	3,634	4,667	400	2,694	13,849
Balance as of Dec. 31, 2011	8,570	5,610	4,666	773	3,282	22,901

Personnel provisions are recognized for the pre-retirement part-time scheme, long-service anniversary benefits and similar obligations.

The provision for warranties represents the best estimate of the management and was recognized on the basis of past experience and the industry average for defective products with regard to the Group's liability for a warranty of twelve months.

The other risks relate to a variety of identifiable individual risks and uncertain obligations, which have been included based on the likelihood of their occurrence.

Current and non-current financial liabilities

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	Domestic EUR k	Foreign EUR k	Total Dec. 31, 2011 EUR k	Domestic EUR k	Foreign EUR k	Total Dec. 31, 2010 EUR k
Overdrafts	60,649	7,750	68,399	231	13,200	13,431
Financial liabilities with residual terms of less than one year	24,515	33,231	57,746	42,503	20,943	63,446
Current financial liabilities	85,164	40,981	126,145	42,734	34,143	76,877
Financial liabilities with residual terms of more than one year	119,003	42,345	161,348	120,027	2,331	122,358
Total	204,167	83,326	287,493	162,761	36,474	199,235

Includes liabilities from finance leases in the amount of EUR 530 k (2010: EUR 224 k) with a nominal volume of EUR 593 k (2010: 236 k).

The financial liabilities (excluding overdrafts) have the following terms:

	Domestic EUR k	Foreign EUR k	Total Dec. 31, 2011 EUR k	Domestic EUR k	Foreign EUR k	Total Dec. 31, 2010 EUR k
Payable on demand or less than one year	24,515	33,231	57,746	42,503	20,943	63,446
Between one and five years	107,299	42,345	149,644	100,019	2,331	102,350
More than five years	11,704	0	11,704	20,008	0	20,008
Total	143,518	75,576	219,094	162,530	23,274	185,804

The average interest rates were:

	Dec. 31, 2011 %	Dec. 31, 2010 %
Overdrafts:		
Domestic	2.07	2.50
Foreign	6.57	9.76
Financial liabilities:		
Domestic: less than one year	4.11	4.24
Domestic: between one and five years	4.13	4.06
Domestic: more than five years	3.68	4.45
Foreign: less than one year	2.98	2.09
Foreign: between one and five years	3.59	4.23
Foreign: more than five years	-	-

Fixed interest rates have been agreed for financial liabilities amounting to EUR 252,922 k (2010: EUR 154,530 k). In addition, interest swaps are in place for EUR 7,800 k in loans. Under these swaps, variable interest payments are exchanged for fixed amounts.

Land charges on company land with a carrying amount of EUR 78,618 k (2010: EUR 85,601 k), collateral on inventory with a carrying amount of EUR 2,425 k (2010: EUR 3,454 k), receivables with a carrying amount of EUR 6,684 k (2010: EUR 6,716 k), and collateral on pledged buildings of EUR 400 k (2010: EUR 0 k) have been pledged as collateral. The secured liabilities amounted to EUR 39,070 k (2010: EUR 32,324 k) as of December 31, 2011.

As of December 31, 2011, the Group had unused lines of credit amounting to EUR 88,321 k (2010: EUR 155,230 k).

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Trade payables and other current and non-current liabilities

Trade payables and other current and non-current liabilities consist of outstanding obligations from trade and current expenses.

The carrying amounts of trade payables approximate their fair value.

The trade payables and other current and non-current liabilities are not secured except for the reservations of title that are customary in trading relationships.

Current and non-current liabilities include accrued liabilities relating to tooling revenue.

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Hedging policy and financial instruments

Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger Group, changes in exchange rates, interest rates and prices of raw materials impact the assets, liabilities, financial position and profit or loss of the Group. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. Additionally, there are liquidity risks which relate to credit and market risks or accompany a deterioration of business operations and financial market turmoil.

By concluding hedges, the Management Board of ElringKlinger AG aims to manage the risk factors that may adversely affect the assets, liabilities, financial position and profit or loss and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. ElringKlinger processes a significant volume of high-grade steel. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in internal part price calculations. A price corridor surrounding the average cost is hedged. If the stock exchange quotation of nickel exceeds the upper range of the

corridor, ElringKlinger receives a compensatory payment. If the stock exchange quotation of nickel falls below the lower range of the corridor, ElringKlinger has to make a compensatory payment. The existing nickel hedges had remaining terms until October 31, 2012 and December 31, 2012.

Hedge accounting in accordance with IAS 39 was not applied.

Currency risk

Due to the international nature of its business, the ElringKlinger Group is exposed to currency risks in the normal course of business.

Exchange rate risk arises for the Group in relation to its operating business principally when sales revenues are earned in a different currency than that in which the related costs are incurred. Sales revenues are generally generated in the functional currency (which is the relevant national currency) of the group entity concerned. In order to reduce currency risks from operating business, the purchases of goods, raw materials and services as well as investing and financing activities are generally accounted for in the functional currency of the group entity. The group also endeavors to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

In order to limit currency risk, current receivables, liabilities and debts denominated in foreign currencies are hedged with forward currency transactions.

Subsidiaries are not permitted to take up financing in foreign currency or to invest it for speculative reasons. Intragroup financing and investment is usually denominated in the relevant functional currency.

Several ElringKlinger AG subsidiaries are domiciled outside the eurozone. Since the euro is the reporting currency of the ElringKlinger Group, the income and expenses of these subsidiaries are translated into euros upon consolidation. Changes in the average exchange rates as compared to prior periods can therefore result in currency translation effects that are reflected in the equity of the Group.

Due to the inclusion of subsidiaries, the group also recognizes assets and liabilities relating to these subsidiaries outside of the eurozone that are denominated in national currencies. When these assets are translated into euros, exchange rate fluctuations can lead to changes in value. The changes in these net assets are reflected in group equity.

As of December 31, 2011, ElringKlinger has significant financial liabilities in the form of CHF-denominated loans (CHF 58,000 k). Depending on cash flows generated in CHF, exchange rate fluctuations can have a significant impact on net income.

A sensitivity analysis has been conducted in order to quantify the potential effects of exchange rate changes on consolidated net income and group equity. This analysis illustrates the change in consolidated net income and group equity in the event that the relevant functional currency appreciates or depreciates by 10% as compared to the foreign currencies.

	CHF Dec. 31, 2011 EUR k	EUR Dec. 31, 2011 EUR k	USD Dec. 31, 2011 EUR k	Other Dec. 31, 2011 EUR k	Total Dec. 31, 2011 EUR k
Local currency +10 %					
Consolidated net income	3,090	1,792	- 1,360	- 192	3,330
Group equity	3,090	1,792	- 1,360	- 192	3,330
Local currency - 10 %					
Consolidated net income	- 3,090	- 1,792	1,360	192	- 3,330
Group equity	- 3,090	- 1,792	1,360	192	- 3,330

Interest rate risk

Interest rate risk arises primarily from financial liabilities. The Group manages interest rate risk with the objective of optimizing its interest income and expense.

Fixed interest rates have been agreed mainly for the financing liabilities of the ElringKlinger Group. In individual instances, additional swap transactions have been entered into in order to transform variable interest rates into fixed interest rates. As a result, the risk arising from interest rate fluctuations is only slight.

Had market interest rates been 1% higher on December 31, 2011, earnings would have been EUR 475 k greater. A 1% reduction in the market interest rate would have resulted in EUR 479 k less in earnings.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials it uses in production. In order to mitigate fluctuations in the purchase prices for raw materials, ElringKlinger has entered into two nickel hedges. Where necessary, it is possible to hedge acceptable procurement prices by means of additional derivatives.

ElringKlinger processes a significant volume of high-grade steel. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in internal part price calculations. A price corridor surrounding the average cost is hedged. If the stock exchange quotation of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the stock exchange quotation of nickel falls below the lower range of the corridor, ElringKlinger has to make a compensatory payment. Existing nickel hedges had remaining terms until October 31, 2012 and December 31, 2012.

The Group manages the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks of impeccable creditworthiness in accordance with uniform guidelines.

Credit risk

Credit risk is the risk of economic loss arising from a counterparty's failure to satisfy contractual payment obligations. Credit risk encompasses both the direct risk of default, the risk of a ratings downgrade, and concentration risks. The maximum risk exposures of financial assets generally subject to credit risk correspond to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds comprise primarily bank deposits available on demand. The ElringKlinger Group is exposed to losses from credit risks in connection with the investment of liquid funds if financial institutions fail to meet their obligations (counterparty risk). In order to minimize this risk, care is taken in selecting the financial institutions used for investment. The maximum risk exposure corresponds to the carrying amount of the liquid funds at the end of the reporting period.

Trade receivables

Trade receivables relate primarily to the global sales of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. Credit risk resides in the possibility of counterparty default, and is characterized by the Group's customer base, which includes a number of major accounts.

In the domestic business, most receivables are secured by reservation of title. In order to limit credit risk, credit checks in the form of inquiries with credit information services are performed for selected counterparties. Moreover, internal processes are in place to continually monitor receivables where a partial or complete default may be anticipated.

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit guarantee insurance policies are taken out or letters of credit are required as collateral for credit in certain cases.

Allowances are also recognized in respect of identifiable individual risks and the likelihood that discounts will be utilized. The maximum risk exposure from trade receivables corresponds to the carrying amount of these receivables at the end of the reporting period. The carrying amounts of trade receivables, together with a separate breakdown of overdue receivables and receivables for which allowances have been recognized, can be found in note 17.

In 2011, the two largest customers accounted for 12.0% and 10.6% of sales. The strong recovery in the international vehicle business has led to a considerable improvement in the earnings situation of nearly all of the ElringKlinger Group's customers. Default risk has thus declined further.

The following table shows all contractually fixed payments for redemptions, repayments and interest from financial liabilities recognized in the statement of financial position, including derivative financial instruments that have a negative market value.

	Trade liabilities EUR k	Financial liabilities EUR k	Finance leases EUR k	Derivatives EUR k	Total EUR k
Balance as of Dec. 31, 2011					
Carrying amount	65,019	286,963	530	393	352,905
Outflows					
Expected outflows:	65,019	310,777	593	414	376,803
– less than one month	42,345	22,916	23	30	65,314
– between one and three months	22,089	30,233	45	40	52,407
– between three months and one year	578	80,038	270	176	81,062
– between one and five years	7	168,928	252	168	169,355
– more than five years	0	8,662	3	0	8,665

	Trade liabilities EUR k	Financial liabilities EUR k	Finance leases EUR k	Derivatives EUR k	Total EUR k
Balance as of Dec. 31, 2010					
Carrying amount	46,405	199,011	224	370	246,010
Outflows					
Expected outflows:	46,405	217,308	236	403	264,352
– less than one month	27,791	689	5	23	28,508
– between one and three months	17,573	20,972	13	36	38,594
– between three months and one year	1,038	61,973	59	130	63,200
– between one and five years	3	117,248	159	214	117,624
– more than five years	0	16,426	0	0	16,426

Additional information on financial instruments

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This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the statement of financial position containing financial instruments.

The following table shows the carrying amounts (CA) and fair values (FV) of financial assets:

	Trade receivables / Cash		Derivatives		Other financial instruments		Total
	CA EUR k	FV EUR k	CA EUR k	FV EUR k	CA EUR k	FV EUR k	CA EUR k
Balance as of Dec. 31, 2011							
Cash	65,137	65,137	0	0	0	0	65,137
Loans and receivables	187,279	187,279	0	0	182	182	187,461
held to maturity	0	0	0	0	1,384	1,424	1,384
held for trading	0	0	64	64	0	0	64
available for sale	0	0	0	0	1,170	1,170	1,170
Total	252,416	252,416	64	64	2,736	2,776	255,216
Balance as of Dec. 31, 2010							
Cash	101,176	101,176	0	0	0	0	101,176
Loans and receivables	138,195	138,195	0	0	30	30	138,225
held to maturity	0	0	0	0	1,376	1,421	1,376
held for trading	0	0	0	0	0	0	0
available for sale	0	0	0	0	175	175	175
Total	239,371	239,371	0	0	1,581	1,626	240,952

The fair value of cash and loans and receivables corresponds to the carrying amount. The reason for this is the short maturity of such instruments. ElringKlinger measures the fair value of held-to-maturity investments at the market rate observed in an active market. Available-for-sale assets are marked to market.

In financial assets, the Group has time deposits amounting to EUR 16 k.

The following table shows the carrying amounts (CA) and fair values (FV) of financial liabilities:

	Trade payables		Liabilities from finance leases		Other financial liabilities		Total
	CA EUR k	FV EUR k	CA EUR k	FV EUR k	CA EUR k	FV EUR k	CA EUR k
Balance as of Dec. 31, 2011							
Trade payables	65,019	65,019					65,019
Financial liabilities			530	530	286,963	299,077	287,493
Financial liabilities measured at cost	65,019	65,019	530	530	286,963	299,077	352,512
held for trading*)	0	0	0	0	393	393	393
Financial liabilities measured at fair value through profit or loss	0	0	0	0	393	393	393
Balance as of Dec. 31, 2010							
Trade payables	46,405	46,405					46,405
Financial liabilities			224	224	199,011	201,814	199,235
Financial liabilities measured at cost	46,405	46,405	224	224	199,011	201,814	245,640
held for trading*)	0	0	0	0	370	370	370
Financial liabilities measured at fair value through profit or loss	0	0	0	0	370	370	370

*) These are derivatives which do not qualify for hedge accounting.

The fair value of trade payables and other current financial liabilities corresponds to the carrying amount. ElringKlinger determines the market value of non-current fixed-interest liabilities to banks, finance lease liabilities and derivatives by discounting expected future cash flows with the current prevailing interest rates for similar financial liabilities with comparable residual terms and the company-specific risk rate.

Financial assets and liabilities measured at fair value are classified into the following 3 level fair value hierarchy:

	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial assets			
available for sale	1,170	0	0
held for trading*	0	64	0
Total	1,170	64	0
Financial liabilities			
available for sale	0	0	0
held for trading*	0	393	0
Total	0	393	0

*) These are derivatives which do not qualify for hedge accounting.

The levels of the fair value hierarchy are defined as follows:

- Level 1: Measurement based on quoted prices
- Level 2: Measurement based on inputs for the asset or liability that are observable on active markets either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: Measurement based on inputs for assets and liabilities not representing observable market data

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards to the Group as lessee. As of December 31, 2011, future minimum lease payments under finance leases amounted to EUR 593 k (2010: EUR 236 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2011 is as follows:

	Minimum lease payments Dec. 31, 2011 EUR k	Interest included in minimum lease payments Dec. 31, 2011 EUR k	Liabilities from finance leases Dec. 31, 2011 EUR k
Term			
Less than one year	338	32	306
Between one and five years	252	31	221
More than five years	3	0	3
Total	593	63	530

Net gains and losses on financial instruments:

	2011 EUR k	2010 EUR k
Held-for-trading financial instruments*)	44	523
Available-for-sale assets	44	0
Held-to-maturity financial investments	0	- 2
Loans and receivables	66	1,497
Financial liabilities measured at acquisition cost	- 3,825	- 9,068

*) These are derivatives which do not qualify for hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values, which were recorded in full in profit or loss for the period.

Net gains from the disposal of available for sale assets include income from long-term equity investments.

Net gains and losses on held-to-maturity financial instruments include impairments and revaluations.

Net gains and losses on loans and receivables primarily consist of impairments and revaluations.

Net losses from financial liabilities measured at cost include currency translation losses.

Total interest income and expense for financial assets and liabilities that are not measured at fair value through profit and loss were as follows:

	2011 EUR k	2010 EUR k
Total interest income	764	805
Total interest expense	- 9,398	- 10,439

As in the previous year, total interest income did not result in interest income from impaired financial assets.

Derivative financial instruments

As of the reporting period date, December 31, 2011, there were the following financial derivatives:

	Fair value EUR k	Carrying amount EUR k	Balance sheet item
Commodities derivatives			
Nickel hedge	64	64	Other current assets
Nickel hedge	- 92	- 92	Current provisions
Interest rate derivatives			
Interest rate swap	- 301	- 301	Current provisions
Total	- 329	- 329	

The market values of the financial derivatives are computed using recognized mathematical methods and the market data available as of the end of the reporting period (mark-to-market method).

Capital management

ElringKlinger believes that the Group's sound financial base is a prerequisite for further growth. The Group's solid capital resources render it possible to invest in future organic growth, as well as in accretive growth.

The Management Board of the parent company has set a target minimum equity ratio of 40% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

The management is authorized to buy back own shares up to a total of 10% of the nominal capital existing at the time of the resolution (May 21, 2010). The authorization is valid until May 21, 2015. There are no share option programs that impact the capital structure.

For two loans, financial covenants have been agreed upon, and if these covenants are breached, the loans become immediately callable. These can be broken down as follows:

Covenant	Max. / Min. limit	Balance as of Dec. 31, 2011
Group equity ratio	25%	40.8%
Net debt to EBITDA	3.0	0.90
Financial liabilities to EBITDA	2.8 : 1	1.28
EBIT to interest expense	3.5 : 1	13.90

Disclosures based on lender calculations.

The following table presents changes in equity and total assets as of December 31, 2011 as compared to December 31, 2010.

	2011 EUR million	2010* EUR million
Equity	610.1	522.2
as % of total capital	50.1 %	52.7 %
Non-current liabilities	313.9	268.4
Current liabilities	293.6	200.7
External finance	607.5	469.1
as % of total capital	49.9 %	47.3 %
Total capital	1,217.6	991.3

*) Prior-year figures adjusted

The increase in equity from December 31, 2010 to December 31, 2011 was primarily due to an increase in revenue reserves and non-controlling interests in equity. Debt was increased year-on-year by 29.5%.

The equity ratios of the AG (54.2%) and the Group (50.1%) exceeded the 40% target equity ratio set by the Supervisory Board and Management Board.

All external minimum capital covenants were satisfied during the period under review.

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Notes to the Group Statement of Cash Flows

The group statement of cash flows shows how the liquidity of the ElringKlinger Group has changed as a result of inflows and outflows in the course of the financial year. In accordance with IAS 7, cash flows are categorized as from operating activities, investing activities or financing activities.

The cash reported on the statement of cash flows* comprises liquid funds reported on the statement of financial position, i.e., cash in hand, checks and bank deposits.

Cash flows from investing and financing activities are determined by reference to payments. By contrast, cash flows from operating activities are derived indirectly from earnings before taxes for the year. For the indirect computation, effects from currency translation and changes to the scope of consolidated financial statements are eliminated from the changes to the items of the statement of financial position arising from operating activities. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures evident from the published group statement of financial position.

The disbursement to minorities for the acquisition of shares contains the full purchase price paid in cash for the acquisitions of a 10% interest in EKTR.

Segment reporting

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The organizational and internal reporting structure of the ElringKlinger Group is centered around its five business divisions: "Original Equipment," "Aftermarket," "Engineered Plastics," "Services" and "Industrial Parks."

The activities in the "Original Equipment" and "Aftermarket" reporting segments relate to the manufacturing and distribution of parts and components for the engine, transmission and exhaust system in motor vehicles (powertrain), as well as battery and fuel cell components. The acquisition of the Swiss Hug Group resulted in the addition of exhaust gas purification technology to the portfolio, and the acquisition of the Hummel-Formen Group resulted in the addition of tooling technology to the portfolio. These segments also render services in connection with these activities.

The "Engineered Plastics" segment manufactures and distributes technical products made of high-performance PTFE plastics for the vehicle and industrial sector.

The "Services" reporting segment primarily operates engine test benches and contributes to the development of engines.

The "Industrial Parks" segment is responsible for the administration and leasing of land and buildings.

The "Consolidation" column in the "Segment reporting" table below provides an overview of consolidations between the segments as well as amounts that cannot be allocated directly to the segments. The "Other" column merely contains financial liabilities not directly attributable to the individual segments. Internal control and reporting are based on IFRS. The Group measures the performance of its segments based on earnings before taxes in accordance with IFRS. With the exception of the Original Equipment segment's provision of supplies to the Aftermarket segment, the extent of trade between the individual segments is insignificant. The exchange of goods and/or services between the segments takes place at arm's-length prices.

The earnings for the "OEM" segment include a EUR 1,161 k impairment charge and the "Aftermarket" segment's earnings include an impairment charge of EUR 800 k.

The Original Equipment segment generated more than 10% of the Group's consolidated revenues from two customers (EUR 109,049 k and EUR 123,851 k).

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
	2011 EUR k	2010 EUR k	2011 EUR k	2010 EUR k	2011 EUR k	2010 EUR k	2011 EUR k	2010 EUR k
Segment revenue	849,260	625,658	112,929	107,057	84,821	71,476	6,875	8,060
– Intersegment revenue	- 22,038	- 18,774	0	0	0	0	0	0
Sales revenue	827,222	606,884	112,929	107,057	84,821	71,476	6,875	8,060
EBIT²	84,082	68,256	22,150	22,181	16,498	11,533	24,261	3,660
+ Interest income	660	616	193	176	364	320	109	57
– Interest expense	- 11,026	- 11,355	- 1,042	- 896	- 749	- 751	- 540	- 873
Earnings before taxes	73,716	57,517	21,301	21,461	16,113	11,102	23,830	2,844
Depreciation and amortization ⁴	90,748	76,511	1,310	795	2,991	2,673	655	1,097
Capital expenditures ³	105,896	123,488	10,906	4,123	3,649	5,951	426	327
Segment assets	1,043,758	826,061	68,385	58,191	83,038	72,177	15,459	28,689
Segment liabilities	350,923	244,078	24,365	20,974	17,463	25,834	4,786	5,121

Segment	Services		Other		Consolidation ¹		Group	
	2011 EUR k	2010 EUR k	2011 EUR k	2010 EUR k	2011 EUR k	2010 EUR k	2011 EUR k	2010 EUR k
Segment revenue	9,872	8,446	0	0	- 8,899	- 6,266	1,054,858	814,431
– Intersegment revenue	0	0	0	0	0	0	- 22,038	- 18,774
Sales revenue	9,872	8,446	0	0	- 8,899	- 6,266	1,032,820	795,657
EBIT²	1,710	1,086	0	0			148,701	106,716
+ Interest income	12	16	0	0	- 354	- 343	984	842
– Interest expense	- 50	- 56	0	0	354	343	- 13,053	- 13,588
Earnings before taxes	1,672	1,046	0	0			136,632	93,970
Depreciation and amortization ⁴	1,086	1,137	0	0			96,790	82,213
Capital expenditures ³	732	437	0	0			121,609	134,326
Segment assets	9,060	10,131	0	0	- 2,110	- 3,914	1,217,590	991,335
Segment liabilities	2,764	3,957	209,288	168,475	- 2,110	- 3,914	607,479	464,525

¹ See disclosure in note (29) of these Notes to the Consolidated Financial Statements

² Earnings before interest and taxes

³ Investments in intangible assets and property, plant and equipment and investment property

⁴ Depreciation and amortization including impairments

Segment reporting by region

Region		Sales revenue EUR k	Non-current Assets EUR k	Capital expenditures EUR k
Germany	2011	319,298	356,966	74,230
	2010	245,620	309,098	66,224
Rest of Europe	2011	345,397	202,365	17,517
	2010	238,739	137,258	31,149
NAFTA	2011	165,028	41,487	4,483
	2010	141,977	51,253	12,749
Asia and Australia	2011	143,179	60,537	16,679
	2010	118,106	49,501	16,848
South America and other	2011	59,918	26,015	8,700
	2010	51,215	21,500	7,356
Group	2011	1,032,820	687,370	121,609
	2010	795,657	568,610	134,326

Group statement of changes in equity

In addition to the components discussed in notes (19) and (20)*, the group statement of changes in equity includes capital reserves, revenue reserves from the first-time adoption of IFRS and retained earnings. Capital reserves correspond to the capital reserve reported in the statement of financial position of the parent company ElringKlinger AG.

Revenue reserves from the first-time adoption of IFRS were taken from the opening IFRS statement of financial position as of January 1, 2004 and subsequent acquisitions of interests.

Retained earnings includes earnings generated but not yet distributed.

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* CF. PAGE 170 ET SEQ.

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group is currently not subject to contingent liabilities from guarantees, performance bonds or bills of exchange issued.

Operating leases

The expense includes payments from operating leases of EUR 5,058 k (2010: EUR 4,703 k).

At the end of the reporting period, the Group had outstanding obligations arising from binding operating leases that fall due as follows:

	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k
less than one year	3,114	2,569
between one and five years	5,592	4,920
more than five years	412	1,075
Total	9,118	8,564

Of that amount, EUR 4,626 k related to outstanding obligations from binding operating leases for commercial premises, EUR 2,341 k to office equipment, and EUR 2,151 k to other lease arrangements.

In addition, there were financial liabilities from energy procurement obligations amounting to EUR 15,213 k (terms: EUR 5,388 k up to one year, EUR 9,825 k between one and five years) and payment obligations relating to the acquisition of a licensed PTFE processing method amounting to EUR 800 k.

As of the end of the reporting period, 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), resulting from the acquisition of ThaWa GmbH Thaler Warenautomaten, Thale, and AGD Group Entwicklungs- und Vertriebs GmbH, Gütersloh.

Proceeds from lease agreements

The future lease payments due to ElringKlinger in relation to binding operating leases fall due as follows:

	Dec. 31, 2011 EUR k	Dec. 31, 2010 EUR k
less than one year	1,540	5,507
between one and five years	1,313	1,829
more than five years	0	31
Total	2,853	7,367

Number of employees

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

	2011	2010
Employees	5,643	4,331
Trainees	136	122
Total	5,779	4,453

In 2011, an average of 234 employees were employed at proportionately consolidated joint ventures.

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 226,094 k (2010: EUR 198,870 k). Of that amount, 7.2% (2010: 7.2%) related to contributions to the statutory pension scheme.

Events after the end of the reporting period

ElringKlinger AG acquired the metal housings manufacturer ThaWa GmbH Thaler Warenautomaten, Thale, Germany, and the AGD Group Entwicklungs- und Vetriebs GmbH, Gütersloh, after the end of the reporting period. The purchase was completed with effect from January 1, 2012. The provisional purchase price amounted to EUR 3,000 k. The final purchase price is determined based on the corresponding statements of financial position as of December 31, 2011 and will be reduced by the liabilities acquired (expected to amount to EUR 1,800 k).

In acquiring the company, ElringKlinger 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 in May 2011.

On March 15, 2012, the Management Board of ElringKlinger AG submitted for approval the consolidated financial statements to the Supervisory Board, which will meet on March 23, 2012.

Related party disclosures

Transactions between the parent company and its subsidiaries and long-term equity interests are eliminated in the course of consolidation and are therefore not discussed in this note. In addition, the following business relationships exist between companies of the ElringKlinger Group and related parties and companies controlled by related persons:

1. Cooperation agreement 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 earned EUR 117 k during the reporting year (2010: EUR 164 k). The outstanding balance at the end of the reporting period was EUR 0 k (2010: EUR 0 k).
2. Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kádafalva, Hungary. TPH earned EUR 197 k in rental income based on this lease during the reporting year (2010: EUR 197 k). As in the prior year, there was no outstanding balance as of the end of the reporting period.
3. Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 477 k in sales revenues during the reporting year (2010: EUR 354 k). As of the end of the reporting period, December 31, 2011, there was one outstanding receivable of EUR 31 k (2010: EUR 38 k).
4. Master supply agreement 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 (2010: EUR 2.088 k). The outstanding balance as of the end of the reporting period amounted to EUR 218 k (2010: EUR 191 k).
5. Master supply agreement 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 (2010: EUR 106 k). As of the end of the reporting period, there are no liabilities (2010: EUR 15 k).
6. The joint venture ElringKlinger Korea Co., Ltd. (EKKO), which is included in the consolidated financial statements by proportional consolidation, procured raw materials and merchandise for a price of EUR 374 k (2010: EUR 491 k) from ElringKlinger's joint venture partner Jeil E&S Co., Ltd. in the year under review. As of the end of the reporting period, EKKO still had liabilities in the amount of EUR 13 k (2010: EUR 28 k). Furthermore, there is a lease agreement between EKKO and Jeil E&S Co., Ltd. EKKO's rent expenses in the reporting year amounted to EUR 101 k. As of the end of the reporting period, there were no outstanding liabilities.
7. Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd. (CEK), and CHYAP, the company controlled by Ms. Liu, who is a joint partner in CEK. CEK procured EUR 128 k worth of services under these business relations in 2011. There were no more liabilities as of December 31, 2011. Furthermore, CEK sold EUR 49 k worth goods and raw materials to CHYAP. The outstanding balance as of the end of the reporting period amounted to EUR 16 k.

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 the 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 Pct. 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, 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 (2010: 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:

	Fixed remuneration		Variable remuneration		Total remuneration	
	2011 EUR	2010 EUR	2011 EUR	2010 EUR	2011 EUR	2010 EUR
Dr. Helmut Lerchner	48,000	50,000	54,000	39,003	102,000	89,003
Markus Siegers	25,000	25,500	42,105	23,196	67,105	48,696
Walter Herwarth Lechler	28,000	30,000	27,000	25,558	55,000	55,558
Gert Bauer	18,000	19,000	27,000	19,502	45,000	38,502
Armin Diez	18,000	16,333	27,000	11,874	45,000	28,207
Pasquale Formisano	14,000	12,333	27,000	11,874	41,000	24,207
Dr. Margarete Haase	8,833	0	15,750	0	24,583	0
Dr. Rainer Hahn	4,167	15,000	11,250	19,502	15,417	34,502
Karl Uwe van Husen	26,000	27,000	27,000	19,502	53,000	46,502
Dr. Thomas Klinger-Lohr	18,000	18,000	27,000	19,502	45,000	37,502
Paula Monteiro-Munz	18,000	16,333	27,000	11,874	45,000	28,207
Manfred Rupp	0	3,500	0	7,628	0	11,128
Manfred Strauß	14,000	15,000	27,000	19,502	41,000	34,502
Gerhard Wick	13,000	12,333	27,000	11,874	40,000	24,207
Total amount	253,000	260,332	366,105	240,391	619,105	500,723

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 remuneration of the employee representatives in the Supervisory Board amounted to EUR 417 k in 2011 (2010: EUR 282 k).

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 Group companies, the corporate functions Finance, Controlling, Legal Affairs, Human Resources, IT, Investor Relations and Corporate Communication, as well as the Aftermarket and Industrial Parks divisions

Theo Becker, Metzingen
Responsible for the Cylinder-head Gaskets, Specialty Gaskets, Housing Modules/Elastomer Technology, Shielding Technology, E-Mobility and Tooling Technology divisions, as well as the corporate functions Quality and Environment, Materials Management and 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 (2010: EUR 1,921 k). This is composed of a fixed component of EUR 865 k (2010: EUR 823 k) and a variable component of EUR 1,398 k (2010: EUR 1,098 k). The variable component is made up of short-term performance-related remuneration amounting to EUR 1,289 k (2010: EUR 966 k) and EUR 109 k (2010: 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:

	Fixed remuneration (prior year) EUR	Short-term performance-based remuneration (prior year) EUR	Long-term performance-based remuneration (prior year) EUR	Total amount (prior year) EUR
Dr. Stefan Wolf	355,744 (330,106)	552,070 (413,806)	39,658 (52,812)	947,472 (796,724)
Theo Becker	251,535 (251,341)	368,046 (275,871)	39,483 (39,369)	659,064 (566,581)
Karl Schmauder	257,816 (241,975)	368,047 (275,871)	30,110 (40,054)	655,973 (557,900)
Total	865,095 (823,422)	1,288,163 (965,548)	109,251 (132,235)	2,262,509 (1,921,205)

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 risk-free interest rate used was 1.9%. 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 expected dividend was EUR 0.35 per share.

The provision is accrued pro rata temporis over the vesting period and is assessed on every reporting date and again on the exercise date. Changes in the fair value are recognized in net income.

For financial year 2011, the following data arose:

Tranches	Tranche 2008	Tranche 2009	Tranche 2010	Tranche 2011
Date of issue	2008	2009	2010	2011
Number of outstanding stock appreciation rights (not yet exercisable)	0	108,754	49,090	32,501
Number of lapsed stock appreciation rights	20,341	0	0	0
Average strike price (EUR)	24.63	6.95	15.68	24.83
Average remaining time to maturity in years	0	0.06	2.04	3.04
Value of stock appreciation rights held by members of the Management Board				
December 31, 2011 (EUR k)	0	771	103	21
December 31, 2010 (EUR k)	32	412	75	0
December 31, 2009 (EUR k)	28	74	0	0
December 31, 2008 (EUR k)	1	0	0	0

Additions to pension provisions for members of the Management Board amounted to EUR 2,577 k (2010: EUR 317 k) and are related to Dr. Stefan Wolf in the amount of EUR 768 k (2010: EUR 111 k), Theo Becker in the amount of EUR 719 k (2010: EUR 112 k) and Karl Schmauder in the amount of EUR 1,090 k (2010: EUR 94 k).

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


Provisions of EUR 11,952 k (2010: EUR 11,638 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 (2010: EUR 868 k) during the 2011 financial year.

The **auditor fees** amounted to:

	2011 EUR k	2010 EUR k
Audit of the annual financial statements	686	380
Other auditing services	0	0
Tax advisory	0	0
Other services	0	55
Total	686	435

Information pursuant to § 160 (1) no. 8 AktG

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

*  CF. GLOSSARY

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

ElringKlinger 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 ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Investment Management 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 Investment Management Limited pursuant to section 22 (1) sent. 1 no. 6 in connection with sent. 2 WpHG.

5. Voting rights notification

ElringKlinger received the following notification on October 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 ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Holdings 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 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

ElringKlinger 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 ElringKlinger 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

ElringKlinger 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 no. 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 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 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, Germany, 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 se. 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. Beta1 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:

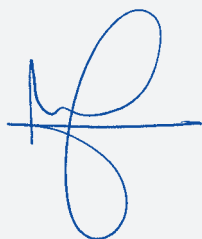
- Lechler Beteiligungs-GmbH

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.

Dettingen/Erms, March 15, 2012
Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder

Auditor's Report

We have audited the consolidated financial statements prepared by ElringKlinger AG, Dettingen/Erms, comprising the Group Income Statement and Group Statement of Comprehensive Income, Group Statement of Financial Position, Group Statement of Changes in Equity, Group Statement of Cash Flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2011. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, March 15, 2012

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

Marcus Nickel
Wirtschaftsprüfer
(German Public Auditor)

ppa. Renate Berghoff
Wirtschaftsprüferin
(German Public Auditor)

Responsibility Statement

Responsibility Statement According to §§ 297(2) Sentence 4 and 315(1) Sentence 6 HGB (German Commercial Code)

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

Dettingen/Erms, March 15, 2012



Dr. Stefan Wolf



Theo Becker



Karl Schmauder

Glossary

Financials

A Authorized capital

Capital up to the level of which the management board of a German stock corporation has been authorized, on the basis of a 3/4-majority resolution by the General Meeting of Shareholders, to increase the company's capital up to a given date (which shall be no more than five years in the future) with the prior approval of the supervisory board. It may be exercised in part and, correspondingly, on several occasions (Sections 202-206 AktG).

C Cash flow

Figure used to determine a company's financial strength. It describes the excess of the cash received over the cash expended as a result of the company's activities or the amount of cash generated by the company itself. For the purpose of determining cash flow, an entity's profit for the annual period is adjusted for items that do not produce an inflow or outflow of cash, such as depreciation or changes in provisions. Net cash from operating activities is the surplus of cash generated by operating activities.

Corporate Governance

Stands for corporate management and supervision that should be as responsible as possible and focused on sustainability and value generation over the long term.

E Earnings per share

Earnings per share (abbreviated: EPS) is used for the purpose of analyzing profitability and – at a cross-sector level – evaluating a company. EPS is calculated by dividing profit attributable to shareholders by the number of shares outstanding.

EBIT margin

The percentage figure of EBIT divided by sales revenue. The EBIT margin shows a company's profitability over a specific period of time.

EBIT / Operating result

EBIT is the abbreviation for: Earnings before Interest and Taxes. It corresponds to the operating result before net finance costs and income from investments. At the international level, this figure is commonly used to compare companies' earnings power. As regards ElringKlinger, EBIT differs from the operating result in that EBIT includes factors relating to foreign exchange movements.

F Free cash flow

Free cash flow represents the funds freely available to the company for distribution. It is calculated by subtracting investments from net cash from operating activities.

Free float

Free float refers to a company's shares which are freely traded on the exchange and which are not firmly held by certain groups of investors. Accord-

ing to the definition of Deutsche Börse AG, share packages under 5% belong to the free float.

H HGB

Abbreviation for Handelsgesetzbuch (German Commercial Code). The financial statements of the parent company, ElringKlinger AG, are prepared in accordance with HGB.

I IFRS

IFRS stands for "International Financial Reporting Standards," formerly "International Accounting Standards" (IAS). They comprise the accounting provisions for exchange-listed entities. The application of IFRS has been mandatory in the EU since January 2005. The transition to IFRS as regards ElringKlinger's consolidated financial reporting was made in 2004.

M MDAX

The Mid Cap Dax (MDAX) is a German stock market index introduced in 1996. It encompasses the stocks of 50 corporations that are positioned directly below Germany's DAX-listed companies in terms of market capitalization and trading volume.

N Net debt

Figure that describes the level of indebtedness of a company if all liabilities were repaid by means of current assets. Net debt is calculated on the basis of interest-bearing liabilities (primarily bank borrowings) less cash and cash equivalents. Alternatively, it

can be calculated on the basis of the entire liabilities recognized less cash and cash equivalents less pension provisions.

Net finance income/cost

Profit or loss arising from financial transactions, e.g. interest income and expenses, income and expenses attributable to investments or income and expenses attributable to exchange differences. Net finance income or cost is a component of pre-tax earnings presented in the income statement.

P Purchase price allocation

Purchase price allocation (abbreviated: PPA) refers to the allocation of the price paid in the purchase of a company or an interest in a company to the individual identifiable assets acquired as part of this transaction. These also include intangible assets such as an existing customer base or order backlog. The allocation is performed on the basis of the relative fair values at the date of purchase. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

S Statement of cash flows

The statement of cash flows shows the calculation for the flow of funds generated or used by a company from operating, investing and financing activities during the financial year. In addition, cash and cash equivalents at the beginning of the financial year are reconciled with the amount at year-end. The statement of cash flows helps determine the com-

pany's ability to generate cash and cash equivalents.

W WpHG

Abbreviation for Wertpapierhandelsgesetz (Securities Trading Act).

Technology

A APU (Auxiliary Power Unit)

An energy generation system that operates without an external power source and is used primarily for the purpose of mobile on-board power supply (vehicles, ships, aircraft). Fuel-cell-powered stationary air conditioning in trucks, which functions independently of the vehicle's engine, is one of the fields of application that ElringKlinger addresses. In this case, the available fuel is used to generate hydrogen gas via a reformer, which in turn supplies the fuel cell stack very effectively.

B Bipolar plates

Bipolar plates are core components in fuel cell stacks (see "Stack"). Their functions are to create an electrical interconnection between two cells respectively to transmit the energy generated, to supply the cells with hydrogen and oxygen and to distribute the coolant. ElringKlinger develops and manufactures metal bipolar plates. Among the technical requirements for these components are high-precision metal-forming within the contact area (in the micrometer range) and accurate, low-distortion laser welding of the cathode and anode plates.

C C-steel

Types of steel with a carbon content of at least 0.25%. The "C" stands for the chemical symbol for carbon. ElringKlinger requires C-steel for manufacturing gaskets and heat shields.

CAFE regulations

The Corporate Average Fuel Economy (CAFE) regulations in the United States are similar to European legislation that govern CO₂ emissions and set limits for the average fuel consumption of a manufacturer's fleet of vehicles. Failure to comply with CAFE regulations can result in significant fines.

Catalytic oxidation of carbon monoxide (CO) and hydrocarbon (HC)

Method used for the purpose of reducing carbon monoxide and unburnt hydrocarbon in exhaust gas. Carbon monoxide is produced amongst other things by the incomplete burning of fossil fuels. It is a colorless, odorless but poisonous gas. When the hazardous exhaust gases pass through a catalytic converter (usually made of a ceramic material) and come into contact with its active surface featuring a precious-metal coating, a chemical reaction takes place and the gases are converted into non-toxic components (carbon dioxide and water).

Cell connector/Cell contact system

The cell contact system developed by ElringKlinger for lithium-ion batteries consists of cell connectors and a cell carrier in which the connectors are integrated as a robust laser-welded construction. Via the cell connectors,

the individual battery cells are connected both in a row and parallel to one another. They perform a conductive function, absorb cell energy and contain sensor elements. The cell contact consists of a control interface with thermal and electric monitoring.

Combined power/heat generation

Combined power/heat generation involves actively using the waste heat produced during electricity generation, leading to a particularly high degree of overall efficiency. At present, ElringKlinger is developing fuel cell stacks for fuel-cell-powered micro-co-generation units designed to supply houses and apartment buildings with electricity and heat.

F Fuel cell

A fuel cell converts fuel energy into electricity by means of a chemical reaction. In order for this reaction to be able to take place, the cell needs oxygen and hydrogen – either directly or derived from fuel. In the latter case, a reformer provides the cell with hydrogen gas derived from diesel or natural gas, for example. Unlike batteries, fuel cells do not store energy, but rather convert it. A fuel cell consists of two different electrodes (anode and cathode) with an electrolyte (ionic conductor) located between them. There are different types of fuel cell technologies that offer specific advantages depending on their application. To date, ElringKlinger has developed components for the SOFC high-temperature fuel cell, the PEM low-temperature fuel cell and the DMFC direct methanol fuel cell.

D DMFC (Direct Methanol Fuel Cell)

With “alcohol” as a fuel, DMFC offers good storage capabilities and is a cost-effective energy carrier. As the cells are not (yet) as efficient as, for instance, related PEM cells, their use is restricted to applications with low energy requirements. ElringKlinger develops and produces elastomer-coated sealing frames for DMFC fuel cells.

DPF (Diesel Particulate Filter)

The diesel particulate filter – also known as a soot particulate filter – is a component of the exhaust tract in diesel-powered vehicles that is responsible for filtering harmful soot particles from the exhaust. Among the numerous concepts developed for this purpose, wall flow filters made of ceramic – such as silicon carbide, aluminum titanate or cordierite – have established themselves as the standard choice, with high filtration efficiency of approximately 95%. The geometries vary, ranging from honeycomb structures to even, perforated surfaces. The European emission standards contain specific particulate limits. Today, virtually all new passenger cars and commercial vehicles in the EU are fitted with a DPF.

DPF coating

The soot particles deposited in the diesel particulate filter (DPF) must be burned off in order to regenerate the filter. Filters are generally catalytically coated with a view to accelerating the reaction and reducing the required combustion temperature. The catalytic coating material is mostly based on precious metals (platinum, rho-

dium, palladium). The catalytic effect generates the high temperature required to burn off the soot particles and oxidate any remaining hydrocarbons or carbon monoxide into CO₂ and water. Depending on the vehicle usage profile, regeneration can be passive or active. Passive regeneration, for example when driving on the motorway, occurs through the permanent conversion of soot between the temperatures of 350°C and 500°C (CRT = Continuous Regeneration Trap). Active regeneration, for example when driving in city traffic, increases the temperature to over 500°C by means of engine-controlled post-injection. ElringKlinger has developed a coating material for ceramic diesel particulate filter bodies that is based on an alkali silicate substance. This material is free from heavy and precious metals and is highly active at low temperatures. In 2012, it will be used for the first time at a series production level in diesel particulate filters supplied by ElringKlinger subsidiary Hug for deployment in construction machinery.

E Elastomer

Plastics/polymers can be divided into three main categories depending on their processing properties: thermoplasts, duroplasts and elastomers. The distinctive feature of elastomers is that their shape can be changed temporarily through the application of pressure or stretching before they return to their original form (“rubber”). They are manufactured from natural or synthetic rubber, which retains the desired properties owing to “inter-linking” (also vulcanization). The final

material varies depending on the raw materials, manufacturing process and additives involved. When working with elastomers in the field of sealing technology, ElringKlinger utilizes proprietary applications which are optimized to meet special customer requirements.

European emission standards

The emission standards prescribed by the European Parliament specify the emission limit values for HC, CO, NOx and particles that must be complied with by newly registered automobiles in Europe. Different limits apply for diesel and petrol engines. The Euro 5 standard came into force on September 1, 2009, prescribing – among other things – an 80% reduction in the particulate matter limit for diesel engines. The Euro 6 standard, which is to be introduced in 2014, will further reduce the nitrogen oxide values permitted for diesel vehicles.

H Hybrid engine

In the automotive industry, the term “hybrid engine” refers to the combination of various drive systems or different energy sources; this includes, for instance, the combination of a combustion engine with an electric motor.

J JoinMelt method

Innovative injection-molding method for plastics, as part of which two production steps are brought together within a single manufacturing process: injection-molding of the plastic material and the joining of two molded components. In contrast to conventional methods, the plastic parts

are injection-molded and joined directly within the injection mold by means of hot gas welding. In addition to providing significant cost benefits, the JoinMelt method helps to improve component quality and operational reliability. A patent application for the JoinMelt method has been filed by ElringKlinger subsidiary Hummel-Formen.

L Lithium-ion battery

Lithium-based batteries are rechargeable, durable high-energy batteries with a high energy density. They are used in electric and hybrid vehicles. ElringKlinger produces, among other things, modular cell contact systems for such batteries.

M Meander, honeycomb and segment stoppers

Stoppers are structural features contained in the spring steel layers of cylinder-head gaskets that help to seal engine combustion chambers. Coined meander, honeycomb and segment stopper geometries have taken over from folded and laser-welded stoppers as the state of the art when it comes to making optimum use of the geometric space available. New embossing/coining technologies provide engineers with a variety of possibilities for influencing the distribution of pressure in the sealing gap.

Metal-elastomer gaskets

Gaskets made from a metal core with vulcanized elastomer profiles for sealing power-transmitting connections, for example oil pump gaskets and timing case gaskets.

Metaloflex™

Under the Metaloflex™ brand name, ElringKlinger produces metal layer cylinder-head gaskets made from beaded, elastomer-coated spring steel layers – single-layer or multilayer, depending on the application.

Metaloseal™

The specialty and exhaust gaskets marketed under the brand name Metaloseal™ are based on the functional principle of linear sealing using a bead. The versatile sealing system consists of both pure metal and elastomer-coated metal gaskets that cover virtually all applications in engines, transmissions, exhaust systems and engine accessories.

Moldflon™

See PTFE

MuCell

An ultralight polyamide plastic material, which, thanks to its innovative pore structure, allows for additional weight savings in the production of technical plastic housing modules such as cam covers and oil pans.

N Nitrogen oxides (NOx)

A generic term for nitrogen and oxygen compounds, also known internationally by the abbreviation NOx. These gases, which form in the exhausts of combustion engines, are harmful to humans and the environment. Emission standards are becoming increasingly stringent worldwide, prescribing strict limits with regard to NOx emissions. Nitrogen oxides can be neutralized with the help of SCR technology (see SCR).

NOx

See nitrogen oxides

O **Organo sheet method**

Innovative method of lightweight construction as part of which so-called organo sheets – particularly light yet extremely sturdy thermoplastic structural components with embedded fiber-reinforced composites – are processed and plastic elements for additional component functions are injection-molded in the tool itself. ElringKlinger subsidiary Hummel-Formen has filed a patent application for this method.

P **PEM fuel cell**

PEM stands for “Proton Exchange Membrane.” PEM fuel cells work at low temperatures of around 90°C and have a polymer membrane as their central element. In the synthetic reaction known as “cold combustion,” oxygen and hydrogen react with one another aided by a catalyst, thereby releasing electricity that causes water to form. For PEM fuel cells used in passenger cars, ElringKlinger has developed metal bipolar plates, of which several hundred are required in a single cell stack.

Plug-in hybrid

This concept is the next step for hybrid technology, with on-board energy storage systems that are no longer capable of only being recharged by the vehicle’s combustion engine but also via an external electric power source. At present, however, this technology still entails very high production costs.

Polyamide

Polyamides are polymers and usually refer to synthetic thermoplastics.

ElringKlinger uses polyamide in the production of lightweight plastic housing modules (refer to MuCell™).

PTFE (polytetrafluoroethylene)

The thermoplastic high-performance plastic PTFE – commonly known by the trade name Teflon® – has a very low coefficient of friction and is particularly resistant to most aggressive chemicals and external influences such as moisture and UV radiation. PTFE is resistant to temperatures as low as -200°C and only melts at over 320°C. With its modified material Moldflon™, which is registered as a trademark, ElringKlinger Kunststofftechnik has the first ever injection-moldable PTFE high-performance material with a wide range of potential applications, for instance in the field of medical technology.

S **Selective catalytic reduction (SCR)**

Technology for the reduction of toxic nitrogen oxides (NOx). In this case, a urea solution (usually referred to as “AdBlue” in the automotive industry) is added to the exhaust gas. When this mixture passes through the catalytic converter, the nitrogen oxides react with the urea solution at the active surface of the catalytic converter and are subsequently converted into nitrogen and water. Incorporating SCR technology, exhaust gas purification systems developed by ElringKlinger subsidiary Hug are able to reduce NOx levels by up to 99%.

Solid Oxide Fuel Cell (SOFC)

Solid oxide fuel cells are also known as “high-temperature fuel cells” owing to their high operating temperatures (approx. 800°C). This type of fuel cell can be operated with a wide range of fuels. The hydrogen gas required for the cell is derived from diesel, biogas, ethanol, etc., using a reformer. Based on this technology, ElringKlinger is currently developing the stack module (including thermal protection box) for a fuel cell solution, produced together with cooperation partners, which is designed to provide on-board power supply in trucks.

Stack

In a fuel cell context, the term “stack” refers to a complete stack of individual fuel cells including bipolar plates and retaining and connecting devices. To boost performance, the individual fuel cells are connected in series. The number of combined cells in the stacks produced by ElringKlinger currently ranges from between 40 and approximately 500.

T **Turbocharger**

By compressing the air that is necessary for combustion, turbochargers increase the air flow rate in engines. The turbocharger is one of the key components of engine downsizing that delivers the same level of performance with a reduced engine capacity. This, in turn, creates significant potential for reducing fuel consumption.

Imprint

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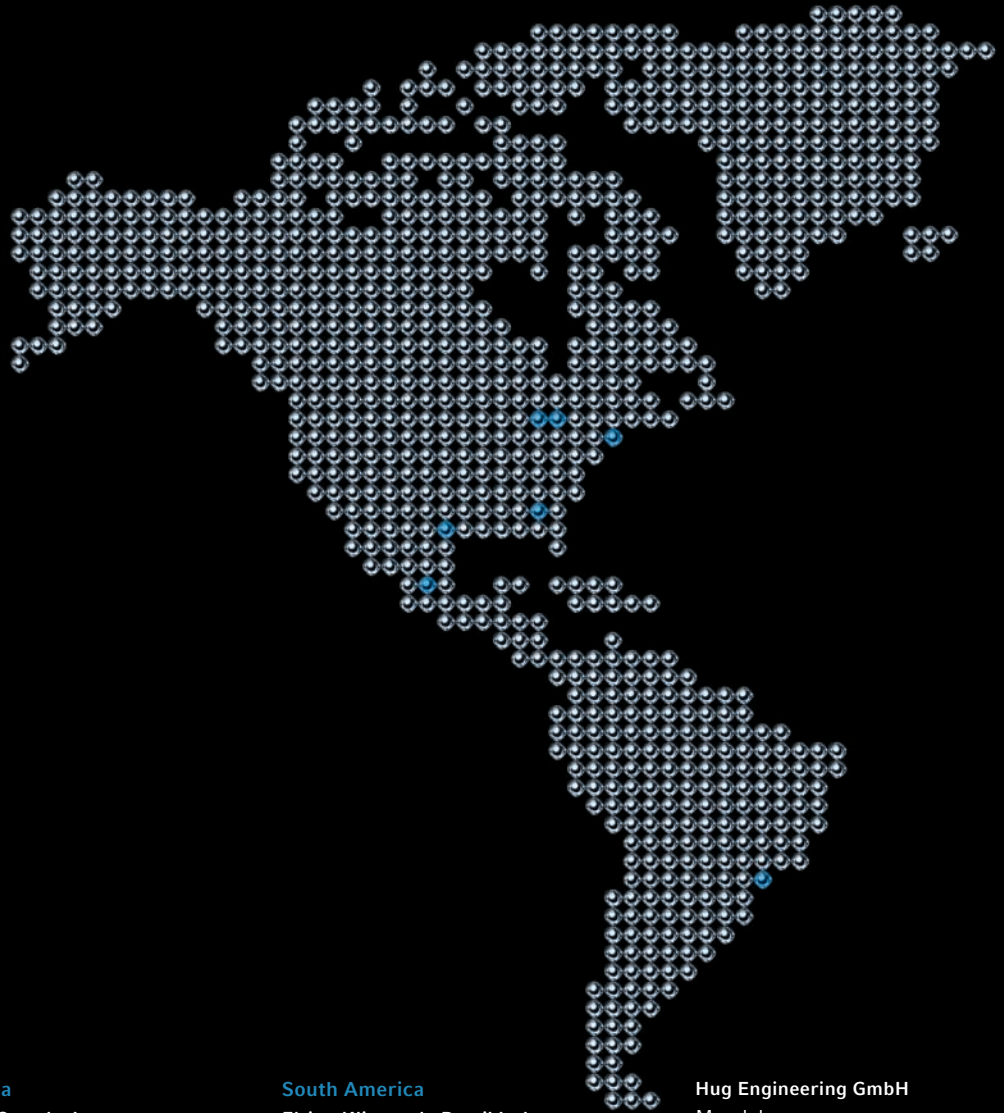
Disclaimer – Forward-looking Statements and Forecasts

This report contains forward-looking statements. These statements are based on expectations, market evaluations and forecasts by the Management Board and on information currently available to them. In particular, the forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialize. Whilst the Management Board is confident that the statements as well as the opinions and expectations on which they are based are realistic, the aforementioned statements rely on assumptions that may conceivably prove to be incorrect. Future results and circumstances depend on a multitude of factors, risks and imponderables that can alter the expectations and judgments that have been expressed. These factors include, for example, changes to the general economic and business situation, variations of exchange rates and interest rates, poor acceptance of new products and services, and changes to business strategy.

This report was published on March 29, 2012, and is available in German and English. Only the German version shall be legally binding.

ElringKlinger Worldwide

ELRINGKLINGER WORLDWIDE



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ElringKlinger North America, Inc.
Plymouth, Michigan / USA

Elring of North America, Inc.
Branchburg, New Jersey / USA

ElringKlinger USA, Inc.
Buford, Georgia / USA

Hug Engineering Inc.
Austin, Texas / USA

Elring Klinger México, S.A. de C.V.
Toluca / Mexico

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Elring Klinger do Brasil Ltda.
Piracicaba / Brazil

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Geretsried-Gelting

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Bietigheim-Bissingen, Heidenheim

Elring Klinger Motortechnik GmbH
Idstein

ElringKlinger Logistic Service GmbH
Rottenburg / Neckar

Hummel-Formen GmbH
Lenningen

Hug Engineering GmbH
Magdeburg

ThaWa GmbH Thaler Warenautomaten
Thale

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Elring Parts Ltd.
Gateshead / Great Britain

ElringKlinger Meillor SAS
Nantiat / France
Chamborêt / France
Poissy / France



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Hug Engineering AG
Elsau / Switzerland

Oigra Meillor s.r.l.
Settimo Torinese / Italy

Hug Engineering S.p.A.
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ve Ticaret A.Ş.**
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Codinox Beheer B.V.
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Johannesburg / South Africa

Asia
**ElringKlinger Automotive Components
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Changchun/People's Republic of China

ElringKlinger China, Ltd.
Suzhou/People's Republic of China

**ElringKlinger Engineered Plastics
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Qingdao/People's Republic of China

ElringKlinger Korea Co., Ltd.
Changwon / South Korea
Seoul / South Korea

ElringKlinger Marusan Corporation
Tokyo / Japan
Saitama / Japan

Financial Calendar 2012

MARCH 29, 2012

Annual Press Conference, Stuttgart

MARCH 30, 2012

Analysts' Meeting, Frankfurt/Main

MAY 10, 2012

Interim Report on the 1st Quarter of 2012

MAY 16, 2012

107th Annual General Shareholders' Meeting, Stuttgart
Cultural and Congress Centre Liederhalle,
10:00 a.m. CEST

MAY 17, 2012

Dividend distribution

AUGUST 3, 2012

Interim Report on the 2nd Quarter and 1st Half of 2012

NOVEMBER 7, 2012

Interim Report on the 3rd Quarter of 2012

MAY 16, 2013

108th Annual General Shareholders' Meeting

Calendar Trade Fairs

SEPTEMBER 11 – 16, 2012

Automechanika, Frankfurt /Main

SEPTEMBER 20 – 27, 2012

64th IAA Commercial Vehicles, Hannover

OCTOBER 8 – 10, 2012

21st Aachen Colloquium Automobile and Engine Technology, Aachen

DECEMBER 4 – 5, 2012

11th International CTI Symposium & Exhibition

Innovative Automotive Transmissions and Hybrid & Electric Drives, Berlin



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