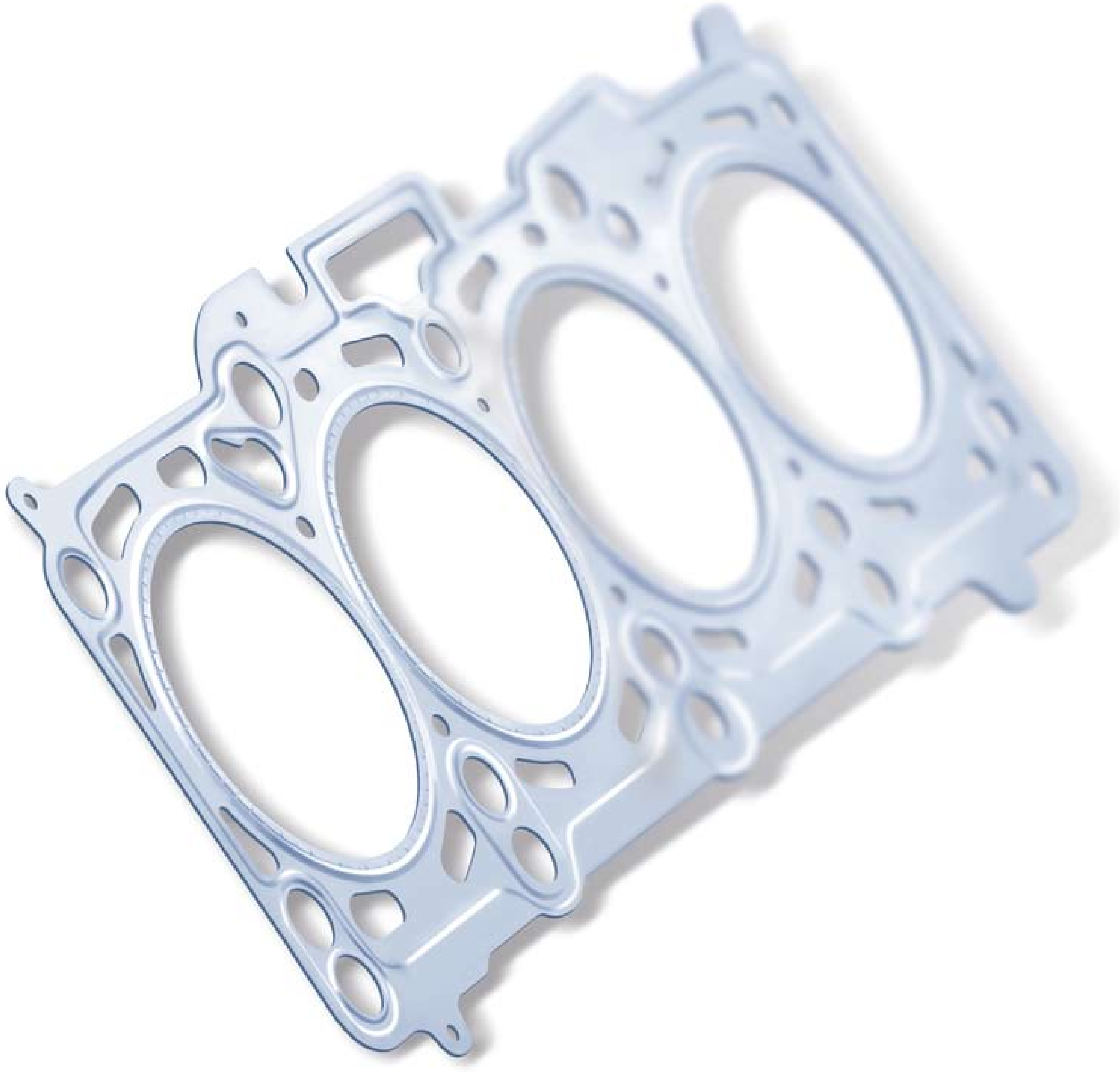
IN MOTION

ElringKlinger AG | Annual Report 2008



elringklinger

Substance | Expertise | Commitment

ElringKlinger Group

in Figures

Original Equipment | Aftermarket | Engineered Plastics | Services | Industrial Parks

IFRS	2008 € million	2007 € million	2006 € million	2005 € million	2004 € million
Sales	657.8	607.8	528.4	474.6	459.5
Cost of sales	468.2	400.1	338.7	318.0	305.0
Gross margin	189.6	207.7	189.7	156.6	154.5
Selling expenses	49.9	41.1	38.9	36.5	33.9
General and administrative expenses	19.9	22.1	22.7	22.9	22.2
Research and development expenses	36.5	29.8	26.0	24.3	22.9
Operating result	75.8	123.0	96.1	75.0	72.3
Net finance costs	-15.8	-8.1	-8.4	-4.1	-7.1
Earnings before taxes	60.0	114.9	87.6	70.9	65.2
Net income	43.2	80.3	61.9	46.6	40.4
Profit attributable to shareholders of ElringKlinger AG	39.8	75.9	57.8	42.4	36.0
Total dividend amount	8.6[1]	26.9	24.0	19.2	16.8
Earnings per share in € (split-adjusted)	0.69	1.32	1.00	0.74	0.63
Dividend per share in € (split-adjusted)	0.15[1]	0.47	0.42	0.33	0.29
Market capitalization (31.12.)	400.3	1.632.0	931.6	586.8	576.0
Investment in tangible and intangible assets	149.4	102.1	49.1	54.7	40.8
EBIT[2]	71.5	121.0	93.3	77.2	71.9
EBIT margin	10.9%	19.9%	17.7%	16.3%	15.7%
Net cash from operating activities	98.2	99.3	89.9	70.1	75.4
Balance sheet total	764.5	572.5	476.6	456.3	423.9
Equity	288.1	281.1	231.2	196.1	163.9
Equity ratio	37.7%	49.1%	48.5%	43.0%	38.7%
Return on total assets after taxes	8.2%	16.5%	14.5%	12.0%	11.3%
Return on equity after taxes	15.2%	31.3%	29.0%	25.9%	26.4%
ROCE	13.6%	30.3%	26.7%	23.8%	23.8%

[1] Proposal to the 2009 Annual General Shareholders' Meeting | [2] Incl. foreign currency translation

Substance | Expertise | Commitment

Meeting a challenge takes substance.

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

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

Reliability | Sustainability


elring klinger

Letter

to shareholders

FROM THE CHAIRMAN OF THE MANAGEMENT BOARD | 4–9

Theo Becker Dr. Stefan Wolf | Chairman Karl Schmauder

Dear Shareholders,
Ladies and Gentlemen,
Friends of ElringKlinger,

These are eventful times. Since Fall 2008, the world economy has been in the grips of a crisis reminiscent of that last experienced in 1929. What is more, it has affected all of the key economic regions around the globe. In 2009, the global gross national product looks set to contract for the first time since the 1930s.

The motor vehicle industry and the automotive supply sector have been particularly hard hit. In the second half of 2008, total vehicle sales, and thus also production output of automobiles and commercial vehicles, fell at a rate never previously experienced. As from the fourth quarter of 2008, the banking crisis and, in particular, the insolvency of several US-based banks severely affected vehicle leasing and financing activities – an area of business that accounts for almost 50% of global vehicle sales. This situation was compounded by growing uncertainty among consumers as to the future direction of vehicle taxation, particularly in a number of European countries. The possible use of CO_2 emission levels as a basis for taxation prompted many potential buyers to postpone vehicle purchases. In parallel, this visible hesitancy was fueled to a large extent by the impression gained by many consumers that the market would soon be awash with electrically-powered vehicles combining the benefits of sufficient range with rapid battery recharging and retail prices equivalent to those quoted for standard mass-produced cars.

Operating within this challenging environment, the ElringKlinger Group was unable to maintain the level of growth seen in recent years. Sales edged up from EUR 607.8 million in 2007 to EUR 657.8 million in 2008, but this was driven entirely by acquisitions. Without the newly acquired enterprises, sales would have receded by approx. EUR 10 million as a result of market conditions. Earnings before interest and taxes (EBIT) stood at EUR 71.5 million, compared to EUR 121.0 million in 2007. Within this context, it should be noted that the recently acquired companies have yet to reach the original EBIT level achieved by ElringKlinger. However, one of the key factors behind the year-on-year decline was the sudden and severe reduction in orders within the area of vehicle original equipment manufacturing in the fourth quarter of 2008. Net income for the ElringKlinger Group amounted to EUR 43.2 million for fiscal 2008, after EUR 80.3 million in fiscal 2007. In view of this performance we have decided to propose a lower dividend than in the previous year. We intend to put forward to the Annual General Meeting on May 26, 2009, a dividend proposal of EUR 0.15 per share, which corresponds to a total payout of EUR 8.6 million.

Fiscal 2008 also proved to be an eventful year within the ElringKlinger Group itself, with many new activities set in motion. Building on new technologies and new products, all business segments managed to secure interesting first-time or follow-up orders. These orders form the basis for the future growth of the ElringKlinger Group.

In acquiring the Swiss SEVEX Group, we were able to establish a solid global position within the area of shielding technology. The ElringKlinger Group is now able to supply all-embracing shielding technology packages that include engine, exhaust tract and underbody shielding components. ElringKlinger Abschirmtechnik (Schweiz) AG, ElringKlinger USA, Buford/Georgia and ElringKlinger China, Souzhou/China, all former SEVEX enterprises, were swiftly integrated into the Group. They now provide the foundation for our more expansive business in the field of shielding systems – in Europe, the Americas and Asia.

ElringKlinger‘s presence within the Asian business arena was further strengthened by the acquisition of an additional 40% interest in Marusan Corporation/Tokyo. With sites in Changchun and Souzhou in China, a new facility opened in Ranjangaon/India in 2008, as well as locations in Seoul and Changwong in Korea, the ElringKlinger Group is now well represented in Asia – the principal growth market for the vehicle industry in future. This will allow us to provide the best possible service for all customers in the region.

As a result of our takeover of a 49% interest in ElringKlinger, S.A., Reus/Spain from our long-standing business partner, we were able to expand this enterprise as a center of excellence for rubber-metal gaskets. In parallel, we successfully introduced small-volume production for independent aftermarket sales – an area of immense importance to the ElringKlinger Group – at this subsidiary, which is now owned entirely by ElringKlinger AG.

Over the course of 2008, our New Business Areas unit pressed ahead with its work in the field of fuel cells, diesel particulate filters, medical engineering (PTFE products), battery technology and environmental technology. Our ambition is to establish ourselves as solidly as possible in these highly attractive areas, the aim being to emerge reinvigorated from the current economic crisis once it is over.

We are equal to the challenges presented to us by the automotive industry. The reduction of fuel consumption and CO_2 emissions is a key issue embraced by today's automobile manufacturers. Producing innovative cylinder-head gaskets, specialty gaskets for engine, transmission and exhaust tract applications, lightweight plastic modules and state-of-the-art shielding solutions, we are committed to meeting our customers' requirements – day in, day out. As soon as the current global crisis facing the automotive sector and other industries is over, new products, new technologies and new fields of business will provide the ElringKlinger Group with a springboard for solid growth in sales and earnings.

The title chosen for this year's annual report is "In Motion". Change, movement, renewal – they are ever present, embodied in the progress we have made over recent years and, indeed, in the challenging times that lie ahead. Squaring up to the current crisis, we shall do everything in our power to keep the ElringKlinger Group on track, ensuring that shareholders receive adequate returns even when the going is tough. At the same time, we are committed to maintaining our forward momentum, be it in the vehicle industry or, via our Engineered Plastics unit, in the field of medical engineering – or in the area of environmental technology, epitomized by "ElringKlinger Going for Green".

Our inclusion in the MDAX in March 2009 represents an important milestone for us. Our strong position within the market – a position we managed to strengthen during this year of upheaval – and our impressive technology pipeline provide a solid basis for future stock performance.

We hope you enjoy reading our Annual Report for 2008.

Sincerely,

Dr. Stefan Wolf

Rep

ort

BY THE SUPERVISORY BOARD | 10–13

Dr. Helmut Lerchner | Chairman of the Supervisory Board

During the financial year 2008, the Supervisory Board of ElringKlinger AG advised the Management Board in matters pertaining to the completion of its duties and monitored its activities.

The Management Board submitted detailed monthly reports to the Supervisory Board on the revenue, cost and earnings position of ElringKlinger AG and of the Group as well as on the economic and competitive situations in so far as they were of relevance to ElringKlinger. The CEO also kept the chairman of the Supervisory Board informed, where appropriate, of any significant events.

At its four scheduled meetings in 2008, the Supervisory Board discussed the company's performance, the deteriorating economy and its impact on the situation of the company and the Group, the effect on the company's products and product development of legislation and market requirements aimed at reducing CO_2 emissions from combustion engines, the obligations and opportunities arising for ElringKlinger from the development of alternative drive systems, and the consequences of these developments for the organization's strategic outlook.

As in previous years, in 2008 there was no need to hold separate preparatory meetings of employee representatives.

The composition of the Supervisory Board remained unchanged from the previous year. No members of the Supervisory Board were absent for more than half of the meetings.

All transactions requiring approval were submitted to the Supervisory Board in good time and with a full explanation to allow it to reach a decision. In all cases, members voted unanimously in favor.

The Supervisory Board of ElringKlinger AG has formed an Audit Committee and a Personnel Committee.

The Audit Committee was made up of Karl-Uwe van Husen (Chairman), Walter Herwarth Lechler and Dr. Helmut Lerchner. The committee was constituted on February 13, 2008, when it also adopted its rules of procedure. The Audit Committee met on two further occasions in 2008 to discuss the financial statements for 2007 with the auditors and to agree both on a set of recommendations to be voted on by the entire Supervisory Board and on the focal points for the audit of the 2008 financial statements.

The Personnel Committee also remained unchanged from the previous year and was made up of Karl-Uwe van Husen, Dr. Thomas Klinger-Lohr, Walter Herwarth Lechler and Dr. Helmut Lerchner (Chairman). In 2008 the Personnel Committee met on one occasion in

December to reach a decision on a contractual adjustment to the fixed compensation payable to Management Board members Dr. Wolf and Mr. Schmauder on February 1, 2009.

At its meeting on March 20, 2008, the Supervisory Board approved and adopted the committee rules of procedure proposed by the committee members.

At the same meeting, the Supervisory Board adopted the consistently positive results of the assessment of its efficiency in the form of a detailed questionnaire completed by each member.

At its meeting on December 4, 2008, the Supervisory Board issued the Declaration of Conformity of the Supervisory Board and Management Board as required by Section 161 of the Stock Corporation Act (Aktiengesetz – AktG) on the German Corporate Governance Code in the version dated June 6, 2008. This Declaration of Conformity has been published on the company's website.

The financial statements of ElringKlinger AG, including the management report, for the financial year 2008 as well as the consolidated financial statements and Group management report for the financial year 2008, as presented by the Management Board, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart. The audit mandate relating thereto was issued by the Supervisory Board in accordance with the resolution passed by the General Meeting of Shareholders on May 30, 2008.

In accordance with Section 315a of the German Commercial Code (Handelsgesetzbuch – HGB), the consolidated financial statements of ElringKlinger AG were prepared on the basis of International Financial Reporting Standards (IFRS).

The auditor issued unqualified audit opinions for the financial statements, including the management report, of ElringKlinger AG 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 auditor. The aforementioned documents were studied in depth by the Audit Committee and the Supervisory Board and subsequently discussed in the presence of the auditor, who reported on the findings of his audit.

The Supervisory Board concurred with the outcome of the audit. Its own review also concluded that there were no objections to be raised.

At its meeting on March 26, 2009, the Supervisory Board approved the financial statements of ElringKlinger AG and the consolidated financial statements, together with the associated management and Group management reports for the financial year 2008. Thus, the financial statements of ElringKlinger AG for 2008 have been adopted in accordance with Section 172 AktG.

At the same meeting, the Supervisory Board examined the Management Board's proposal for the appropriation of profit and granted its approval.

The Supervisory Board would like to thank the Management Board and all members of staff of ElringKlinger AG and the Group for their unfailing commitment and successful work over the course of the financial year 2008.

Aichtal, March 26, 2009

The Supervisory Board

Dr. Helmut Lerchner
Chairman of the Supervisory Board

Subst

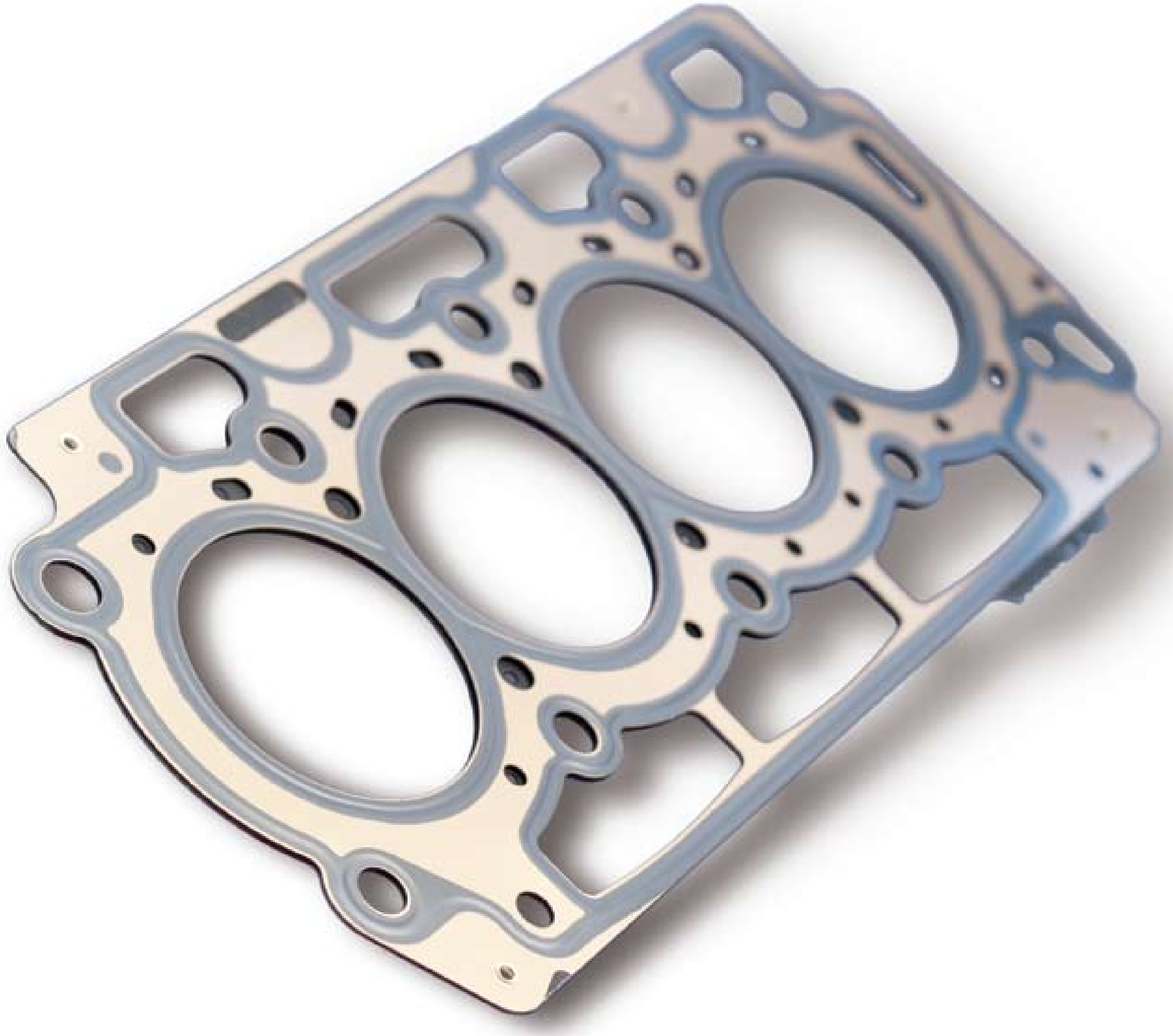
ance

The substance that we have nurtured over many years is enabling us to deliver a robust response to the particular challenges posed by today's markets and technological developments.

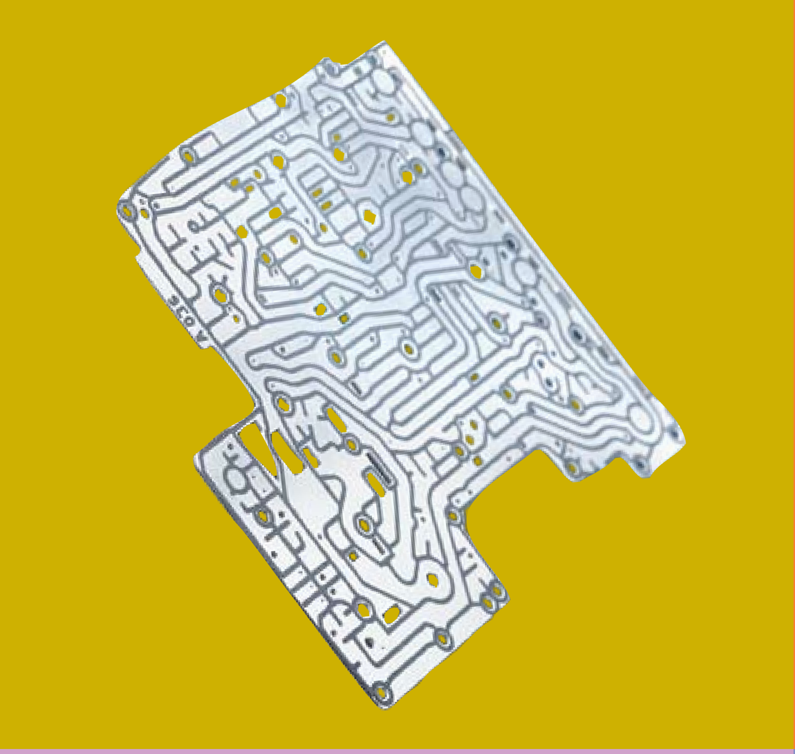
Thanks to our core expertise, we regard such trends as an opportunity to exploit fresh potential and build on our values.

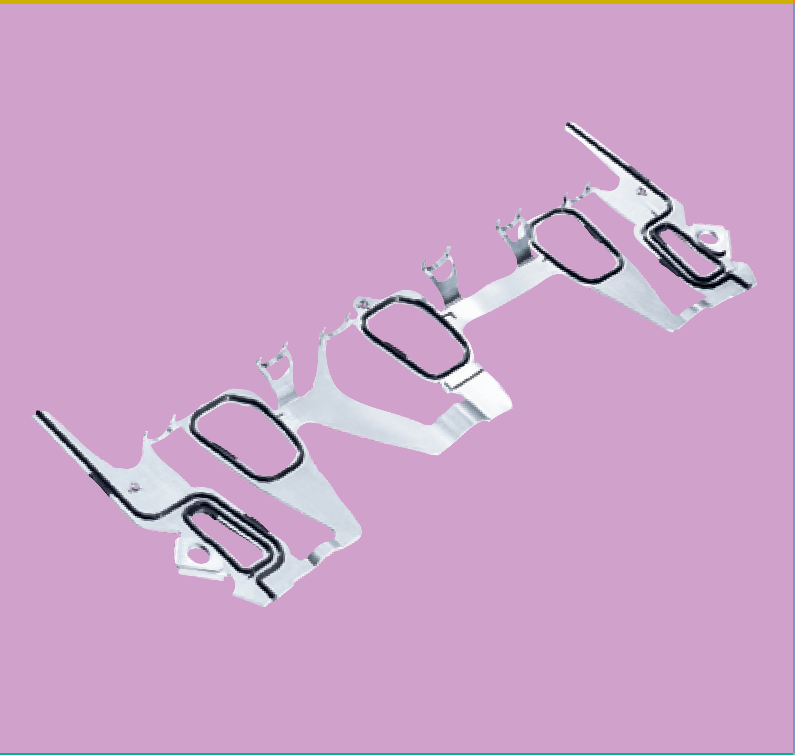
We are an independent manufacturer at the forefront of technology, with a sound equity ratio and long-term corporate strategy, drawing on our innovatory strengths to develop solutions for a successful future.

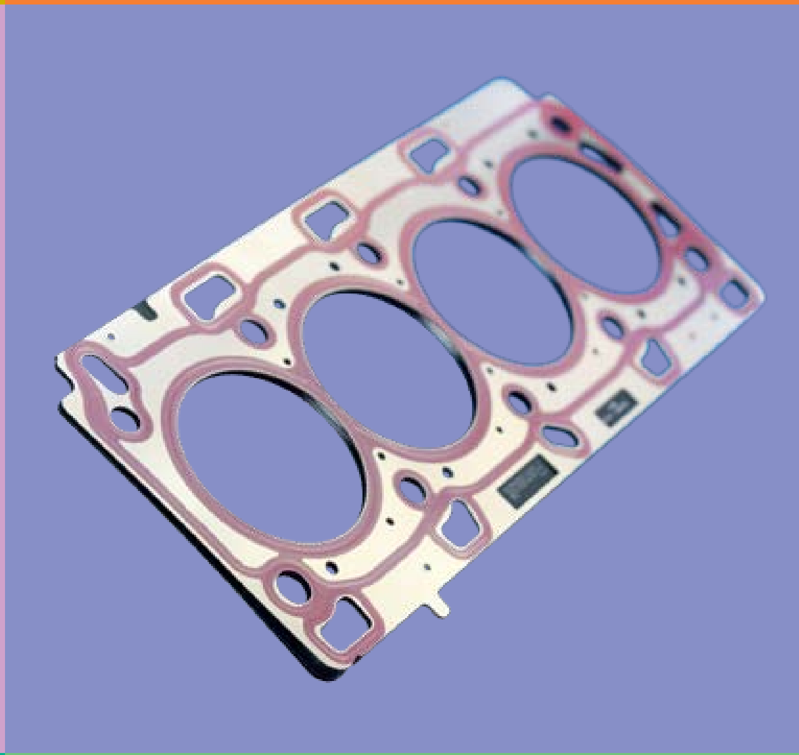
OPEL LAUBFROSCH | The first mass-produced cylinder-head gasket, 1924

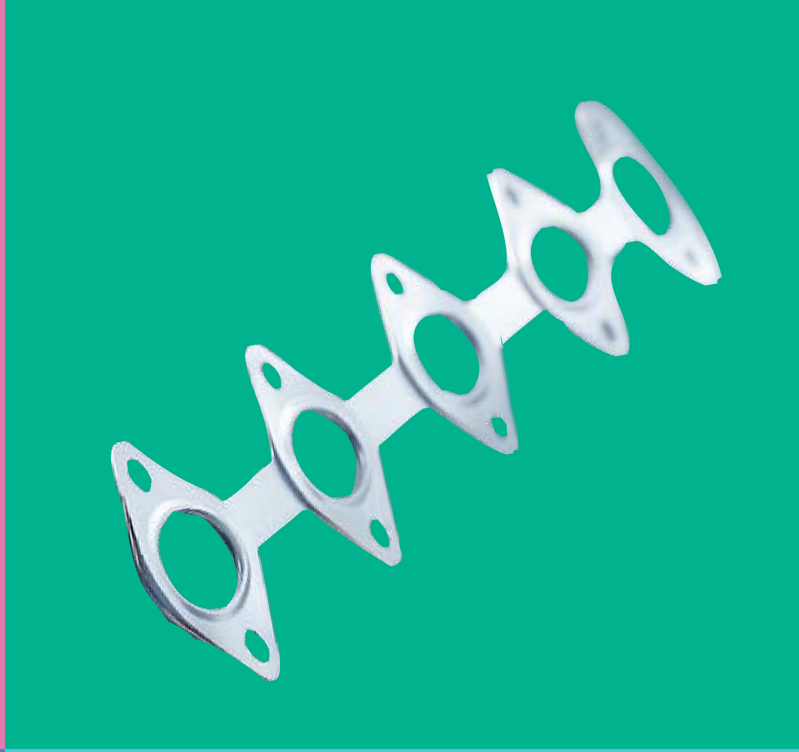
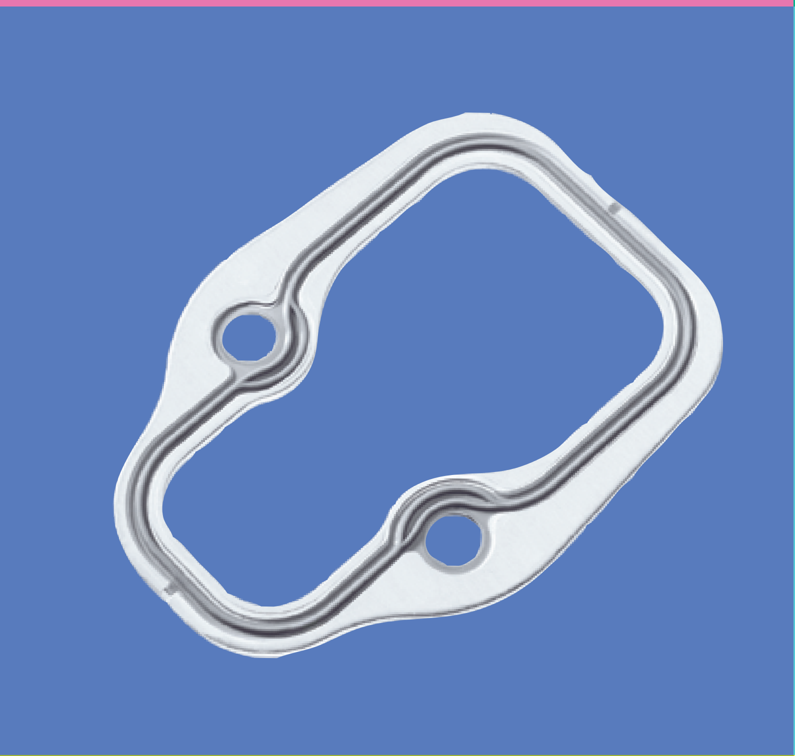
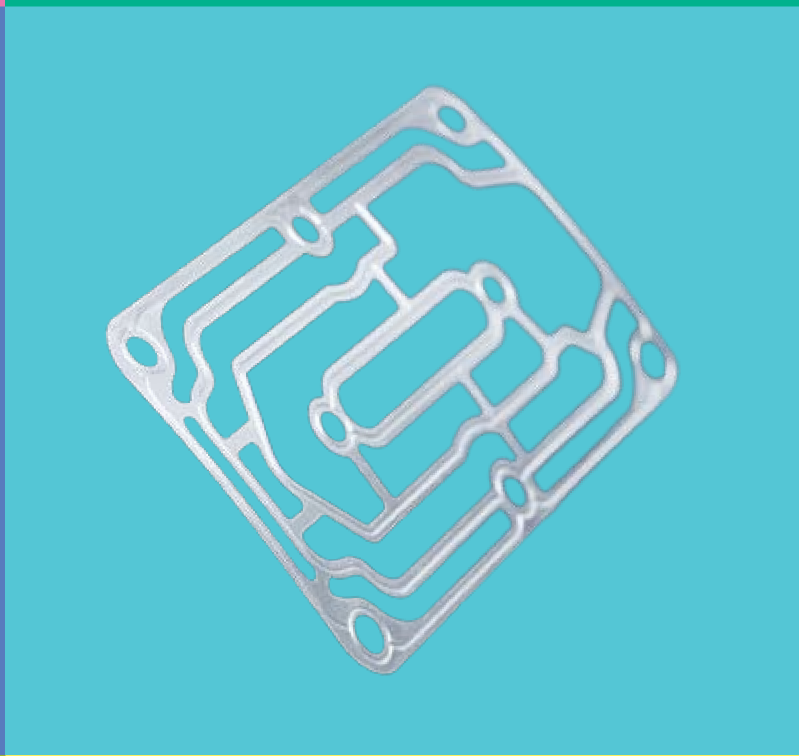
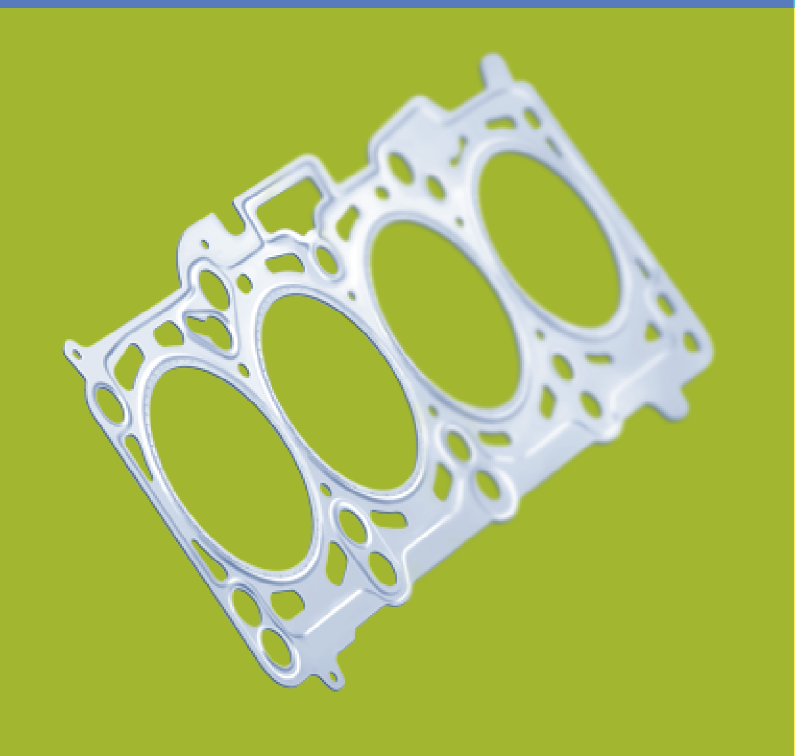
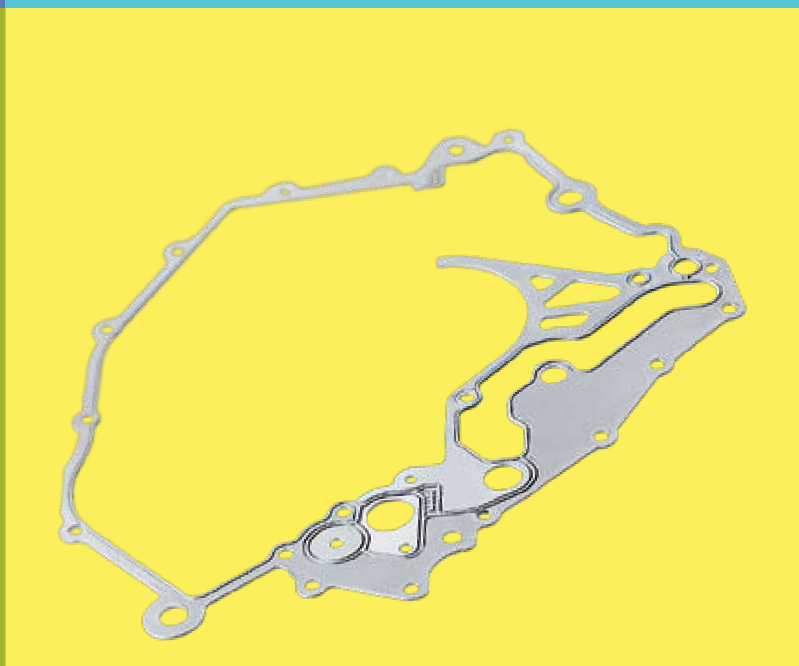


THIRD-GENERATION CHG | Innovative metal-layer cylinder-head gasket







Group Manag Report

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Macroeconomic Conditions and Business Environment

Global economic downturn

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

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

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

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

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

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

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

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

Automobile market severely affected by financial and credit crisis

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

Dip in global demand for automobiles

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

German automobile market contracts slightly

The significant rise in fuel prices in mid-2008, together with ongoing political debate as to a possible change in the government's policy on vehicle taxation, produced growing uncertainty among Germany's consumers. According to data published by the Verband der Automobilindustrie (VDA), Germany's association of the automobile industry, the number of car registrations in Germany contracted by just 1.8% to 3.1 million vehicles in 2008. Compared with other international markets, this was to be seen as a moderate decline.

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

Slump in European demand for automobiles

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

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

Record year for Russia

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

Double-digit production downsizing in the US

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

Positive trend in South America

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

Signs of weakening in Asian car market

While Japan recorded a 4.8% year-on-year decline in the number of vehicles sold in 2008, China saw car sales rise by 7.3% to 5.6 million units. India's automobile market produced growth of 2.2% in terms of the number of cars sold. At the same time, small yet dynamic markets such as Malaysia, Thailand or Indonesia generated stronger demand in the period under review. Despite this solid performance, there was a noticeable downturn in demand from Asia towards the end of year.

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

Share of diesel remains stable amid general market contraction

The share of diesel-powered vehicles among new car registrations remained solid against the backdrop of a rapidly declining automobile market in 2008. Despite what was at times a more pronounced rise in diesel prices compared to other fuels, around 53% of Western European consumers purchasing a new vehicle opted for a fuel-efficient diesel engine. To a certain extent, the introduction of a CO_2-based vehicle tax in some European countries also had a positive effect on the proportion of diesel vehicles sold. Particularly in Scandinavia, the UK and France the share of diesel engines among total new registrations was higher than in the previous year. In Germany, diesel vehicles accounted for 44.1% (47.7%) of new registrations, slightly down on last year's figure.

Demand for commercial vehicles dampened by financial crisis and global recession

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

Significant Events

Takeover of minority interests in Spain

Effective from March 7, 2008, ElringKlinger AG acquired the minority interests in Elring Klinger, S.A., Reus, Spain (49.0%) and in ElringKlinger Sealing Systems, S.L., Reus, Spain (10.0%), thus extending its ownership interest in both entities to 100%. Subsequently, ElringKlinger Sealing Systems, S.L., Reus, Spain, was merged into Elring Klinger, S.A., Reus, Spain, retrospectively effective from January 1, 2008. This did not result in any changes in the scope of consolidation.

Acquisition of the SEVEX Group, Switzerland

In the second quarter of 2008, ElringKlinger executed its takeover of the Swiss manufacturer of thermal and acoustic shielding components SEVEX AG, based in Sevelen, Switzerland, a company that now trades under the name of ElringKlinger Abschirmtechnik (Schweiz) AG. Alongside the Swiss parent company, ElringKlinger also acquired two operating entities: the US subsidiary SEVEX North America, Inc., Buford, and SEVEX Asia Co. Ltd. Suzhou, China. The entities of the SEVEX Group were included in the consolidated financial statements of ElringKlinger AG as at April 1, 2008, for the first time. They contributed EUR 46.4 million to Group sales in fiscal 2008.

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

Interest in Marusan Corporation increased to 50%

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

Effective from May 1, 2008, ElringKlinger extended its interest in this entity from 10% to 50%, thus strengthening its position within the Asian market. For this reason, ElringKlinger Marusan Corporation was accounted for on a proportionate basis (50%) in the consolidated financial statements of ElringKlinger AG as at May 1, 2008, for the first time. The entity included in the consolidated group contributed EUR 14.0 million to Group sales in 2008.

ElringKlinger Marusan Corporation manufacturers cylinder-head gaskets, specialty gaskets as well as heat shields for cars and commercial vehicles. In taking this route, the ElringKlinger Group expanded its scope of cooperation with Japanese vehicle manufacturers, an area in which it had previously been underrepresented. Drawing on its more prominent position in the Asian market, ElringKlinger was able to secure, among other things, a contract from a major Japanese manufacturer in recent weeks, the emphasis being on the development of a weight-reduced plastic cam cover.

Sales Performance

Revenue growth through acquisitions

Due to the unexpectedly severe downturn within the global business environment over the course of the fourth quarter of 2008, the Group was unable to maintain the level of forward momentum seen in the first nine months. The protracted weakness of the North American automobile market and the slump in new car registrations proved too severe, as a result of which neither new product ramp-ups nor the relative stability of the Asian markets were able to offer sufficient offsetting stimulus. Overall, therefore, the Group was not in a position to meet the sales forecast issued last year.

The growth in sales by EUR 50.0 million, or 8.2%, to EUR 657.8 (607.8) million was attributable to the contributions made by the acquisition of the former Swiss SEVEX Group (EUR 46.4 million) as well as the proportionate consolidation of ElringKlinger Marusan Corporation (EUR 14.0 million).

German customers take higher share of sales

The ElringKlinger Group extended its sales in Germany by 12.4% to EUR 236.1 (210.1) million. First and foremost, this increase was the result of sales contributed by ElringKlinger Abschirmtechnik (Schweiz) AG, which mainly supplies German customers. Thus, the percentage share of domestic sales in relation to total Group revenue grew to 35.9% (34.6%).

Sales revenue generated abroad rose by EUR 24.0 million year on year to EUR 421.7 (397.7) million, chiefly as a result of acquisitions. The proportion of foreign sales was 64.1% (65.4%).

Europe: downturn in second half of the year

For the annual period as a whole, sales revenues generated in the other European countries were 6.9% up on the previous year's figure and amounted to EUR 213.0 (199.2) million. Within this context, the SEVEX acquisition had a particularly noticeable effect on sales. Additionally, new product ramp-ups by French vehicle manufacturers produced positive momentum, as did the larger volumes supplied to Eastern European engine production sites operated by German and Western European vehicle manufacturers. However, Europe in particular experienced a significant slump in demand during the second half of the year, similar to the trend witnessed in the United States.

US market remains in the doldrums

The continued and dramatic decline in car production figures in the NAFTA region prompted a reduction in regional sales by 6.3% to EUR 100.7 (107.5) million for the ElringKlinger Group.

South America still going strong

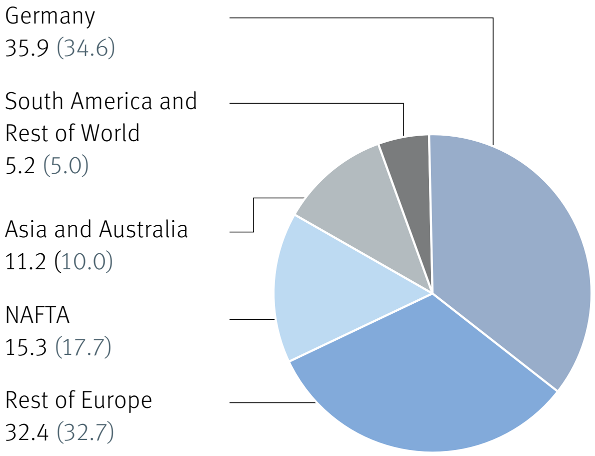
Sales volumes in South America developed at an encouraging level for the ElringKlinger Group over the course of the first nine months of fiscal 2008. In total, sales grew by 13.6% to EUR 34.3 (30.2) million. The subsidiary Elring Klinger do Brasil Ltda. achieved solid gains with all product groups. The company was able to emulate last year's strong performance within the area of aftermarket sales.

Business growth in Asia

The ElringKlinger Group managed to increase its sales revenue by 21.0% in the Asian markets. As a result, Group sales within this region rose to EUR 73.7 (60.9) million. The year-on-year increase is attributable mainly to the first-time proportionate consolidation of ElringKlinger Marusan Corporation. Additionally, the SEVEX subsidiary in China contributed to the positive development of sales in this region.

In markets such as India, Korea and China the ElringKlinger Group benefited from stricter emission

Consolidated Sales by Region in 2008 (prior year)
in %



guidelines that are based largely on European legislation adopted within this area. The vehicle markets developed favorably in response to these measures, leading to an expansion in demand for ElringKlinger products.

As a result of initial ramp-ups, ElringKlinger's subsidiary in India was able to contribute to Group sales in the period under review. Despite the postponement of some customer projects in response to the current business climate, orders placed by the Indian automotive industry in particular remain at a solid level. At present, several projects are in the start-up phase.

In Korea, the ElringKlinger Group succeeded in expanding its sales in fiscal 2008, the emphasis being on weight-reduced plastic cam cover modules. In China, cylinder-head and specialty gaskets as well as thermal shielding components contributed to growth in sales.

Having said that, there was also a visible decline in demand within these growth markets towards the end of 2008.

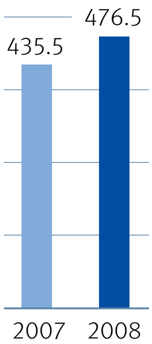
Original Equipment bears the brunt of market downturn

Due to the revenue contributions made by the recently acquired SEVEX Group as well as ElringKlinger Marusan Corporation, the majority of which are attributable to Original Equipment sales, segment revenue within this area rose by 9.4% for the Group as a whole to EUR 476.5 (435.5) million. As a result, Original Equipment business accounted for 72.4% in fiscal 2008, up on last year's figure of 71.7%.

Due to the steep decline in demand for cars experienced within the European market over the course of the second half, coupled with the continued downsizing of production figures by US vehicle manufacturers, the Original Equipment segment operated by the ElringKlinger Group – adjusted for the

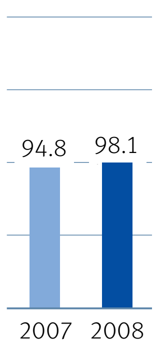
Sales
in the Original
Equipment Segment

in EUR million



Sales
in the Aftermarket
Segment

in EUR million



effects of acquisition – was unable to match its 2007 sales performance.

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

The Group recorded solid demand within the Specialty Gaskets division as well as in the area of shielding components produced by the Shielding Technology division. The trend towards designing increasingly fuel-efficient small-displacement engines with turbocharging (downsizing) had a positive effect on sales volumes within these product groups, as did stricter global standards governing the reduction of emissions. In view of these developments, the ElringKlinger Group supplied a larger quantity of thermal shielding components for exhaust tract applications.

In the area of specialty gaskets, rising sales volumes of transmission control components for automatic transmissions as well as high-temperature gaskets for turbochargers contributed to revenue streams.

Due to the acquisition of the SEVEX Group, Shielding Technology advanced to become the largest division within the ElringKlinger Group in terms of sales revenue.

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

Despite its well-positioned product portfolio, the ElringKlinger Group was unable to escape the encroaching market downturn, which became increasingly severe in the second half of 2008.

Against the backdrop of a sudden market slump, earnings performance within the Original Equipment segment was adversely affected in the fourth quarter of 2008 in particular. Compared with the previous year, earnings before taxes fell from EUR 77.6 million to EUR 24.5 million. Alongside the decline in sales, the recognition of a provision for the negative fair values of commodities-related hedging instruments had an adverse effect on earnings. In addition, the result posted in fiscal 2007 for the Original Equipment segment had included exceptional income from insurance proceeds of EUR 5.0 million relating to a fire at the Runkel plant.

Record sales in Aftermarket segment

Overall, the Aftermarket segment remained largely immune to the significant decline experienced in the automotive industry and recorded stable business performance over the course of the year. Sales within the Aftermarket segment rose to EUR 98.1 (94.8) million in 2008.

Having said that, this segment also experienced a decline in demand over the course of the second half of 2008. In the wake of the financial crisis, in many markets access to credit became increasingly difficult for customers served by the Aftermarket segment, a situation which affected spare-parts business.

Alongside the continued improvements to product availability in the markets, the expansion of this segment's portfolio proved pivotal when it came to driving growth in the period under review. Within this context, it should also be noted that the advanced age of motor vehicles of nine years on average in the domestic market had a positive impact on demand for replacement parts.

Among the fastest growing markets were Eastern Europe, Germany and Northern Africa.

However, at EUR 18.2 (18.8) million, earnings before taxes within the Aftermarket segment contracted slightly year on year.

Economic downturn felt by Engineered Plastics segment

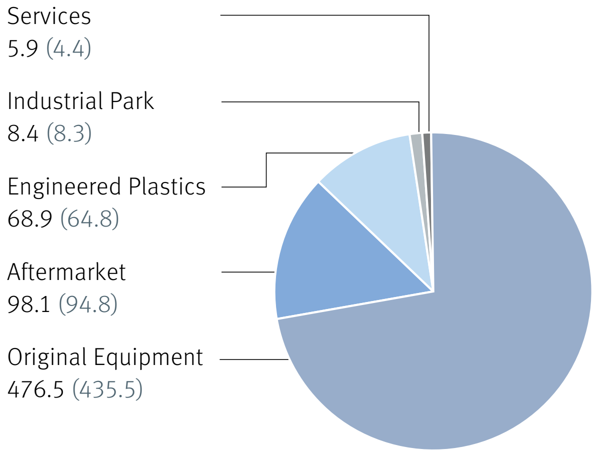
The Engineered Plastics segment, which specializes in the development and manufacture of products made of PTFE (polytetrafluoroethylene), extended its sales revenue by 6.3% in 2008 to EUR 68.9 (64.8) million.

As from the second half of the year, business with components supplied to the automobile industry, accounting for more than two-thirds of the total revenues generated by ElringKlinger Kunststofftechnik GmbH, was weaker. Within this context, the growing demand for the high-heat and chemical-resistant material within other industries proved only partially sufficient when it came to offsetting the shortfall in demand from the automotive sector.

Demand within the packaging technology, electrical engineering and telecommunications industries as well as in the area of biotechnology and medical engineering remained stable. The product groups associated with the biotech and medical engineering sectors in particular – an area that is currently being expanded – continued to record solid growth in the year under review.

In establishing the subsidiary ElringKlinger Engineered Plastics (Quingdao) Commercial Co., Ltd., and developing its business in Asia, the Group incurred higher costs. In parallel, the earnings situation was initially affected by application and project development costs associated with products based on the new injection-moldable PTFE material Moldflon®. Projects of particular interest initiated within the area included fibers, medical tubes as well as high-frequency-protected components.

Sales revenues by segment in 2008 (prior year)
in € million



At EUR 12.7 (12.9) million, earnings before taxes within the Engineered Plastics segment were slightly down on last year's figure.

Industrial Parks and Services

Rental income from the industrial parks operated by the ElringKlinger Group in Ludwigsburg and Idstein (Germany) as well as in Kecskemét (Hungary) totaled EUR 8.4 (8.3) million in 2008.

Earnings before taxes fell to EUR 2.4 (4.3) million. However, it should be noted that the figure posted for 2007 had included non-recurring income of EUR 0.8 million from property sales.

The Services segment, which encompasses the engine and exhaust tract development services offered by ElringKlinger Motortechnik GmbH as well as services relating to test stand technology, generated double-digit growth in sales and earnings in 2008. There was increasing interest among customers in mobile test stands, which are targeted at both vehicle manufacturers and automotive suppliers, as well as in high-end test and development services within the field of exhaust technology. Sales generated by the Services segment rose from EUR 4.4 million to EUR 5.9 million. Earnings before taxes increased to EUR 2.2 (1.3) million.

Earnings Performance

High commodity prices and increasing energy costs

The purchase prices of key raw materials required by the ElringKlinger Group gradually declined over the course of the year. Having said that, they still remain high when viewed over an extended period of time.

The Group's annual result failed to benefit from the decline in commodity prices occurring over the course of the year, as many of the contracts are generally concluded with a minimum term of one year in order to provide a more solid basis for planning. Furthermore, the ElringKlinger Group was unable to profit from the decline in nickel-based alloy surcharges in 2008, as the Group deploys derivative hedging instruments primarily for the purpose of securing – in the medium to long term – the price of nickel alloy surcharges factors associated with high-grade steel and restricting major fluctuations associated with purchase prices.

At the same time, revenues generated with scrap materials, which are closely aligned with the current prices quoted on the commodities futures exchanges, were significantly lower. Additionally, more favorable purchase prices are generally passed on by suppliers only after a certain period of time.

The combined rise in energy prices associated with electricity, gas and heating oil led to higher energy costs at Group level in 2008.

The inclusion of the former SEVEX Group and ElringKlinger Marusan Corporation, whose operations are more material-intensive, placed downward pressure on the Group's gross margin. Before purchase price allocation, ElringKlinger Abschirmtechnik (Schweiz) AG achieved an operating margin in the high single-digit range. However, it should be noted that as a result of the purchase price allocation performed in accordance with IFRS in terms of order backlog existing at the date of acquisition, the operating margins achieved as these orders were completed were lower. The purchase price allocation contributed to higher cost of sales. In 2008, the encumbrances on earnings as a result of the purchase price allocations associated with the acquisition of the SEVEX Group, the acquisition of an additional interest of 40% in ElringKlinger Marusan Corporation as well as the purchase of minority interests in two Spanish subsidiaries were equivalent to EUR 3.6 million in total.

In parallel, the settlement payments made in connection with the commodity price hedging of alloy surcharges led to an increase in material-related expenses by EUR 3.3 million.

As a result, the cost of sales rose by 17.0% in 2008, i.e. at a faster rate than sales. The gross margin within the ElringKlinger Group declined from 34.2% to 28.8%.

Higher R&D expense

Research and development expenses within the ElringKlinger Group rose by EUR 6.6 million year on year in fiscal 2008, which took the figure to EUR 36.5 (29.9) million. The R&D ratio (research and development expenses in relation to sales revenue) increased to 5.5% (4.9%) at Group level. The majority of development costs went into projects associated with New Business Areas as well as the upgrade of existing technologies for new applications.

A total of EUR 4.2 (3.0) million of development costs was capitalized. Systematic amortization of capitalized development costs amounted to EUR 2.6 (1.5) million, which meant there was no significant effect on earnings.

Exceptional effects of acquisitions and commodity price hedging

The difference of EUR 5.8 million between the acquisition costs of the interests acquired and the fair values of the assets acquired and liabilities assumed, which arose upon first-time consolidation of ElringKlinger Marusan Corporation, contributed towards other operating income in 2008. Despite this, however, the total amount of other operating income was EUR 3.1 million down on last year's figure, as fiscal 2007 had included significant insurance reimbursements (EUR 14.3 million) relating to fire damage at the Runkel plant in Germany. The Group received an additional insurance payout of EUR 1.8 million in fiscal 2008.

The recognition of a provision for the negative fair values of commodities-related hedging transactions impacted on other operating expenses in an amount of EUR 15.9 million. As a result, other operating expenses rose by EUR 12.8 million in total to EUR 26.1 (13.3) million.

Including interest expenses of EUR 0.2 million associated with the financing of the purchase price ElringKlinger Marusan Corporation contributed an amount of EUR 5.6 million to earnings before taxes. The SEVEX Group, included for the first time in the consolidated group, contributed a total of minus EUR 8.1 million to earnings before taxes within the ElringKlinger Group. This figure includes EUR 1.5 million in total interest expense associated with the purchase price financed in Swiss francs as well as negative foreign currency effects of EUR 5.0 million due to the appreciation of the Swiss franc against the euro.

Operating result impacted by slump in demand for cars

The sudden downturn in automobile markets around the globe and the significant reduction in the volumes requested by many customers as part of their production scheduling led to a visible decline in the level of capacity utilization within production in the fourth quarter.

The operating result in 2008 was adversely affected also by what are as yet relatively low operating margins at the SEVEX Group and ElringKlinger Marusan Corporation, as well as by the effects of purchase price allocation.

Additionally, in the fourth quarter the non-recurring payment of EUR 1.1 million stipulated under the 2008 Collective Wage Settlement for personnel employed on the basis of collective wage agreements in Germany had a negative impact.

Selling expenses rose by 21.3% to EUR 49.9 (41.1) million. The year-on-year increase recorded within this area exceeded the growth rate for sales revenue.

General and administrative expenses fell by 10.0%, influenced to a large extent by maintenance and modernization expenses as well as by the decline in earnings-dependent compensation components.

In total, earnings before interest, taxes, depreciation and amortization (EBITDA) within the ElringKlinger Group decreased by 21.2% to EUR 133.2 (169.0) million. Adjusted for non-recurring factors in 2008 – badwill received with regard to Marusan (EUR 5.8 million), one-time payment in connection with the collective pay increase (EUR 1.1 million) and one-time income from insurance benefits (2008: EUR 0.7 million; 2007: EUR 5.0 million) – EBITDA declined from EUR 164.0 million to EUR 127.8 million, down 22.1%.

As a result of the significant increase in capital expenditure in 2007 and 2008, depreciation/amortization expense rose by EUR 13.6 million year on year, from EUR 48.0 million to EUR 61.6 million.

Due to the factors outlined above and the exceptional items recorded in 2008, the operating result contracted by EUR 47.2 million or 38.4% to EUR 75.8 (123.0) million. Before purchase price allocations (EUR 3.6 million) and excluding the non-recurring factors discussed above, the operating result declined by just 37.2% to EUR 74.1 (118.0) million. Excluding the expenses associated with recognition of provisions for commodities-based hedging transactions (EUR 15.9 million), the operating result adjusted for exceptionals fell by 23.7% year on year to EUR 90.0 million.

Deducting from the operating result an amount of EUR 4.3 million attributable predominantly to negative foreign currency effects, earnings before interest and taxes (EBIT) amounted to EUR 71.5 (121.0) million at Group level. Adjusted for the non-recurring factors discussed under "operating result", EBIT before purchase price allocation stood at EUR 69.7 (116.0) million. Excluding the expenses associated with the recognition of provisions for commodities-related hedging transactions (EUR 15.9 million), EBIT adjusted for one-off items before purchase price allocation contracted by 26.2% to EUR 85.6 million.

More extensive interest charges and foreign currency effects

At EUR 15.8 (8.1) million, net finance costs were significantly higher than in the previous financial year. The EUR 11.2 million increase in finance income was more than offset by a rise of EUR 18.9 million in finance costs. The significant increase in finance costs was due to the rise in interest expenses as a result of higher loans payable in connection with corporate acquisitions as well as the partial financing of investments in non-current assets. Negative foreign currency effects also had an impact. The net balance of gains and losses within this area fell by EUR 2.6 million. This figure includes a foreign currency loss of EUR 5.0 million attributable to the closing-rate recognition of purchase price financing in connection with the former SEVEX Group, denominated in Swiss francs.

As a result, earnings before taxes stood at EUR 60.0 (114.9) million. Excluding the above-mentioned one-time factors (before purchase price allocation), earnings before taxes amounted to EUR 58.2 million. This corresponds to a decline of 47.0% compared with the equivalent adjusted figure of earnings before taxes of EUR 109.9 million a year ago. Without the expenses attributable to the provision recognized in consideration of commodities-related hedging transactions (EUR 15.9 million), earnings before taxes adjusted for exceptional items amounted to EUR 74.1 million in 2008.

Lower tax rate

At EUR 16.8 (34.6) million, tax expenses were significantly down on last year's figure, primarily due to the lower base for taxable profit. The Group's income tax rate amounted to 28.1% (30.1%). The decline in the income tax rate was attributable to the reduction in Germany's corporation tax rate as well as higher earnings contributions made by entities based in countries with a tax rate below the Group average.

At 51.3%, the percentage fall in tax expense was thus more pronounced than the decline in earnings before taxes (47.8%).

Net income contracts

Net income fell by 46.2% to EUR 43.2 (80.3) million.

After eliminating minority interest, which declined by EUR 1.1 million to EUR 3.3 (4.4) million, the profits attributable to shareholders of ElringKlinger AG amounted to EUR 39.8 (75.9) million. This corresponds to a year-on-year decline of 47.5%. Before purchase price allocation and having eliminated non-recurring effects, the share of profit attributable to shareholders of ElringKlinger AG was EUR 38.7 (67.2) million. The previous year's figure had included exceptional items equivalent to EUR 3.2 million from insurance reimbursements for the factory fire in Runkel and EUR 5.5 million in connection with the remeasurement of deferred taxes. The decline in minority interest was attributable to lower net income as well as the fact that minority interests were acquired by ElringKlinger in fiscal 2008.

As a result of the 1:3 stock split executed on July 4, 2008, the number of shares has tripled to 57,600,000 (19,200,000). The increase in the number of shares was taken into account when calculating earnings per share as at December 31, 2008.

Earnings per share declined to EUR 0.69 in 2008 (2007: EUR 1.32 adjusted for comparability, having taken into account the 1:3 stock split in 2008). This figure represents both diluted and basic earnings per share within the meaning of IFRS.

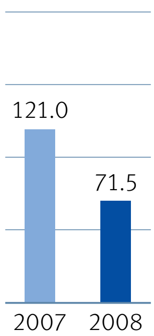
Target attainment prevented by slump in global demand for cars and exceptional factors

The ElringKlinger Group was unable to meet its original revenue forecast of 5 to 7% organic growth in Group sales complemented by additional gains through acquisitions. The increase in sales by 8.2% was the result of interests acquired in the SEVEX Group as well as Marusan Corporation.

Due to severe market weakness in the fourth quarter of 2008 and the lack of sales revenue contributions as a result of this downturn, together with the excep-

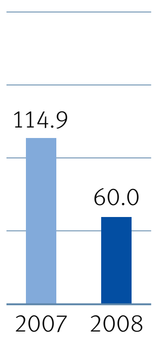
EBIT

in EUR million



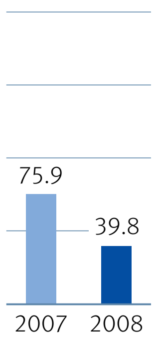
Earnings before Taxes

in EUR million



Profit attributable to Shareholders of ElringKlinger AG

in EUR million



tional factors outlined above, the Group fell short of its target of achieving faster growth in net income after minority interests, adjusted for non-recurring effects, in relation to sales.

Dividend proposal

After allocation of EUR 2.3 (16.7) million to other revenue reserves, net retained earnings, i.e. distributable profit, accounted for in the financial statements of ElringKlinger AG as at December 31, 2008, amounted to EUR 8.6 million. With the consent of the Supervisory Board, the Management Board will propose to the Annual General Meeting a dividend of EUR 0.15 (2007: EUR 0.47 adjusted for comparability, having taken into account the 1:3 stock split in 2008) per share. The proposed dividend takes account of the decline in net income and the challenging conditions currently experienced within the industry as a whole.

Net Assets and Financial Position

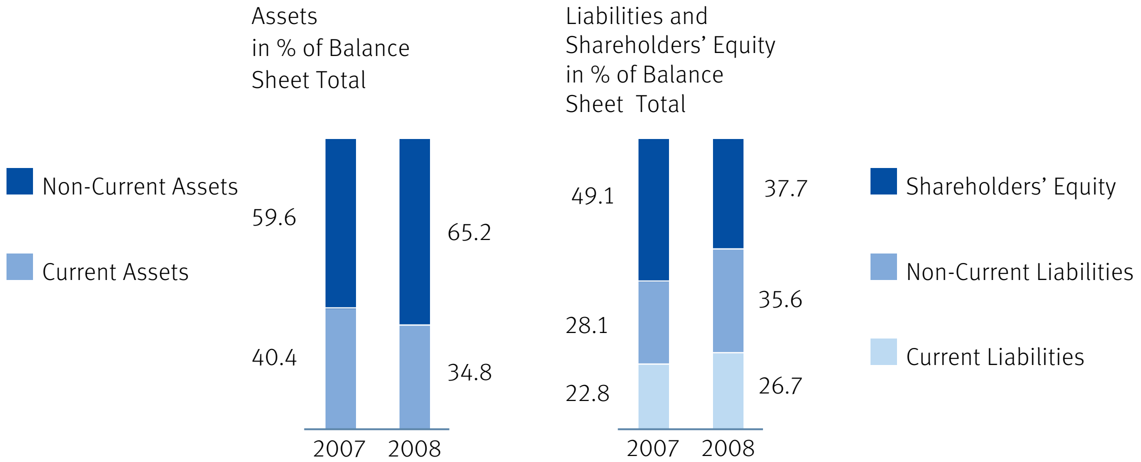
Balance sheet total up 33.5%

Net assets for the ElringKlinger Group as a whole remained solid in 2008 and provided a basis for acquisitions and new product ramp-ups as well as the expansion of New Business Areas from the Group's own funds.

Over the course of fiscal 2008, the acquisition of the SEVEX Group and the increase in ElringKlinger's interest in Marusan Corporation as well as the full takeover of the Spanish subsidiaries were the key factors to influence net assets. Added to this was significant capital expenditure on property, plant and equipment, particularly in the first half of the year. Against this backdrop, the balance sheet total rose by 33.5%. As at December 31, 2008, it stood at EUR 764.5 (572.5) million.

Compared with December 31, 2007, intangible fixed assets rose by EUR 49.5 million to EUR 86.5 (37.0)

Balance Sheet Structure ElringKlinger Group



million. The year-on-year increase is attributable mainly to the capitalization of goodwill arising from the purchase price allocation performed for the SEVEX Group.

Property, plant and equipment rose by EUR 104.1 million to EUR 360.4 (256.3) million as at December 31, 2008, as a result of the corporate acquisitions discussed earlier as well as expansion and streamlining investments made over the course of 2008.

As at December 31, 2008, deferred tax assets were up EUR 8.3 million to EUR 15.8 (7.5) million. The significant increase recorded within this area was due in particular to the recognition of a provision in consideration of negative fair values associated with commodities-related hedging transactions, which was not deductible for tax purposes.

In total, the share of non-current assets in total assets increased from 59.6% to 65.2% as at December 31, 2008.

Inventories rose by EUR 16.4 million year on year to EUR 129.8 (113.4) million as at December 31, 2008. This was attributable chiefly to the inclusion of corporate acquisitions. Additionally, growth and improvements to product availability within the Aftermarket segment necessitated an expansion of the volume of inventory held in merchandise. In the fourth quarter of 2008, the ElringKlinger Group responded to the market-induced contraction of sales volumes by significantly downsizing its inventory levels.

Compared with the figure posted at December 31, 2007, trade receivables rose by EUR 4.4 million to EUR 98.0 (93.6) million. This was due primarily to higher revenue from parts, which is attributable in turn to the acquisitions and the expansion of ownership interests. Additionally, the Group recorded higher sales revenue from customers with extended payment terms. Despite these factors, the increase in trade receivables within the ElringKlinger Group was less pronounced than the growth in sales revenue. As a result, ElringKlinger was able to scale back slightly its funds tied up in working capital as a percentage of sales.

In aggregate, the share of inventories and trade receivables in total assets fell to 29.8% (36.1%).

As at December 31, 2008, the ElringKlinger Group held cash totaling EUR 19.7 (7.4) million, i.e. EUR 12.3 million more than a year ago. The share of current assets in total assets fell to 34.8% (40.4%) as a result of the corporate acquisitions discussed earlier and investments in property, plant and equipment.

Equity ratio down due to financing of corporate acquisitions

As a result of the decline in net income, the amount allocated to revenue reserves fell year on year to EUR 7.7 (50.3) million. Thus, revenue reserves as at December 31, 2008, stood at EUR 212.9 (205.2) million. The dividend payment executed in 2008 for fiscal 2007, amounting to EUR 26.9 (24.0) million, had a contrary effect. Minority interests in equity contracted mainly as a result of the full takeover of interests in the Spanish subsidiaries in fiscal 2008.

In total, equity rose by 2.5% or EUR 7.0 million compared to the figure posted on December 31, 2007. As at December 31, 2008, it stood at EUR 288.1 (281.1) million. As a result of the externally financed corporate acquisitions as well as the year-on-year reduction in funds allocated to revenue reserves, as at December 31, 2008, the equity ratio at Group level fell to 37.7% (49.1%).

Due to the more extensive pension benefit rights for entitled staff within the ElringKlinger Group, pension provision had to be increased by EUR 4.1 million to EUR 58.5 (54.4) million in total as at December 31, 2008.

Provisions recognized in connection with part-time employment of staff approaching the retirement age, which are accounted for in non-current provisions, were EUR 1.0 million lower at the end of 2008.

Thus, non-current provisions amounted to EUR 5.5 (6.5) million as at December 31, 2008.

Non-current financial liabilities increased by EUR 93.2 million to EUR 150.1 (56.9) million as at December 31, 2008. Within this context, the expansion of borrowings was attributable to acquisitions and investment activities over the course of fiscal 2008, as outlined above. Additionally, short-term bank loans were increasingly replaced with medium- to long-term financing agreements. Non-current liabilities accounted to 35.6% of the balance sheet total, up from 28.1%.

As at December 31, 2008, the share of current liabilities in the balance sheet total rose from 22.8% to 26.7%. This was attributable primarily to current provisions, which rose to EUR 22.9 (8.1) million as at December 31, 2008, and thus exceeded last year's figure by EUR 14.8 million. The year-on-year increase was due mainly to the required recognition of provisions under IFRS for negative fair values in connection with commodities-related hedging transactions amounting to EUR 15.9 million.

At the same time, the ElringKlinger Group scaled back its trade payables by EUR 5.1 million to EUR 33.3 (38.4) million at the end of the reporting period. This was attributable to the significant reduction in the Group's overall purchasing volumes in the fourth quarter of 2008.

In 2008, current financial liabilities rose by EUR 66.8 million year on year to EUR 108.0 (41.2) million. These funds were used in part for financing the corporate acquisitions outlined above as well as for investments in property, plant and equipment, in addition to part of the dividend payment.

Thus, as at December 31, 2008, the total financial liabilities of the ElringKlinger Group amounted to EUR 258.1 (98.1) million, which corresponds to 33.7% (17.1%) of the Group's balance sheet total.

Due to the reduction in earnings before taxes, tax liabilities for the ElringKlinger Group as a whole fell by 41.6% year on year to EUR 5.9 (10.1) million.

In aggregate, liabilities accounted for 62.3% (50.9%) of the balance sheet total as at December 31, 2008.

Financial Position

Cash flows dominated by acquisitions and higher investments

The corporate acquisitions executed over the course of the year as well more expansive investments in property, plant, equipment and tooling, together with buildings and land, had a significant impact on cash flows within the ElringKlinger Group.

Depreciation/amortization of non-current assets rose by EUR 13.6 million to EUR 61.6 (48.0) million as a result of significant investing activities in 2007 and 2008, which ultimately had a positive effect on cash flow. In parallel, provisions had been scaled back by EUR 4.7 million in 2007, whereas the ElringKlinger Group allocated an additional EUR 8.7 million to provisions in 2008.

Net cash from operating activities was also buoyed by the fact that the ElringKlinger Group managed to scale back inventories and trade receivables (adjusted for the effects of the consolidation of the SEVEX Group and ElringKlinger Marusan Corporation) by EUR 16.7 million in 2008. This was achieved by means of the timely adjustment of procurement volumes in the fourth quarter of 2008 in response to sluggish market conditions as well as intensive working capital management throughout the Group. In contrast to the reduction in inventories and trade receivables in 2008, 2007 had seen an increase of EUR 43.5 million in total within this category.

The reduction in earnings before taxes by EUR 54.9 million to EUR 60.0 (114.9) million and the decline in trade payables by EUR 14.6 million – in contrast to an increase of EUR 17.8 million in the previous year – partially offset the above-mentioned factors contributing to higher cash flow.

Net cash from operating activities remains stable

Despite the reduction in earnings before taxes by 47.7%, the Group managed to generate net cash of EUR 98.2 (99.3) million from operating activities, just 1.1% less than in the previous fiscal year. In doing so, the ElringKlinger Group achieved a solid cash return (net cash from operating activities in relation to sales) of 14.9% (16.3%).

Significant investments in new ramp-ups and streamlining

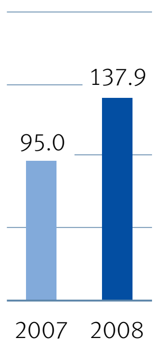
The cash outflow for investments in property, plant and equipment as well as investment property increased by EUR 41.3 million to EUR 132.2 (90.9) million in 2008. These payments were directed primarily at replacement and expansion investments at the Group's sites in Germany and Asia. Other focal points included investments aimed at streamlining existing operations as well as preparations for new product ramp-ups at companies within the former SEVEX Group.

The investment ratio (Investments in property, plant and equipment as well as investment property in relation to sales) amounted to a relatively substantial 20.1% (14.9%) when viewed over an extended period of time.

Within the area of Cylinder-head Gaskets several assembly lines were expanded during the first half of 2008 in preparation for new projects launched within this division. The division bought two stamping systems with belt units, a coating unit as well as laser-welding machines, in addition to implementing streamlining investments to extend the level of automation on its assembly lines.

Payments for Investments in Property,
Plant and Equipment, Investment Properties and
Intangible Assets

in EUR million



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

At its German site in Langenzenn, the Shielding Technology division invested in a new production and logistics center equipped with a fully automated high-bay storage facility for pallets, as well as extending its manufacturing capacity to include two new production lines for heat shields. Substantial investments were made at ElringKlinger Abschirmtechnik (Schweiz) AG, the emphasis being on more extensive automation of production processes as well as systems for new shielding components.

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

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

Construction on a new production facility commenced at ElringKlinger Kunststofftechnik in Bietigheim-Bissingen in 2008. The new facility offers 7,000 m^2 of production space for the manufacture of constructional elements and components made of PTFE (polytetrafluoroethylene) and PTFE compounds. Thus, ElringKlinger Kunststofftechnik has also considerably expanded its existing production capacity with regard to the new injection-moldable material Moldflon®. In total, investments at the Bietigheim-Bissingen site amounted to approx. EUR 8.7 million. Furthermore, an amount of EUR 2.5 million was invested at the Bietigheim-Bissingen site in connection with a new facility and testing equipment for ElringKlinger Motortechnik GmbH, which is equipped with state-of-the-art engine testing technology; it serves customers from the automobile industry located in the south-west of Germany.

The ElringKlinger Group also invested in the expansion of capacity at its subsidiaries and affiliated companies. In regional terms, the main focus was on Asia and North America as well as the former SEVEX subsidiaries ElringKlinger USA, Inc. and ElringKlinger China, Ltd., where significant investments were directed at preparatory measures for production start-ups as well as automation and streamlining projects.

Payments for acquisitions

The more extensive investments in property, plant and equipment as well as investment property and intangible assets propelled outflows up by EUR 42.9 million to EUR 137.9 (95.0) million in total.

In fiscal 2008, payments made in connection with the acquisition of interests in consolidated entities rose substantially as a result of the full takeover of the Spanish subsidiaries, the acquisition of the SEVEX Group as well as the expansion of ownership interests in ElringKlinger Marusan Corporation, Japan. This prompted a cash outflow of EUR 75.9 (8.2) million.

In aggregate, net cash used in investing activities stood at EUR 211.7 (101.9) million in fiscal 2008.

The acquisitions discussed earlier and a portion of the payments made in connection with investments in property, plant and equipment as well as intangible assets were financed by extending financial liabilities by EUR 144.7 (31.5) million.

Thus, net cash from financing activities amounted to EUR 116.9 million in fiscal 2008, compared to EUR 4.4 million in the previous year.

Cash available at December 31, 2008, amounted to EUR 19.7 (7.4) million.

Off-balance-sheet financial instruments

Lease arrangements are utilized only to a limited extent by the ElringKlinger Group. The Group has not entered into arrangements involving securitization of receivables, sale-and-lease-back contracts or similar financial instruments.

Group Companies

Consolidated group expanded through acquisitions

As at December 31, 2008, the ElringKlinger Group consisted of ElringKlinger AG and 24 active and fully consolidated subsidiaries as well as two joint ventures with a total of four entities. Thus, the number of entities included in the consolidated group rose to 29 (23) in total.

In fiscal 2008, the following changes occurred as a result of takeovers and mergers: as at January 1, 2008, ElringKlinger AG increased its ownership interests in the Spanish entities ElringKlinger, S.A. and ElringKlinger Sealing Systems, S.L. from 51% and 90% respectively to 100% in both cases. At the same time, ElringKlinger Sealing Systems, S.L. was merged into ElringKlinger, S.A. The Swiss SEVEX Group, which consisted of five entities, was acquired effective from April 1, 2008. Furthermore, ElringKlinger AG increased its stake in Marusan Corporation from 10% to 50% as at May 1, 2008. The existing joint venture ElringKlinger Marusan was merged into Marusan Corporation effective from June 1, 2008, and the company name was changed to ElringKlinger Marusan Corporation.

The joint venture ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, were included in the 2008 consolidated financial statements on a proportionate basis, i.e. according to the percentage interests held by ElringKlinger AG.

ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Elring Klinger Motortechnik GmbH, Idstein, ElringKlinger Logistic Service GmbH, Rottenburg/Neckar, as well as Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH, Dettingen/Erms, have their registered offices in Germany. The international Group companies within the ElringKlinger Group include seven subsidiaries in Europe, seven in the NAFTA region, four in Asia and one subsidiary each in South Africa and South America respectively.

In acquiring the SEVEX Group, which consisted of three operating entities based in Switzerland, the United States and Southern China, the ElringKlinger Group expanded its international production network by three additional sites.

Over the course of 2008, the ElringKlinger Group made extensive investments in the expansion of production capacity as well as automation at its new locations. Preparations were made for extensive new ramp-ups in connection with existing customer orders at the newly integrated companies in 2008 and resulted in considerable project start-up costs in the case of the former SEVEX subsidiary ElringKlinger USA, Inc., Buford, for example.

In collaboration with the Marusan Group, ElringKlinger was able to strengthen its presence in Japan. The Marusan Group develops and manufactures cylinder-head gaskets, specialty gaskets and heat shields as well as other vehicle components. Thanks to ElringKlinger Marusan Corporation, the ElringKlinger Group now has access to a production facility in Japan. This is an essential prerequisite for success when it comes to driving business forward as planned within the Japanese automotive market itself as well as with regard to transplants in Europe and the United States.

Stronger global presence, focusing on Asia

The ElringKlinger Group is now represented in 15 countries with 19 production companies, two sales entities and three aftermarket enterprises.

The ElringKlinger Group expanded its product portfolio in the majority of its subsidiaries and joint ventures, in addition to introducing new technologies, thus creating a solid foundation for continued growth in the future. The main emphasis was on extending the Group's activities in Asia as well as in North America.

ElringKlinger's subsidiaries and affiliated companies contributed EUR 308.1 (251.2) million to Group revenue in 2008. While sales revenue contracted at ElringKlinger AG, the subsidiaries and affiliated entities as a whole produced growth in the period under review.

Within this context, the foreign enterprises produced significantly more momentum than ElringKlinger AG's domestic subsidiaries. Of the sales revenues generated by the subsidiaries and affiliated companies, an amount of EUR 74.5 (69.2) million was attributable to Germany, while EUR 233.6 (182.0) million was recorded abroad. On this basis, sales revenue generated abroad rose by 28.4% in 2008, whereas the figure attributable to Germany was up 7.7% year on year.

The effects of severe market weakness within the US vehicle sector were felt in particular by the Mexican company Elring Klinger México, S.A. de C.V. and the Canadian subsidiary ElringKlinger Canada, Inc. In the second half of the year, the general downturn in auto demand also had a negative impact on other subsidiaries within the ElringKlinger Group when it came to the overall volumes requested by customers as part of their production scheduling.

Recording earnings before taxes of EUR 30.7 (39.7) million, the subsidiaries and affiliated companies as a whole contributed 22.7% less to Group earnings than in the previous fiscal year.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Employees

Headcount driven up by acquisitions

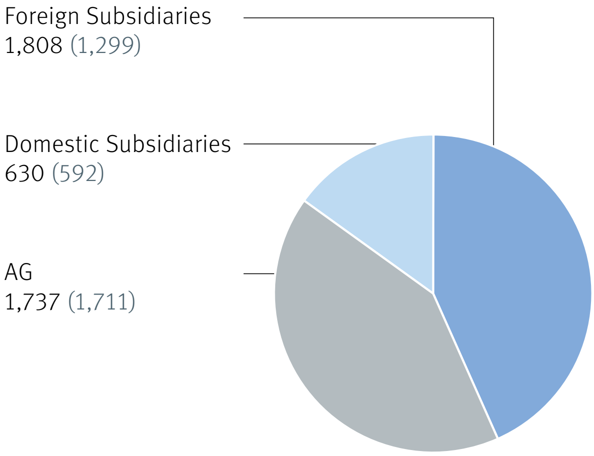
Including the acquisition of the SEVEX Group and the expansion of ownership in Marusan Corporation, the number of people employed within the ElringKlinger Group as at December 31, 2008, rose by 15.9% year on year. Without the aforementioned acquisitions, the headcount would have been up 6.3%. As at December 31, 2008, the number of employees within the Group stood at 4,175 (3,602).

In addition to being influenced by the above-mentioned acquisitions, higher staffing levels were driven also by more expansive capacity utilization in production at Group level into the second half of the year, as well as recruitment measures within the area of research and development. The annual average number of employees within the ElringKlinger Group was 4,085 (3,431).

The domestic headcount rose by 64 in 2008, from 2,303 to 2,367. As at December 31, 2008, 1,808 (1,299) people were employed at the international sites operated by the ElringKlinger Group. The 39.2% increase in the number of staff employed abroad was attributable mainly to higher staffing levels following the acquisitions discussed earlier.

Against the backdrop of sluggish sales markets in the fourth quarter of 2008, the ElringKlinger Group reduced staff flexitime accounts and vacation days. Throughout the Group, temporary employment contracts were not extended, a policy which will remain in place for the foreseeable future.

ElringKlinger Group Employees Worldwide
December 31, 2008 (prior year)



Procurement

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

Signs of turnaround in commodity costs

Looking back over an extended period of time, the cost of raw materials remained at an elevated level in 2008, and together with surging energy prices this factor continued to place pressure on the Group.

The principal raw materials used by the ElringKlinger Group were high-grade steel, mainly with steel alloys, aluminum, aluminized steel and carbon steel as well as polymer granules.

Around 30% of the overall procurement volume with the Group was attributable to high-grade steel and carbon steel. The ElringKlinger Group managed to maintain the basic prices for high-grade steel by redistributing the quantities of steel sourced from existing suppliers and by introducing new steel suppliers. In order to reduce costs and optimize logistics workflow, the Central Purchasing department reallocated to European-based suppliers steel deliveries formerly made by suppliers in North America for plants located in Europe.

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

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

The acquisition of the Swiss shielding component manufacturer SEVEX Group led to a significant increase in the volume of aluminum required by the ElringKlinger Group. ElringKlinger achieved cost savings by pooling its requirements. The significant price-related pressure exerted on customers in the period under review was alleviated somewhat by the decline in market prices for aluminum.

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

Higher energy prices

Due to more expansive production volumes in the first half and the corporate acquisitions discussed earlier, the Group's energy requirement in 2008 was higher than a year ago. The global increase in energy prices prompted a rise in the cost of energy within the ElringKlinger Group – including the newly integrated subsidiaries – by approx. 24%. Excluding the acquisitions, energy costs rose by 16%. There was evidence to suggest a fall in prices as the real economy weakened towards the end of the year.

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

Acquisitions-induced rise in purchasing volume

The overall purchasing volume of the ElringKlinger Group, which encompasses raw materials, consumables and supplies as well as investments in buildings and plant together with traded goods for independent aftermarket activities, rose by 5.4% to EUR 408.6 (387.7) million in 2008. The year-on-year increase is attributable to additional purchasing volumes from the newly acquired SEVEX Group and the larger ownership interest taken in Marusan Corporation. Excluding these acquisitions, the purchasing volume would have been 5.7% lower. In the majority of cases, new agreements entered into with suppliers were concluded on the basis of a contractual term that ends at December 31, 2009.

Expansion of global supplier structures

Committed to establishing a local sourcing market and scaling back costs, back in 2007 the ElringKlinger Group had expanded its supplier base in Asia as part of measures to lift capacity at its sites in China and Korea, as well as to support the start of production activities at the Ranjangaon plant in India. In 2008, ElringKlinger qualified several new suppliers in this region and extended its procurement activities to other Asian countries.

In order to streamline costs and meet the more extensive requirements for aluminum following the takeover of the SEVEX Group, the Central Purchasing department also entered into agreements with new suppliers in Turkey and Venezuela.

North American purchasing volumes in US dollars – primarily with regard to high-grade steel – were covered by USD-based sales revenues generated in the NAFTA and Mercosur member states. As a result, exchange rate risks were eliminated to a large extent.

Continued Focus on Research and Development

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

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

The ElringKlinger Group stepped up its research and development efforts in 2008, increasing its expenditure within this area by EUR 6.7 million to EUR 36.5 (29.8) million. As at December 31, 2008, 293 (252) members of staff within the ElringKlinger Group were employed in research and development. Research and development expenses recognized in accordance with IFRS accounted for 5.5% (4.9%).

To protect the Group's technological know-how and intellectual property and to benefit from synergies between the individual divisions, all R&D activities continued to be concentrated at the parent company's facilities. Within this context, the competence centers within the ElringKlinger Group were responsible for delivering the principal research and development services for the Group as a whole.

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

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

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

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

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

SCR module for cars

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

Innovative transmission products

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

Complete solutions in shielding technology

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

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

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

Elastomer Technology/Modules focuses on lightweight solutions

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

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

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

New Business Areas

Diesel particulate filter

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

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

Within this context, it should be noted that both competitive forces and price-related pressure are becoming increasingly evident within the area of diesel particulate filters. With this in mind, ElringKlinger is now also looking to incorporate a new catalytic coating within the filter, thus facilitating filter regeneration. The rationale behind these efforts is to establish a unique selling proposition within this area. The specific properties of the ElringKlinger filter design are such that nano technology has been identified as a suitable coating method. The objective is to differentiate the company within the competitive arena by offering an end-to-end solution.

Fuel cell technology

ElringKlinger again filed a number of important patents and intellectual property applications in 2008, thus further strengthening its formidable market position within this key field of future technology.

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

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

Battery technology

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

Development project solar thermal power plants

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

Own R&D pipeline generates organic growth

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

Quality and environmental management

The ElringKlinger Group feels duty-bound to handle scarce resources such as energy and water in a responsible manner, as well as avoiding and reducing CO_2 emissions and waste, and maintaining occupational safety. For this purpose, quality and environmental management officers are employed within the Group. These staff members are responsible for ensuring that environmental, quality and labor guidelines are complied with in the areas of emission control, waste separation, hazardous goods and water management as well as occupational safety and fire protection.

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

Environmental awareness in production

The production processes within the Group were regularly audited, assessed and improved with regard to their compatibility with environmental standards and the efficient use of resources.

Expansion of quality management

As a supplier to the automotive industry, ElringKlinger has to subject its externally sourced materials and bought-in parts to rigorous quality testing. This aspect forms an integral part of the quality management system, regular auditing and specified information processes, as well as being firmly enshrined in the Company Code. Suppliers are obliged to meet the applicable environmental protection regulations and laws in all areas and processes, including the new European Union Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH).

Occupational safety and health protection

Occupational safety and health protection are of central importance to ElringKlinger. The company organizes training seminars on a regular basis, with the express purpose of reducing the number of job-related accidents and raising awareness among employees of the importance of taking an even more conscientious approach to work.

Compensation Report

Compensation structure for members of the Management Board

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

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

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

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

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

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

Compensation structure for members of the Supervisory Board

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

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

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

Details of Share Capital and Disclosure of Potential Takeover Obstacles (Section 315 (4) of the German Commercial Code (HGB))

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

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

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

Elgarta GmbH, Basel	10.02%
Elrena GmbH, Basel	10.07%
Lechler Beteiligungs GmbH, Ludwigsburg	10.15%
Walter H. Lechler, Stuttgart	Total of 25.001% (of which 10.13% is attributable under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

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

ElringKlinger 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

The ElringKlinger Group has established an effective 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 well-developed controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities as they arise.

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

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

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

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

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

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

Risks

Market and sales risks

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

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

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

Customer risks

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

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

Pricing risks

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

Currency risks

Currency risks are attributable mainly to financing activities as well as to deliveries made to subsidiaries in foreign currencies. From ElringKlinger's perspective, there is a risk associated with fluctuations in the key Group currencies in relation to the euro. The principal currencies for the Group are the US dollar, the Canadian dollar, the Swiss franc, the Mexican peso, the Japanese yen and the Brazilian real.

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

In fiscal 2008, loans denominated in Swiss francs were taken out for the purpose of financing payments in connection with the acquisition of the former SEVEX Group. In view of this, movements in the EUR/CHF exchange rate may in future contribute to more significant fluctuations in net income. The objective is to minimize this risk by scaling back CHF-denominated financial liabilities on a regular basis with the help of profit distributions from ElringKlinger Abschirmtechnik (Schweiz) AG.

Financing risks

Potentially, the crisis within the financial markets may result in more restrictive loan policies being implemented by banks. In turn, this may lead to a marked deterioration in the terms and conditions attached to loan and refinancing agreements, in addition to making new transactions more difficult than in the past. For ElringKlinger the risk emanating from this scenario is that the overall scope for entrepreneurial activity, e.g. in the case of acquisitions or more substantial investments in buildings, plant and machinery, will be restricted.

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

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

With an equity ratio of 37.7%, substantial reserves and a positive cash flow, the ElringKlinger Group has established tangible advantages over its competitors in terms of its financing capabilities in the current climate.

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

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

Wage cost risks

Wages and materials are the principal cost factors for the ElringKlinger Group.

Should the downturn experienced within the international vehicle markets become more pronounced, there is a risk that the cost-of-sales base may no longer be financially viable in relation to sales. If this were to eventuate, additional adjustments to the company's manufacturing structures would be necessary. ElringKlinger can respond to such events by turning to flexible employment and production models. Additionally, the Group can react by extending short-time working within the areas affected and, as a last resort, by scaling back staffing levels and implementing structural changes in order to mitigate risks associated with wage costs.

In Germany, in addition to the first stage of the collective pay increase on February 1, 2009, and the one-off payment made in the fourth quarter of 2008 on the basis of a collective agreement, the further increase in wages effective from May 1, 2009, may have an adverse effect on the Group's profitability and international competitiveness, particularly against the backdrop of an extremely weak automotive sector and the significant proportion of staff employed domestically. In view of this situation, the company – with the consent of the works council, which has yet to be negotiated – intends to make use of the option to postpone the collective wage increase by seven months in order to adjust its cost base in line with sluggish market conditions as quickly as possible and thus ultimately secure jobs for its core workforce as much as possible for the time being.

Supplier risks

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

In the majority of cases, the Group's supply base for key raw materials consists of large international corporations. In view of the supplier structure established by ElringKlinger, the risk of default has been greatly restricted. Risk has also been mitigated by the increasing internationalization of purchasing activities and the qualification of additional suppliers.

Legal risks

ElringKlinger addresses its exposure to legal risks by recognizing appropriate provisions in its annual accounts. In contrast with the previous year, there were no other risks of relevance in the period under review.

Risks associated with derivative transactions

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

Market opportunities

Government-backed programs aimed at stimulating new vehicle sales, such as the environmental incentive paid in Germany to new car buyers when they scrap their old vehicle, as well as the enactment of widely debated vehicle taxation rules based on CO_2 could lead to a tangible increase in the demand for new vehicles.

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

At the same time, the slump in vehicle sales in North America and the realignment strategy pursued by US car manufacturers have opened up opportunities for ElringKlinger. Customers in the United States in particular are increasingly opting for vehicles with small to medium-sized engines, such as those already being produced in Europe by their local subsidiaries. All of ElringKlinger's business segments are represented within these engine categories.

Acquisitions

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

Additionally, predicting the future direction of the market has become more challenging, and on this basis the opportunities outlined above have to be put into perspective.

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

Financing

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

Technology and climate change

There has been more wide-reaching debate concerning the impact of global climate change. As a result, legislation governing the level of permissible emissions has become increasingly strict throughout Europe and North America, but also in key emerging markets throughout Asia. The growing demands placed on the automotive industry by such regulations have opened up attractive opportunities for the ElringKlinger Group to position itself even more favorably and capture additional market share by drawing on the strengths of its product portfolio, which is designed to make a considerable contribution to the reduction of CO_2 emissions and fuel consumption.

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

ElringKlinger has also identified additional potential when it comes to establishing new product areas and moving into new segments of the market. What is more, the company possesses viable new technologies in the field of alternative drive solutions, e.g. within the area of fuel cell technology and with regard to components for vehicle hybridization. In the medium term, these areas have the potential to generate significant revenue and earnings contributions for the Group.

Cost of materials

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

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

Assessment of aggregated risk

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

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

Report on Expected Developments

Outlook – Market and Sector

Global economy faces exceptional circumstances

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

Germany's gross domestic product is expected to plunge by 2.5% in 2009. Exports, which are of particular importance to Germany, will contract significantly.

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

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

ElringKlinger anticipates that the global economic downturn will also tighten its grip on Asia. In view of the severe decline in exports, Japan's economy is projected to contract by 2.6% – the country's deepest recession since the Second World War. The Chinese market is also likely to lose its momentum. The forecast for 2009 suggests that China's gross domestic product will grow by 6.7%, which is significantly lower than the average growth rate recorded in recent years. Faced with a marked decline in production output within the industrial sector, India's economic growth will be much less buoyant than in the previous year, reaching a comparatively meager 5.1%. Despite this outlook, China and possibly also India are expected to recover at a faster rate than the industrialized economies in the West, as both countries have been less severely impacted by the financial crisis.

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

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

Global financial and economic crisis weighs heavily on automobile markets

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

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

Within this context, ElringKlinger anticipates that domestic demand for passenger vehicles will slide even further. On the other hand, the German automobile market may receive fresh impetus from the newly introduced environmental incentive package, as part of which consumers receive a government-funded rebate if they scrap a used vehicle that has been in service for at least nine years and replace it with a new car. Germany's new law governing vehicle taxation, which comes into force on July 1, 2009, and combines the previous taxation system based on engine size with a new CO_2-based component, will finally provide consumers with a more reliable basis for their future purchasing decisions. Original forecasts suggested that new car registrations in Germany may continue to fall to 2.9 million units in 2009. However, in view of the more encouraging signs emanating from the domestic auto market, which has been buoyed by the government-led scrapping program, the trend within this area might in fact be less severe than anticipated.

In 2009, Europe as a whole is expected to see automobile sales decline at a rate of 16.0 to 21.0%. In January, the number of new vehicles registered was down 27.0%.

This was attributable not only to the protracted weakness in sales within the high-volume Western European markets of Italy, the UK and above all Spain but also to trends within the Eastern European vehicle markets, which were unable to emulate the solid sales performance recorded last year.

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

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

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

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

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

Cyclical downturn impacts on commercial vehicle business

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

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

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

Prospect of gradual stabilization in second half

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

Outlook – Group

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

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

Adjustments to capital expenditure in preparation for further decrease in demand

Capital expenditure (excluding tools) is to be reduced from approx. EUR 95 million in 2008 to EUR 40 million in 2009. This significant reduction is attributable to capacity adjustments in response to current market weakness. Against this backdrop, investments aimed at expansion within the area of production buildings or production space and to a large extent also new plant and machinery will not be required in 2009. Furthermore, as planned, the ElringKlinger Group is scaling back its investment volume to a more normal level after two years of relatively substantial expenditure on streamlining and expansion measures for new products. Insofar as they are not considered essential in competitive terms, planned construction and optimization measures will be reviewed and, in some cases, postponed. By contrast, the ElringKlinger Group intends to make no compromises when its comes to research and development, as it is precisely within this area – and the new products emerging from this pipeline – that the company endeavors to differentiate itself from its competitors.

Cost reduction program initiated

In view of the continued downturn seen within international vehicle markets, the Group has launched a comprehensive cost reduction program for the purpose of stabilizing its earnings performance. The potential savings from this program are estimated to be approx. EUR 10 million in 2009. In general, the company will not be extending temporary employment contracts. If demand structures fail to stabilize over the course of the year, ElringKlinger AG will increase the scope of short-time work or extend the duration of these measures at the sites affected in Germany. Additionally, the company plans to make use of the option incorporated in the last collective-wage agreement, which specifies that the second phase of the wage increase of 2.1% scheduled for May 2009 may be postponed by seven months. Should the current downturn in sales volumes persist over an extended period of time, structural adjustments, including personnel-related measures, would be unavoidable.

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

Visible decline in order intake

The sudden slump in demand for automobiles in the fourth quarter of 2008 is reflected in the direction taken by incoming orders. In many areas of its customer base, ElringKlinger recorded a decline in the actual number of units requested as part of client production scheduling. These cutbacks went far beyond the normal rates of fluctuation seen within this area. Despite the inclusion of the contributions made by the newly consolidated entities of the former SEVEX Group and the proportionately consolidated ElringKlinger Marusan Corporation, Japan, order intake for the Group as a whole stood at minus 3.6% in 2008. Incoming orders amounted to EUR 621.3 (644.7) million in this period. Order backlog within the ElringKlinger Group also trended lower, falling to EUR 208.6 (245.1) million as at December 31, 2008.

Forecast: Sales and Earnings Position 2009 and 2010

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

Owing to the historically exceptional market circumstances, the issuance of forecasts is extremely difficult. In view of the global recession and significant uncertainties as to the short-term performance of the vehicle sector as a whole, ElringKlinger is therefore currently making preparations for several different scenarios for 2009.

These range, in the best case, from matching the revenue and EBIT figures of fiscal 2008 under the assumption that the global automobile markets recover significantly by the beginning of the second half of 2009 to the scenario of a decline in vehicle production within the Northern American and European markets by a further 20 to 25%, coinciding with an additional contraction of vehicle sales within the emerging markets. Should this latter scenario eventuate, ElringKlinger anticipates Group sales in the region of EUR 580 to 600 million and an EBIT margin of 8 to 10% for fiscal 2009 as a whole. This includes sales revenues from scheduled product ramp-ups. It also comprises the revenue and earnings contributions of the newly acquired SEVEX Group and of ElringKlinger Marusan Corporation, which in 2009 were – for the first time – included in the consolidated group for Q1 (in 2008 from April 1 and May 1 respectively). ElringKlinger does not anticipate any significant year-on-year changes with regard to the Group tax rate for 2009. In the first two months of 2009 the markets declined at a significantly more pronounced rate than previously assumed as part of the negative scenario. In January vehicle sales in Europe contracted by more than 25%, while the US saw a decline of 37%. The fall in vehicle production figures was even more extensive. If, viewed over the annual period as a whole, vehicle sales remain at the extremely low level seen in the first two months of 2009, Group sales may recede towards EUR 500 million. Even in this case, ElringKlinger will be targeting an EBIT margin of 5 to 8%, supported by a Group-wide streamlining program already initiated within the area of material expenses, personnel expenses and purchasing, as well as focused working capital management.

Due to the significant fall in production output throughout most of the customer base – as a result of extended factory vacations and the scheduled reduction of working hours – the ElringKlinger Group is predicting much weaker business performance in the first two quarters of 2009 than in the second half of 2009. In the year to date, the sale of stockpiled vehicles by automobile manufacturers in particular has had an adverse effect on the level of capacity utilization at ElringKlinger. An upturn in the automobile market is not anticipated until the second half of 2009 and, more visibly, the year 2010.

Within the challenging market environment experienced at present, it has become evident that in addition to technological expertise, financial strength and a solid equity base are now increasingly important when it comes to acquiring new customer projects and development contracts. The ElringKlinger Group has the opportunity to benefit from this trend and enhance its competitive position. Offering a range of products designed to reduce fuel consumption and CO_2 emissions, the Group considers itself well positioned to again generate organic sales growth of 5 to 7% per annum and, at the very least, proportionate growth in earnings in the medium term once the current crisis is over. For 2010, ElringKlinger anticipates that it will exceed its fiscal 2009 figures both in terms of sales revenue and EBIT.

Calculated on the basis of current targets, the Group's financial position in terms of assets and liabilities should remain largely unchanged in 2009.

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

If the economic malaise deepens even further and the situation within the financial markets deteriorates, in 2009 and 2010 financing requirements at the foreign sites may exceed the funds required in 2008.

A large portion of the Group's overall financing requirement is covered by existing lines of credit at banks or by follow-up financing.

Events after the Reporting Date

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

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

Dettingen/Erms, March 26, 2009

The Management Board

Dr. Stefan Wolf

Theo Becker

Karl Schmauder

Expe

rtise

Now more than ever, the issues central to the future of the automobile industry call for the core expertise and technological know-how that we possess. Through rigorous research and development, evolving ideas and fast realization of series production, we can give our clients the edge within their market arena. The solutions that we produce cover the entire development spectrum for the future of drive technology.

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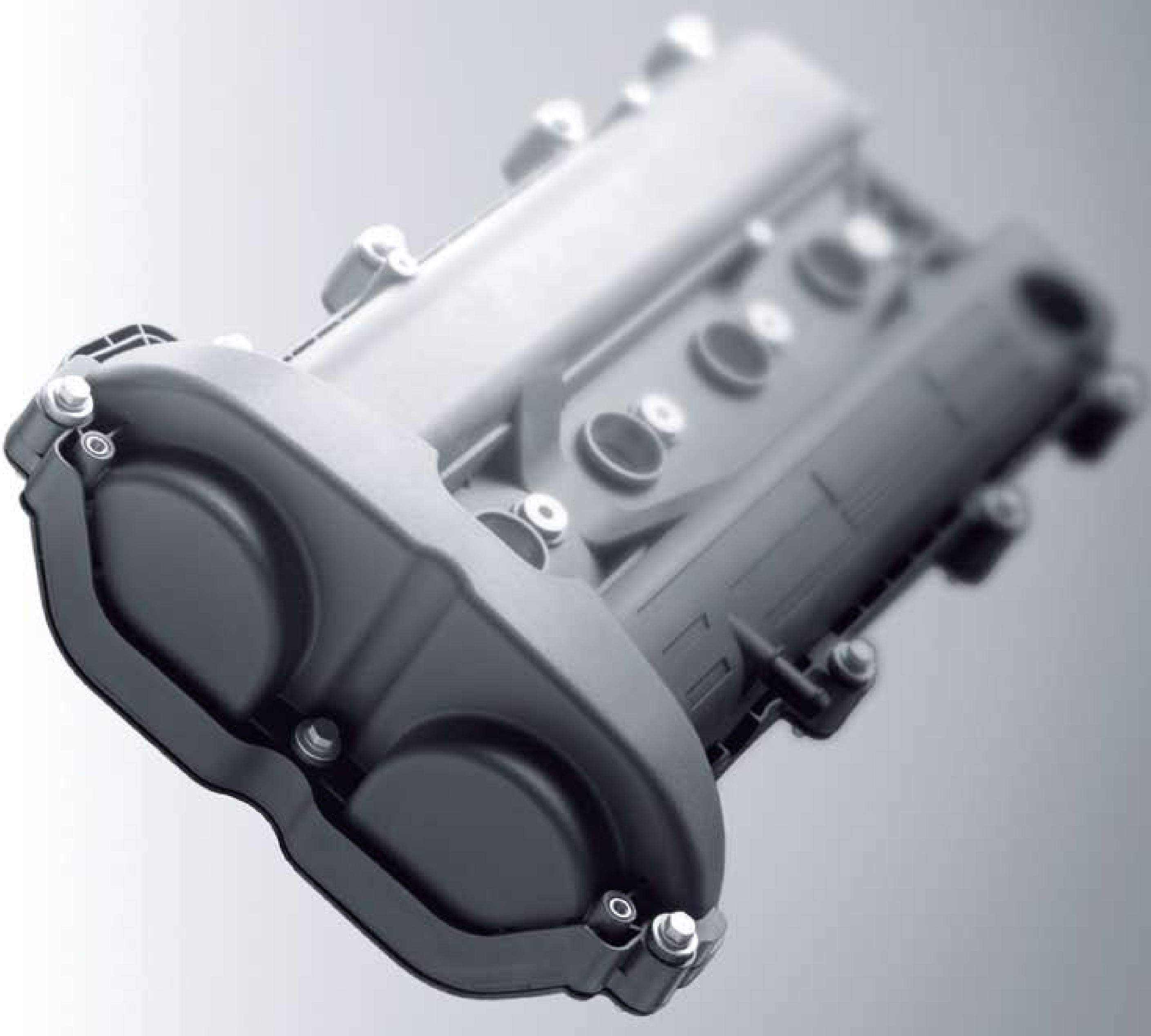
Cutting consumption | Less is more. Lower weight – in part thanks to our lightweight plastic modules – means less fuel consumption, which is good news for the environment as well as for our future. What's more, this enables our customers to cut costs and integrate additional functions, which adds up to real added value.



R

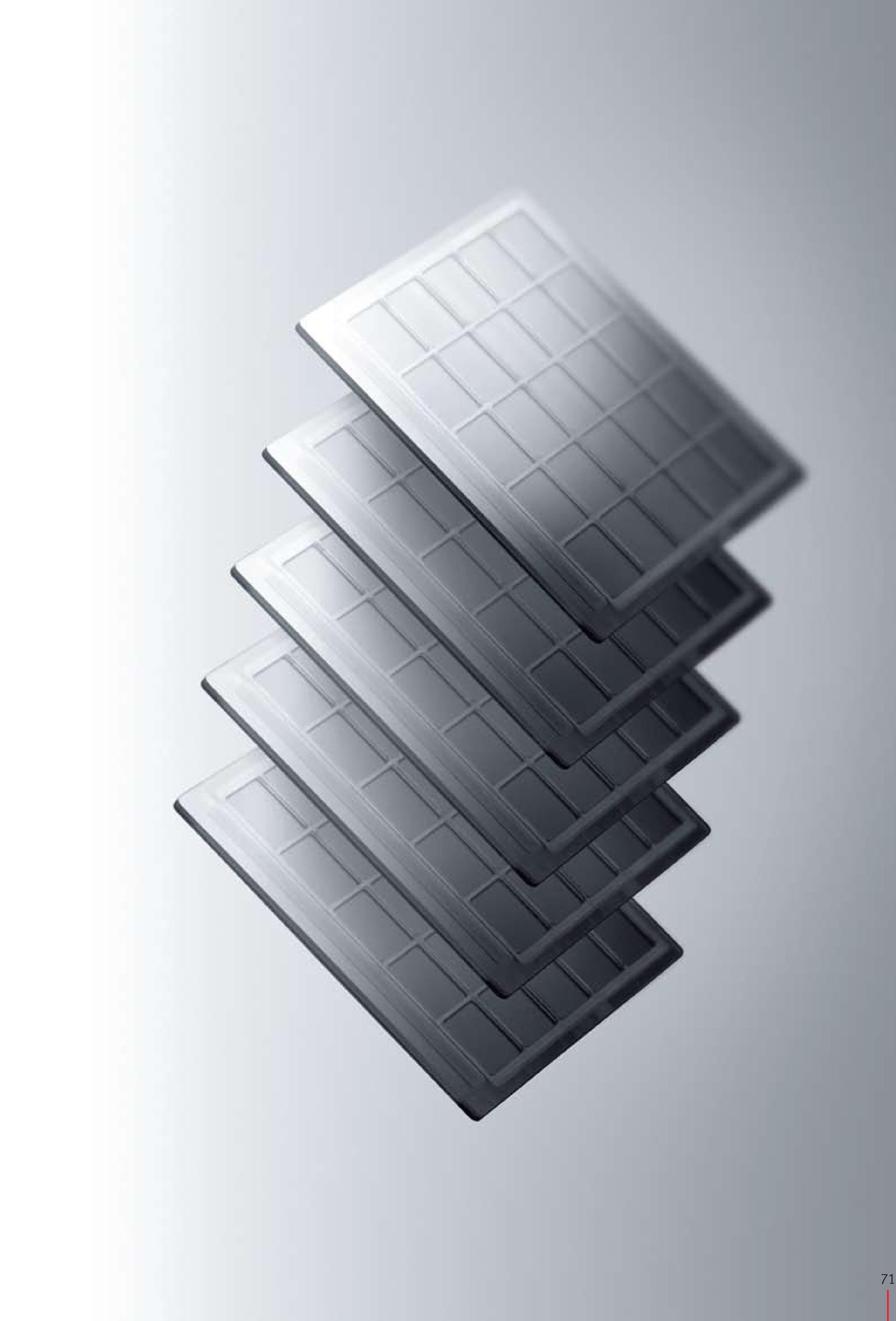
Reducing emissions | We apply our research and development expertise to highly worthwhile objectives, such as the cutting of emissions. As the limits on emissions are tightened, we are finding ourselves more and more in demand as a partner when it comes to clean yet cost-effective solutions.

O

Optimizing the internal combustion engine | We are striving for continual enhancement and greater efficiency than ever before, which makes us a key partner in the development of pioneering engine concepts – in the field of downsizing, for instance. As the demands on technology grow, so do our opportunities.

A

Alternative drive technologies | Those who want to claim the future must utilize every possibility at their disposal to make headway. That's why we are devoting our efforts to technologies with strong potential for long-term success. To give examples, we are currently working on innovative solutions in the fuel cell area and for hybrid/electric engines.



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

ElringKlinger believes 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 solid 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 its investors.

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 and analyst meetings, as well as by means of financial reports and ad hoc and press releases published on a regular basis.

Corporate bodies

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 and the Articles of Association. 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 Supervisory Board monitors the activities of the Management Board and acts in an advisory capacity. It consists of nine 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 2009. The Management Board and Supervisory Board operate in close and trusted collaboration 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 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 work of the Supervisory Board is conducted both through the plenum itself as well as through committees. At present, members from the Supervisory Board form an Audit Committee as well as a Personnel Committee.

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 shareholder meetings. 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.

Declaration of conformity

In fiscal 2008, ElringKlinger implemented the majority of recommendations set out in the Code in the version applicable up to June 6, 2008, and in the version applicable from this date onward. The Declaration of Conformity pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG) was passed by the Management Board and Supervisory Board on December 4, 2008, and was subsequently published on the company's website on December 4, 2008.

The wording of said Declaration is as follows:

"The Management Board and the Supervisory Board of ElringKlinger AG hereby issue a declaration of conformity pursuant to Section 161 AktG, stating that the Company complied with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated June 6, 2008, during the current financial year 2008 and will continue to comply with the aforementioned recommendations in the future, with the following exceptions:

Section 2.3.2:
As in the past, in 2009 the invitation to the Annual General Meeting of Shareholders will again be dispatched by mail.

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.

Section 5.1.2:
No age limit has been set for members of the Management Board.

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.

Section 5.4.1:
No age limit has been set for members of the Supervisory Board.

Section 5.4.3:
Proposals regarding candidates for the Chair of the Supervisory Board are not disclosed to shareholders.

Section 5.4.7:
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.

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

The points in which ElringKlinger departed from the recommendations of the Code are discussed below:

Section 2.3.2:
As in the past, in 2009 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 invitations to the General Meeting of Shareholders. The invitation to the 2009 General Meeting of Shareholders can also be downloaded from the company's website.

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.
ElringKlinger presents data relating to Management Board and Supervisory Board compensation in an

itemized format, i.e. separately for each member. Rather than being presented in the management report, details of Management Board remuneration components are disclosed in the notes to the financial statements.

Section 5.1.2:

No age limit has been set for members of the Management Board.

No general age limit has been set in respect of the members of the Management Board. The principal 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 further discussion, ElringKlinger believes 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 size of the Supervisory Board, both the Management Board and the Supervisory Board of ElringKlinger AG are of the opinion that there is no need to form a Nomination Committee. These matters are dealt with by the Supervisory Board as a whole.

Section 5.4.1:

No age limit has been set for members of the Supervisory Board.

No general age limit has been set for members of the Supervisory Board, as the main focus is on ensuring the competence of this body. Qualifications and experience, as opposed to age, are the essential criteria. 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 further discussion, we believe 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.

In accordance with the Articles of Association, the Supervisory Board itself makes proposals for the appointment of a Chairperson, as it is in the best position to assess the requisite suitability of the individual candidates.

Section 5.4.7:

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.

Please refer to the comments made under 4.2.5.

Section 6.6:

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

ElringKlinger believes that transparent communication is essential in order to maintain shareholder confidence. The legislator has extended disclosure requirements by a considerable degree in recent years. The company publishes all information to be disclosed in accordance with statutory provisions. Furthermore, this information can be accessed via the company’s website. ElringKlinger is of the opinion that the additional disclosure requirements set out in the Code do not provide greater transparency for investors. It is for this reason that ElringKlinger has elected not to make additional disclosures.

Sustain

ability

Sustainability

As an international organization, ElringKlinger believes it has a duty to meet ethical and environmental standards. The company also accepts that it has a responsibility towards its staff, on whose expertise ElringKlinger depends as a development partner to the automobile industry.

For ElringKlinger, taking responsibility for the environment means driving ahead with the implementation of environmentally friendly production processes; this includes making the most efficient possible use of scarce resources such as energy and water as well as avoiding and reducing CO_2 emissions and waste. At the same time, ElringKlinger makes an active contribution to CO_2 reduction and measures to combat climate change by developing engine, transmission and exhaust components.

On the capital markets, demand for sustainable investments is growing rapidly. Furthermore, the whole issue of sustainable business management on the customer and supplier side is becoming increasingly important. Consequently, the ElringKlinger Group sees one aspect of its corporate responsibility as being to lay the foundations for sustained growth in sales revenues and earnings by investing further in the know-how of staff and in low environmental impact production processes and by developing environmentally friendly products that consume a minimum of resources.

Environmentally friendly production processes

Production processes at all the Group's sites are continuously tested, rated and improved with regard to their environmental impact and the efficient use of resources. The new sites in Switzerland, China, the United States and Japan, which joined the Group during the year as a result of acquisitions and increased shareholdings, have been integrated into the environmental management system. The following environmental indicators relate to 2008:

Resources

In 2008, the Group's absolute consumption of energy (including electricity, gas and other forms of power) was up 7.9% at 141,400 (131,000) MWh. This was due to the inclusion of new production sites in the figures. Excluding these new sites, energy consumption was 135,100 MWh, an increase of 3.1% to the previous year.

The Group's electricity consumption rose from 71,600 to 79,300 MWh with the inclusion of the new production sites. Excluding the newly integrated sites, the Group consumed 73,400 MWh of electricity, equivalent to a rise of 2.5%. This was due to an expansion of production at a number of locations.

At 92,500 m^3, the Group's total water consumption was 21.1% higher than last years figure. Excluding the new subsidiaries water use increased by 8.6%. This was primarily attributable to greater use of water in the social areas following the rise in staff numbers.

Substantial reduction in solvent use

The Group successfully reduced its use of solvents by 11.1% from 945 to 840 metric tons. The corresponding figure excluding the new production sites was 14.3%.

This major reduction was achieved by a gradual shift from full-surface coating to partial coating processes. Further cuts were made by reducing coat thickness during the screen process in the production of cylinder-head and specialty gaskets.

CO_2 emissions

Total Group emissions of CO_2 equivalents rose by 1.9% from 15,900 to 16,200 metric tons, predominantly as a result of the new production sites. Heating power consumption was not fully recorded at one associated company in the previous year. As a result, a lower figure of 14,600 metric tons of CO_2 equivalents was reported. The figure excluding these sites showed a rise of 1.3% to 16,100 metric tons. This was due to a number of factors including the increase in process energy required for the new plastic injection molding systems and hydraulic presses in the area of shielding technology. Full capacity utilization of ElringKlinger Motortechnik's engine testing stations in Idstein also led to a significant rise in fuel consumption.

In order to assess the potential benefits of other energy concepts, the planned combined heat and power generation plant at the site in Dettingen/Erms has not yet been implemented. At the ElringKlinger Kunststofftechnik site in Bietigheim-Bissingen, work on the construction of a combined heat and power plant began at the same time as starting work on the new factory.

Waste management

Waste officers are appointed at each site within the Group. Their role is to avoid waste and to ensure it is disposed of efficiently. In 2008, the total waste generated by the Group was 29,700 (26,900) metric tons, an increase of 10.4% on the previous year. Excluding the new subsidiaries, the figure for total waste fell by 6.7%. This was achieved primarily by replacing wooden pallets and cardboard boxes by reusable plastic boxes and pallets. This shift will later be introduced to the Group's new sites to achieve a further reduction in the total waste figure.

The quantity of metal waste generated across the Group during the stamping process rose by 15.6% from 20,500 to 23,700 metric tons due to an increase in the number of sites involved in production. If these new factories are excluded, the figures show a 4.9% fall to 19,500 metric tons as a result of lower utilization of production capacity in the fourth quarter. This waste is recycled. The prices achievable in each market for the different types of metal waste generated are calculated and compared each month using an IT-based metal waste management system. This ensures that trading is optimized and coordinated centrally through ElringKlinger AG's purchasing department.

Environmental, quality and occupational safety management

In 2008, ElringKlinger's environmental, quality and occupational safety management provided a further boost to the economic success of the Group through a process of ongoing improvements.

Expansion of environmental reporting

Environmental reporting was expanded in 2008 to take in the Group's new subsidiaries. The new factory in Ranjangaon (India) was accredited in line with Group standards. The ISO 14001:2004 environmental management system was integrated into the relevant processes in accordance with ISO 9001/TS 16949:2002. In 2008, alongside the regular product and process audits conducted by the environmental management unit to ensure the safety and efficiency of plant and equipment, annual Group-wide system audits were again carried out to check that every area and factory complies with environmental and health regulations.

Quality management extended

In the area of quality management, ElringKlinger's web-based process landscapes were extended to include the newly acquired SEVEX Group. This guarantees globally consistent product quality and the simplified and standardized documentation of processes and procedures. The computer-aided quality control system, which also helps to ensure that global quality standards are met, was rolled out to cover a number of other Group sites. The implementation of these improvement processes brings ElringKlinger closer to achieving the goal of zero-defect quality for all processes. The number of complaints received from customers fell in every single business area in 2008. The environmentally friendly development and manufacture of high-quality products also depends crucially on the quality of the raw materials and vendor parts the company uses. The ElringKlinger Group ensures that all suppliers are firmly integrated into its quality management system by applying specified information processes and conducting regular supplier audits and comply with the Group's corporate code of ethics. Suppliers are also obliged to observe the applicable environmental regulations and legislation in all areas and processes, including the new EU Regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). In 2008, all suppliers had obtained ISO 9001:2000 certification. At the three sites operated by ElringKlinger AG, over 41% were certified under TS 16949:2002 and 50% had obtained environmental management certification under ISO 14001.

Occupational health and safety

ElringKlinger is firmly committed to ensuring the health and safety of its staff at work. All production sites place great emphasis on compliance with high standards of workplace safety. In 2008, the number of work-related accidents across the Group leading to staff taking more than three days off work stood at 285. By offering regular training, it is hoped that this figure can be reduced further still and staff made even more conscious of the need to act responsibly at the workplace. To this end, an occupational safety policy is being drafted and implemented with the aim of establishing a Group-wide standard based on the new Occupational Health and Safety Assessment Series (OHSAS) directive 18001.

Demand for non-financial indicators

It is clear from the increase in the sustainability ratings drawn up by specialist organizations that there is a growing demand for figures reflecting non-financial performance. For several years, including 2008, the ElringKlinger Group has been one of the few automobile industry suppliers to take part in the most important ratings within this area. Along with just one other German automotive supplier ElringKlinger participated, in the Carbon Disclosure Project, which is sponsored by around 385 institutional investors and focuses solely on climate change and CO_2 reduction. The company also submitted itself to a social responsibility rating by the Ökom agency, which assesses performance in relation to key social and environmental issues, and was given a satisfactory rating.

The ElringKlinger Group uses the results of these sustainability ratings and the information obtained from seminars on the issue of sustainability as a basis for the further optimization of its products and processes. The intention is to expand reporting of non-financial performance indicators to provide additional information on the measures adopted by the Group to promote sustainability.

Development and sales area set up for "environmentally friendly products"

ElringKlinger is not only involved in the development of environmentally friendly production processes; it also promotes the development of products that use up fewer resources and have a lower environmental impact. At the end of 2008, a development and sales key account was set up that will function under the motto "ElringKlinger Going for Green". There are plans to expand this area in 2009.

In addition to the Group's portfolio of products, which makes a contribution towards overall improvements in the vehicle industry's efforts to reduce consumption and emissions and to introduce alternative fuels and drive technologies, new business areas are opened up by identifying potential new applications and uses for existing products. ElringKlinger aims to apply the expertise it has acquired in the area of fuel cell technology to develop SOFC units for use in combined heat and power (CHP) systems in low-energy houses. It is also putting its know-how to good use in the area of solar thermal power generation by supplying prototype components for use in paraboloid and solar tower power generation plants.

SUSTAINABILITY

ELRINGKLINGER GOING FOR GREEN

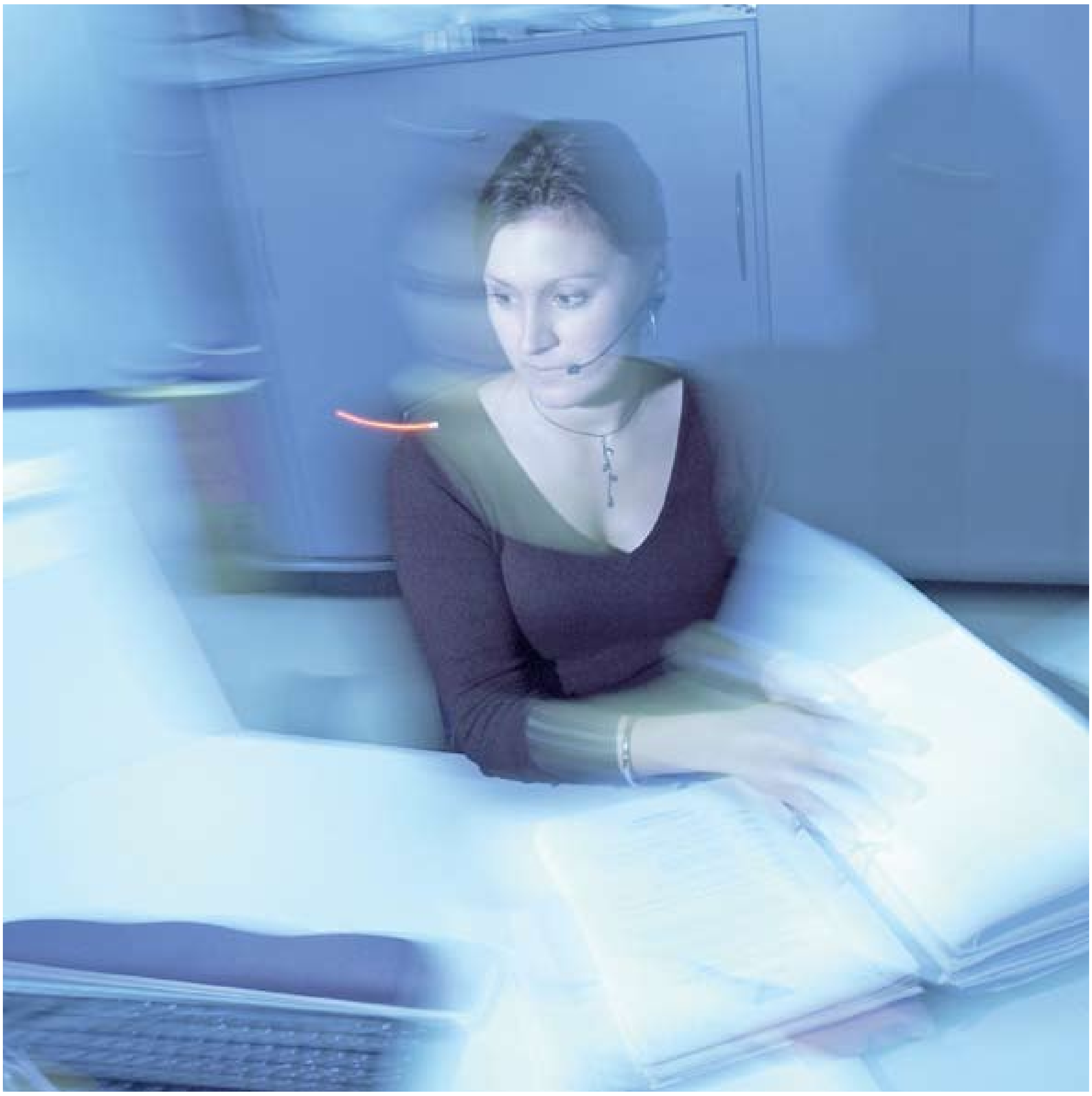
Commi

tment

Strongly motivated, highly qualified and experienced staff are the driving force behind a technological pioneer like ElringKlinger – and they keep us fit to face the future.

Planning ahead, accepting responsibility and driving new developments.
For sustainability and environmentally sensitive mobility.

These are the aims pursued by over 4,100 staff members at 27 plants, subsidiaries and affiliated companies right around the world.



Tanja Beck | Marketing assistant

Mustafa Ongur | Production employee in the cylinder-head gaskets business area

Commitment and dedication of staff

ElringKlinger establishes new mission statement across entire Group

Highly motivated, well educated and dedicated staff are crucial to the success of the ElringKlinger Group, and this belief was enshrined in the organization's mission statement, which was drawn up in 2008 by senior management from the AG and the Group's German subsidiaries. One of the key principles underlying this policy was that motivated and loyal staff, who are prepared to take on responsibility to achieve the organization's targets, should be promoted.

Thinking ahead – taking responsibility and setting new developments in motion

The Group's competitive strength is based on its know-how, technological expertise, creativity, diligence and above all the commitment of its staff. It is they who develop innovative products and production processes that deliver greater sustainability and contribute to environmentally acceptable mobility, thereby continuously propelling the Group forward. Once again in 2008, many such developments were established as best practice across the Group. Worldwide, over a thousand proposals were received under the Group's scheme inviting employees to submit ideas for improvement. 61% of those proposals were subsequently implemented. For many years, one of the key factors in ElringKlinger's success has been the degree to which its staff identify with the organization, which consequently places great emphasis on creating a working environment that benefits both employees and employer. The Group staff turnover rate for 2008 was just 1.2%, while the average number of sick days taken per employee was 8.1, which compares favorably with other companies in the industry.

Staff commitment supported by personal development programs

ElringKlinger believes it has a duty to offer professional development training that can open up new opportunities for its employees. This is based on an annual meeting to assess the performance and training requirements of individual employees. In 2008, 2,579 salaried staff were given feedback on their performance. At the same time, their individual professional development needs were identified and followed up accordingly.

Recruiting and fostering the next generation of staff

For the last year, ElringKlinger has been running its own potential-leaders program as a means of promoting technical and managerial staff from its own ranks. The professional development opportunities offered to dedicated young employees are primarily geared towards the development of leadership skills and qualifications.

In 2008, the ElringKlinger Group continued its drive to foster the next generation of staff by directly marketing itself at universities. The Group was represented at a large number of regional recruitment fairs. In 2008, 326 interns, students and undergraduates took advantage of the opportunity to gain an initial impression of the organization.

The aim of the training was to provide those who wished to join ElringKlinger an excellent preparation for their future career by offering a broad range of commercial and technical apprenticeships as well as combined on-the-job/vocational training (Berufsakademie). The practice-based diploma, bachelor and master theses written by students as part of their training were formed into a knowledge database within the organization. With around a hundred apprenticeships, the ElringKlinger Group maintained the number of trainees and students in 2008 at the same high level as that of the previous year. Approximately 20% of trainees were female and around 80% male. The ratio of trainees to the total workforce was 2.3%.

Increase in staff numbers

As an international Group with 27 sites in Europe, North and South America, Africa and Asia, ElringKlinger employs people from just about every country. At the AG's three German sites, there were 284 employees without German nationality from 23 different countries, bringing the proportion of foreign workers to 16.3%.

Primarily as a result of the acquisition of the former SEVEX Group and ElringKlinger's increased shareholding in the Marusan Corporation, the average headcount for the Group in 2008 rose to 4,085 compared to 3,431 in 2007. As at December 31, 2008, the worldwide headcount was 4,175 (3,602), up 15.9% on the previous year, with a male/female split of 70% to 30%. The proportion of disabled employees at the sites operated by ElringKlinger AG stood at 4.7%, the same level as in 2007, while the figure for the Group as a whole was 2.7%.

ElringKlinger sees creating and protecting jobs as part of its corporate responsibility, although this presupposes a stable economic situation. Thanks to its flexible working model, it ElringKlinger was able to respond to the economic deterioration in the second half of 2008 by scaling back the number of surplus flexitime and vacation days accumulated by staff. With no sign of economic stabilization at the beginning of 2009, ElringKlinger has been obliged to release a number of staff on temporary contracts and to introduce shorter working hours for part of the workforce at ElringKlinger AG from February 2009.

Social commitment

Working with disabled and disadvantaged people

The ElringKlinger Group regularly places orders with the BruderhausDiakonie Foundation in Reutlingen and Dettingen/Erms and with other workshops for the disabled people. This makes it possible for people with a disability to hold a job. With regard to the spare parts aftermarket, the workshops are responsible for the checking of goods received, warehouse management (WM) and for the packaging and customization of cylinder-head bolts. A number of new jobs for disabled people will be created following the construction of a new warehouse with an SAP-based warehouse management system in 2007 and of a subsequent extension, which was begun in 2008 and will be operational in the end of April 2009. The area already employs a staff of 24. Every year, the Paul Lechler Foundation, which was named after the founder of Elring and benefits from the profits distributed by the ElringKlinger Group, presents its Paul Lechler award for innovative projects and measures that promote the integration, self-determination and involvement of disabled and disadvantaged persons in society.

MAKING A DIFFERENCE WITH COMMUNICATIONS

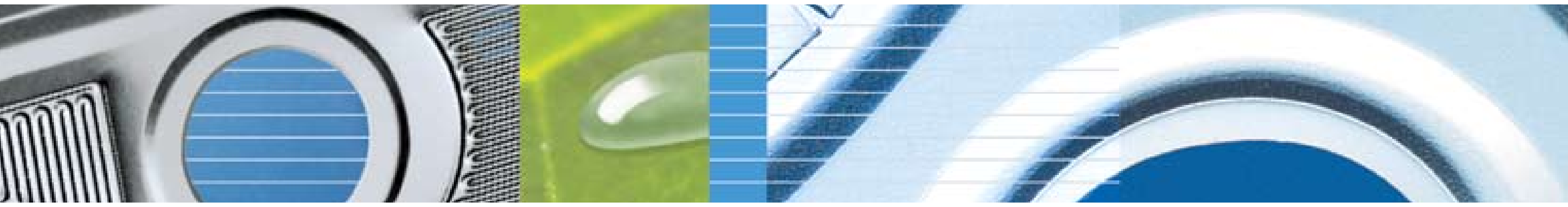
ElringKlinger and the Capital Markets

ElringKlinger is committed to reporting on current and future company and market developments on a regular, prompt, comprehensive and transparent basis. In pursuing this goal, ElringKlinger is eager to ensure that the communication needs of shareholders, customers and interested parties in the general public as well as the requirements of the capital markets, private investors and representatives of the media are met in equal measure.

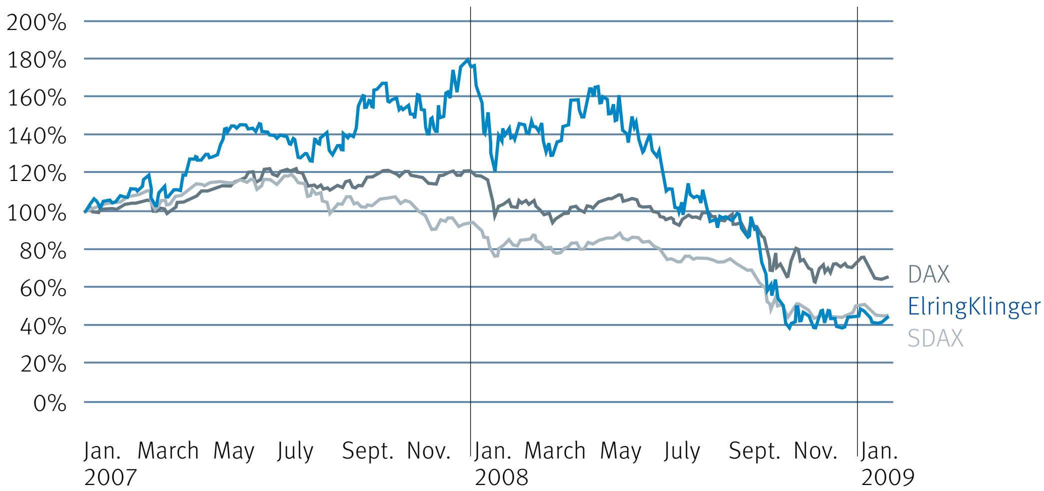
Financial crisis and industry malaise impact on share price

Following an upward trend in 2007 which saw the company's share price surge by more than 70%, the most recent financial market turbulence experienced at exchanges around the globe had a noticeable impact on ElringKlinger's stock. Trading under difficult market conditions, initially triggered by the subprime mortgage crisis in the United States, the company's share price contracted to EUR 19.63 (adjusted for stock split) between the beginning of 2008 and mid-January. This was followed by a period of recovery lasting until the middle of May, during which ElringKlinger's stock grew at a more pronounced rate than the DAX and SDAX benchmark indices. Buffeted by the financial and capital market crisis, the slump in automobile sales in the United States and Europe as well as a string of negative reports emerging from the automotive industry, ElringKlinger's share price receded to a level of EUR 14 at the end of September. Prompted by the general malaise enveloping the industry as a whole and the deteriorating financial and credit crisis, certain investment funds sold off their holdings in order to generate additional liquidity, which in turn produced pressure on stock markets. At the end of October, ElringKlinger's share price stood at around EUR 6. ElringKlinger stock closed the year at EUR 6.95, i.e. 76% down on the previous year's closing price (EUR 28.34).

The more noticeable hesitancy among many institutional investors to allocate funds to small and mid



ElringKlinger's Share Price Performance (XETRA) since January 1, 2007, compared to SDAX and DAX



caps – and in particular automotive stocks – in the current climate had a tangible effect on ElringKlinger. Overall, however, the company's shares performed better than the majority of its peers in the automotive supply industry and had climbed beyond the EUR 7 mark by the end of February 2009.

First-hand communication

In order to ensure prompt and up-to-date information for all capital market participants, customers and media representatives, ElringKlinger places particular emphasis on the use of the internet. The company's quarterly and half-yearly financial reports, which are published on a regular basis, together with ad hoc announcements and press releases issued over the course of the year, can be accessed at www.elringklinger.de in German and English. Additionally, ElringKlinger is committed to maintaining a personal dialog not only with institutional investors but also with investment advisers and private investors, the focus being on providing support during company presentations organized by banks and responding to inquiries received either by phone or by e-mail.

2008 saw a significant increase in the level of media reporting on ElringKlinger, with public awareness also expanding within the international arena. Within this context, the ElringKlinger Group was featured in the print media as well as in radio and television broadcasts.

Dialog with the capital markets

ElringKlinger's business model, which is strongly focused on the reduction of emissions and fuel consumption as well as the promotion of alternative energy sources and propulsion concepts as key topics of the future, was presented to the market as part of a targeted Investor Relations program in 2008 and helped to further raise interest among environmental and sustainability funds. Attending numerous road shows in Europe and North America, ElringKlinger outlined the current market situation, presented the company's most recent product developments

Shares in ElringKlinger – Stock Details

ISIN	DE 0007856023
Security identification number (CUSIP)	785 602
Bloomberg/REUTERS	ZIL2/ZILGn.DE
Capital stock	EUR 57,600,000
Number of shares outstanding	57,600,000
Stock exchanges	for official trading: Frankfurt, Stuttgart, XETRA, Munich, Düsseldorf, Hamburg, Berlin-Bremen
Market segment	Prime Standard
Index	SDAX (MDAX listing since March 20, 2009)

and provided data on its medium-term outlook for the business. In Europe, the focus was on the United Kingdom, France, Denmark, Sweden and the Netherlands, as well as Austria and Germany. Over the course of 2008, the management took part in nine capital market conferences in Frankfurt, Munich, Nice, Paris, London and Zurich, which were attended by an audience of international investors.

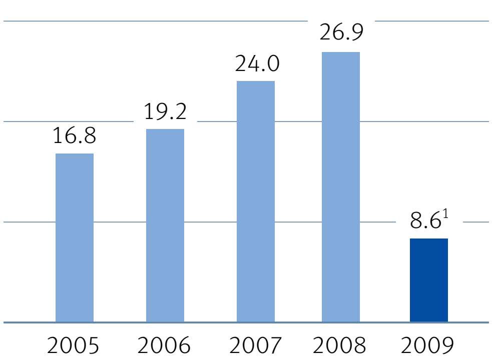
Represented at a specially organized CO_2 Forum and an industry event in Frankfurt, ElringKlinger had the opportunity to explain to those present the factors driving its strong position within the area of CO_2 reduction. In November 2008, ElringKlinger AG again took part in the German Equity Forum, which was attended by a broad range of international investors. For the first time, the company also joined a “Speed Investing” event organized by Deutsche Börse, allowing enterprises to showcase their businesses to potential investors during 20-minute presentation sessions. Both domestic and international analysts and investors, together with representatives of the press, showed a strong interest in visiting the company’s facility in Dettingen/Erms as well as ElringKlinger Kunststofftechnik GmbH in Bietigheim-Bissingen to gain a first-hand impression of local operations. At around forty company-hosted events, they were given an insight into the company’s manufacturing processes and product developments. Over the course of 2008, ElringKlinger attended more than 150 one-to-one meetings at road shows and capital market conferences, on top of which came the more extensive range of meetings organized as part of company visits.

At the same time, financial market reporting on ElringKlinger has become more pronounced in the period under review, with an additional bank initiating coverage on the company including the company.

Strong attendance at 2008 Annual General Meeting

The 103rd Annual General Meeting, held on May 30, 2008, at Stuttgart’s Cultural and Congress Center,

Total Dividend Payments
in EUR million



[1] Proposal to the AGM 2009

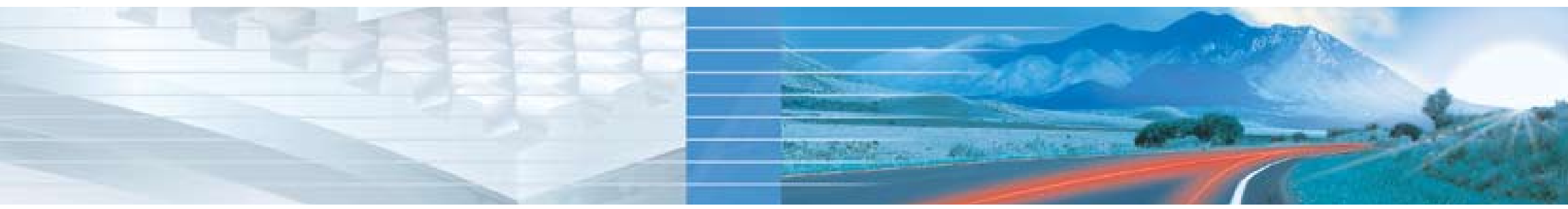
was met with strong interest from investors, who thus reaffirmed their commitment to the company. In total, more than 800 shareholders, banking and shareholder-association representatives, journalists and guests attended the event. The shareholders present passed a resolution that the unappropriated retained earnings of EUR 26.9 million reported for fiscal 2007 as at December 31 be used for the purpose of a dividend payment in the amount of EUR 1.40 (1.25) per share. Maintaining a dividend policy that allows shareholders to participate in the company's success in a sustained manner, ElringKlinger AG thus increased its dividend by 12%. Calculated on the basis of consolidated net income after minority interests and adjusted for extraordinary items, the dividend ratio for 2007 thus stood at 40%.

1:3 stock split implemented

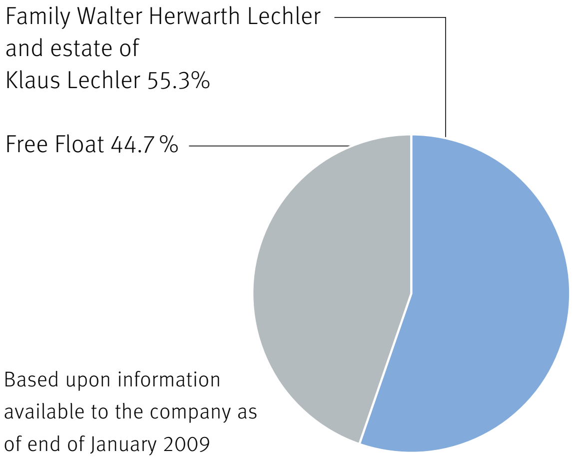
The 1:3 stock split agreed at the Annual General Meeting of ElringKlinger AG on May 30, 2008, was executed on Friday, July 4, 2008. The initial "ex-split" listing of the new shares took place on July 7, 2008. The company's share capital was restructured into 57,600,000 no-par-value shares with a notional interest in share capital of EUR 1.00 per share. The amendment to the Articles of Association, as passed by the General Meeting of Shareholders, was entered in the Commercial Register at the Stuttgart District Court on June 9, 2008. The stock split had no effect on the company's ownership structure or equity. The rationale behind this measure was to increase the liquidity of ElringKlinger stock by means of higher trading volumes.

Dividend for 2008 financial year

The 104th Annual General Meeting of ElringKlinger AG takes place on May 26, 2009, at the Liederhalle Cultural and Congress Center in Stuttgart. In view of the contraction of profit attributable to shareholders of ElringKlinger AG in 2008 and given the extremely challenging business climate, the Management Board and the Supervisory Board will put forward a proposal to the Annual General Meeting for a lower dividend of EUR 0.15 (0.47) per share for fiscal 2008.



Shareholder Structure*



* Based upon information available to the company as of end of January 2009

Significant rise in volume of ElringKlinger shares traded

Turnover of ElringKlinger stock continued to develop at an encouraging level in the fiscal year just ended. The average daily trading value rose from approx. EUR 1,629,000 a year ago to EUR 2,769,000 in the period under review. This corresponds to a year-on-year increase of around 70%. The 1:3 stock split implemented at the beginning of July 2008 was one of the factors contributing to the improvement in stock liquidity, which is considered to be a particularly important aspect for institutional investors. The average volume of ElringKlinger shares traded per day doubled from 74,400 units a year ago to 156,400 in 2008. These figures reflect the stock split performed by the company.

Stable shareholder structure

The company's shareholder structure remained stable in 2008. In total, the Walter Herwarth Lechler family and the Klaus Lechler (deceased) estate increased their interests slightly to a total of 55.3% (54.6%). In turn, free float declined from 45.4% to 44.7%. However, this change had no adverse effect on stock liquidity. The interest shown by institutional investors remained at a high level in 2008. They held approx. 32% of ElringKlinger stock as at January 30, 2009. Among ElringKlinger's principal investors are international investment companies, insurers and banks from the United Kingdom, the US, Germany, Norway, the Benelux region, Switzerland and France. Approx. 12% of the company's shares are held by private investors.

Awards for 2007 annual report

In July 2007, the annual report published by ElringKlinger AG received a Platinum Award – the highest accolade – from the League of American Communications Professionals (LACP) as part of the internationally recognized "2007 Vision Awards Annual Report Competition". ElringKlinger took first place within the category of automobile manufacturers and suppliers. The annual reports submitted to the panel are assessed by the LACP on the basis of various criteria, including creative concept, visual appearance and overall presentation of financial data both in terms of copy and graphics. ElringKlinger was ranked 66th among the 3,161 annual reports assessed in total, thus joining the top two percent. The ElringKlinger annual report was also best in class at the ARC Awards, receiving a Gold Award within the Automotive section.

ElringKlinger honored with Shareholder Value Award

ElringKlinger received a double award at this year's "European Shareholder Value Award 2008" in Turin, Italy. The company's CEO, Dr. Stefan Wolf, accepted the top award on behalf of ElringKlinger for the assessment period from March 31, 2007, to March 31, 2008, as well as for the three-year period. Covering the categories manufacturers, parts suppliers and retailers, the award is presented annually by management consultants PricewaterhouseCoopers and the industry journal Automotive News Europe. The evaluation is made on the basis of how much a company has raised its share price, having accounted for its dividend payment. While the benchmark index of exchange-listed automotive suppliers rose by 24% in the last three years, ElringKlinger recorded a growth rate of 125%. This was the fourth occasion on which ElringKlinger won the award for the best three-year performance, having achieved value accretion that was well above average when compared to other companies operating within this sector.

ElringKlinger receives Capital IR Award

In June 2008, ElringKlinger AG was honored with the German Investor Relations Award 2008 for the best financial communication activities in the SDAX. The award is presented annually by the financial magazine Capital in collaboration with the Society of Investment Professionals in Germany. It is based on a survey of 500 fund managers and analysts in Germany and abroad. The assessment focuses on the quality of financial reporting and financial markets' communication, the main criteria being target group orientation, transparency, reliability and consistency of a company's IR activities. Additionally, the survey looks at details provided by companies with regard to governance and social issues. ElringKlinger climbed 15 places and was ranked first in the SDAX category.

BIRD Award for private investor communication

In January 2009, ElringKlinger AG received a top award for its Investor Relations activities within the SDAX category as part of the BIRD 2008 reader survey conducted by “Börse Online”. This is the sixth survey of its kind organized by investor magazine Börse Online. As part of its BIRD 2008 (Beste Investor Relations Deutschland – Best Investor Relations in Germany) survey, the magazine asked private investors to document how well they thought they were being served by the IR departments of Germany’s 160 major exchange-listed stock corporations. As in the past, the main focus of this year’s questionnaire was on the perceived credibility and intelligibility of IR department communications. At the same time, investors were asked to assess the companies’ annual reports and the quality of their websites. ElringKlinger was ranked fourth among listed companies represented in Germany’s SDAX, MDAX and DAX indices. The company also received an award for its Investor Relations performance as part of a pan-European ranking. ElringKlinger was 22nd overall among all European exchange-listed corporations and was honored accordingly at the annual “Continental European Awards 2008” ceremony hosted by the IR Magazine.

Proactive communication in 2009

Given the current challenges facing the industry as a whole, it is all the more important for ElringKlinger to maintain its open dialog with investors and representatives of the business media. With this in mind, ElringKlinger plans to organize a number of national and international road shows as a component of its Investor Relations program for 2009, as well as attending several capital market conferences. This will be complemented by company visits as well as Technology Days. The company is also planning a information event at the IAA motor show in Frankfurt, which is scheduled for September 2009. One of the key objectives for 2009 is to expand the company’s communication activities vis-à-vis value investors, trustees of family-owned assets as well as sustainability funds.

Drawing on a product and technology portfolio that is designed to make a significant contribution to the reduction of CO_2, ElringKlinger has established attractive prospects for the future. What is more, in the medium term the company has both the opportunity and the potential to emerge reinvigorated from the current market crisis and ongoing industry consolidation.

ElringKlinger Stock

	2008	2007[1]
Earnings per share IFRS (after minority interests, in EUR)	0.69	1.32
Shareholders’ equity per share (in EUR)[2]	5.00	4.88
High (in EUR)	28.42	29.00
Low (in EUR)	5.84	16.36
Closing price at Dec. 31 (in EUR)[3]	6.95	28.33
P/E (price to earnings ratio)[2]	10.1	21.5
Dividend per share (in EUR)	0.15[4]	0.47
Average daily trading volume (German stock exchanges; no. of shares traded)	156,400	74,400
Average daily trading value (German stock exchanges; in EUR)	2,769,000	1,629,000
Market capitalization (in EUR million)[2]	400.3	1,632.0

[1] All figures adjusted for 1:3 stock split
[2] As of December 31
[3] XETRA
[4] Proposal to the AGM 2009

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ElringKlinger has been a reliable development partner and supplier to the automobile industry and the automotive supply industry for 130 years.

Today, millions of vehicles around the world are on the road with ElringKlinger technology.

Our clients include almost every international automobile and commercial vehicle manufacturer, along with major automotive suppliers. ElringKlinger is at the forefront of its sector in terms of technology and business performance. We are a partner for the future: our clients can depend on us, whatever the circumstances.

Alfa Romeo | Ashok Leyland | Aston Martin | Audi | Avto VAZ | Behr | Bentley | BorgWarner | BMW | Bosch | Bugatti | Caterpillar | Chery Automobile | Chrysler | Citroën | Continental | Daewoo | DAF | Daimler | Delphi | Dongfeng Cummins | Eberspächer | Faurecia | FAW Car | Ferrari | Fiat | Force Motors | Ford | GM | Honda | Honeywell | Hyundai | Isuzu | Iveco | Jaguar | Kia | Lamborghini | Lancia | Landrover | Mahindra | Mahle | MAN | Maserati | Mazda | Nissan | Opel | Peugeot | Porsche | Renault | Rolls-Royce | Rover | Saab | Samsung | Scania | Seat | Shanghai Diesel | Škoda | SsangYong | Subaru | Suzuki | Suzuki Maruti | Tata | Toyota | Volkswagen | Volvo | Volvo Truck | ZF | ZMZ

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Statements

Consolidated Income Statement
for the Period from January 1 to December 31, 2008

	Notes	2008 EUR '000	2007 EUR '000
Sales	(1)	**657,833**	**607,841**
Cost of sales	(2)	-468,168	-400,145
Gross profit		**189,665**	**207,696**
Selling expenses	(3)	-49,914	-41,139
General and administrative expenses	(4)	-19,917	-22,135
Research and development expenses	(5)	-36,495	-29,849
Other operating income	(6)	18,549	21,674
Other operating expenses	(7)	-26,058	-13,293
Operating result		**75,830**	**122,954**
Financial income		14,679	3,471
Financial costs		-30,484	-11,545
Net finance costs	(8)	**-15,805**	**-8,074**
Earnings before taxes		**60,025**	**114,880**
Taxes on income	(9)	-16,845	-34,587
Net income		**43,180**	**80,293**
Minority interests	(20)	-3,335	-4,389
Profit attributable to shareholders of ElringKlinger AG		39,845	75,904
Diluted and undiluted earnings per share in EUR	(10)	0.69	1.32(*)

(*) adjusted for 3-for-1 stock split when compared to last year's figure stated

Consolidated Balance Sheet as at December 31, 2008

ASSETS	Notes	Dec. 31, 2008 EUR '000	Dec. 31, 2007 EUR '000
Intangible fixed assets	(11)	86,542	37,037
Property, plant and equipment	(12)	360,426	256,339
Investment property	(13)	28,588	30,442
Financial assets	(14)	1,592	4,543
Other non-current assets	(15)	5,467	5,127
Deferred tax assets	(9)	15,835	7,452
Non-current assets		**498,450**	**340,940**
Inventories	(16)	129,784	113,371
Trade receivables	(17)	98,032	93,585
Other current assets	(17)	18,527	17,224
Cash	(18)	19,741	7,405
Current assets		**266,084**	**231,585**
		764,534	572,525

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	Dec. 31, 2008 EUR '000	Dec. 31, 2007 EUR '000
Share capital		57,600	57,600
Capital reserve		2,747	2,747
Revenue reserves		212,912	205,229
Shareholders' equity before minority interests	(19)	**273,259**	**265,576**
Minority interests	(20)	14,888	15,484
Shareholders' equity		**288,147**	**281,060**
Provisions for pensions	(21)	58,519	54,430
Non-current provisions	(22)	5,461	6,508
Non-current financial liabilities	(23)	150,148	56,877
Deferred tax liabilities	(9)	30,936	26,505
Other non-current liabilities	(24)	27,369	16,857
Non-current liabilities		**272,433**	**161,177**
Current provisions	(22)	22,915	8,105
Trade payables	(24)	33,269	38,375
Current financial liabilities	(23)	108,029	41,245
Tax payables	(9)	5,867	10,104
Other current liabilities	(24)	33,874	32,459
Current liabilities		**203,954**	**130,288**
		764,534	572,525

Statement of Changes in Equity

	Share capital	Capital reserve	Revenue reserves
			Revenue reserve first-time adoption of IFRS
	EUR '000	EUR '000	EUR '000
as of Dec. 31, 2006	57,600	2,747	26,181
Capital increase			
Dividends paid			
Changes in consolidated companies			
Adjustments due to consolidation			
Other changes			
Period income			
Other consolidated net income			
as of Dec. 31, 2007	57,600	2,747	26,181
as of Dec. 31, 2007			
Capital increase			
Dividends paid			
Changes in consolidated companies			
Adjustments due to consolidation			
Other changes			
Period income			
Other consolidated net income			
as of Dec. 31, 2008	57,600	2,747	26,181

Currency translation differences	Group equity generated	Total	Minority interests	Group equity
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
-5,706	**134,419**	**154,894**	**15,957**	**231,198**
		0		0
	-24,000	-24,000	-3,007	-27,007
		0		0
-1,569		-1,569	-192	-1,761
		0	-1,663	-1,663
	75,904	75,904	4,389	80,293
		0		0
-7,275	**186,323**	**205,229**	**15,484**	**281,060**
		0		0
	-26,880	-26,880	-449	-27,329
		0	-3,956	-3,956
-5,282		-5,282	474	-4,808
		0		0
	39,845	39,845	3,335	43,180
		0		0
-12,557	199,288	212,912	14,888	288,147

Consolidated Cash Flow Statement

	Notes	2008 EUR '000	2007 EUR '000
Earnings before taxes		60,025	114,880
Depreciation/Amortization (less write-ups) of non-current assets	(12)	61,653	48,030
Net interest	(8)	11,514	6,138
Change in provisions		8,679	-4,690
Losses (prior year: gain) from disposal of intangible assets and of property, plant and equipment		1,269	-417
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		16,670	-43,488
Change in liabilities not resulting from financing and investing activities		-14,625	17,781
Income taxes paid	(9)	-33,708	-34,889
Interest paid	(8)	-8,064	-3,800
Interest received	(8)	310	357
Other non-cash items	(6)	-5,792	0
Currency effects on items relating to operating activities		267	-630
Net cash from operating activities		**98,198**	**99,272**
Proceeds from disposals of intangible assets and of property, plant and equipment		2,273	1,237
Proceeds from disposals of financial assets		578	226
Payments for investments in intangible assets	(11)	-5,735	-4,158
Payments for investments in property, plant and equipment and investment properties	(12), (13)	-132,195	-90,850
Payments for investments in financial assets	(14)	-688	-245
Payments for the acquisition of consolidated entities		-75,894	-8,153
Net cash from investing activities		**-211,661**	**-101,943**
Dividends paid to shareholders and minorities		-27,329	-27,007
Changes in current financial liabilities	(23)	55,794	24,994
Additions to non-current financial liabilities	(23)	101,632	12,467
Repayment of non-current financial liabilities	(23)	-12,686	-5,970
Currency effects on items relating to financing activities		-467	-76
Net cash from financing activities		**116,944**	**4,408**
Changes in cash		3,481	1,737
Currency effects on cash		1,736	215
Other transactions		-195	0
Cash inflow from the acquisition of consolidated entities		7,314	0
Cash at beginning of period	(18)	7,405	5,453
Cash at end of period	(18)	19,741	7,405

Notes to the Consolidated Financial Statements for the Year 2008

General disclosures

Presentation of the consolidated financial statements

ElringKlinger AG, the parent company of the Group, is filed in the commercial register at the municipal court of Stuttgart 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 May 30, 2008. The registered name of the company 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, gaskets, sealing materials, plastic products and modules for the automotive sector and for 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 at December 31, 2008, have been prepared in accordance with the International Financial Reporting Standards (IFRS), and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) as applicable in the EU, and the supplementary commercial law regulations pursuant to § 315a (1) HGB. All IFRS and IFRICs mandatory for the financial year 2008 have been observed.

The following regulations and amendments to existing regulations became mandatory for the financial year 2008 for the first time but had no significant impact on ElringKlinger's consolidated financial statements:

IAS 39 – IFRS 7 Reclassification of Financial Instruments

IFRIC 11 – IFRS 2 Group and Treasury Share Transactions

IFRIC 14 – IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The following published standards that are not mandatory for the financial year 2008 are not yet applied by ElringKlinger:

IAS 1 Presentation of Financial Statements (2007)

Revised IAS 1 is applicable for fiscal years beginning on or after January 1, 2009. IAS 1 introduces new requirements for the presentation of changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Revised IAS 1 is expected to have an impact on the presentation of the consolidated financial statements.

IAS 23 Borrowing Costs (revised)

Revised IAS 23 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. However, ElringKlinger does not expect a significant impact on the Groups' financial statements as there are only a few qualifying assets in the sense of IAS 23 within the ElringKlinger Group.

IAS 27 Consolidated and Separate Financial Statements (amended 2008)

Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognized as an equity transaction. This will constitute a change in accounting policy for the Group as acquisitions of minority interests have been so far accounted for under the purchase method. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements.

IFRS 3 Business Combinations (2008)

Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

IFRS 8 Segment Reporting

IFRS 8 governs which financial information an entity must make in its reporting on its operating segments. IFRS 8 follows the so-called "management approach" under which information on the operating segments must be given on the basis of the internal reporting of the entity. This standard is mandatory as from January 1, 2009.

As of December 31, 2008 revised IFRS 3 and amended IAS 27 had not been adopted by the EU.

The other standards that have been approved but are not yet mandatory (IFRS 2, IAS 32/IAS 1, IFRIC 12, IFRIC 13, IFRIC 15, IFRIC 16, IFRIC 17) will probably not give rise to any effects on the net assets, financial position and results of operations or on the cash flow.

The consolidated financial statements have been prepared in Euro. Unless otherwise stated, all amounts are in thousand EURO (EUR '000).

For the income statement the cost of sales method has been used. In order to enhance the clarity of presentation, various items in the balance sheet and in the income statement have been aggregated.

Scope of consolidation

Apart from the single entity statements of ElringKlinger AG, the consolidated financial statements of ElringKlinger AG as at December 31, 2008, include the annual financial statements of four (2007: 4) domestic and 20 (2007: 16) foreign subsidiaries. Subsidiaries are companies in which the parent enterprise exercises more than half the voting rights or is able to control their financial and business policy for other reasons (control relationship). Inclusion commences at the time from which the control relationship exists; it ends when the possibility of control ceases.

The in 2008 acquired subsidiaries ElringKlinger Abschirmtechnik (Schweiz) AG, ElringKlinger USA, Inc., ElringKlinger China, Ltd, Sevex Holdings, Inc. and ATD Thermsulate AG, i. L., in which ElringKlinger AG is the sole shareholder, have been included for the first time in the financial year 2008.

The two joint ventures, ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, have been included in the consolidated financial statements proportionately pursuant to IAS 31. Under proportionate consolidation, all assets and equity & liability items, and all expenses and income of the joint ventures are included in the consolidated financial statements in the proportion held in the participation (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 companies, the following values are attributable to the Group:

	2008 EUR '000	2007 EUR '000
Non-current assets	11,573	2,277
Current assets	18,358	2,034
Non-current liabilities	1,778	219
Current liabilities	6,313	1,717
Income	18,388	4,102
Expenses	18,594	4,067

An overview of the 24 entities included, the four joint ventures is given on the following page.

Schedule of Shareholdings as at December 31, 2008 and Scope of Consolidation

Name of company	Domicile	Abbreviation	Capital share in %
Parent company			
ElringKlinger AG	Dettingen/Erms		
Shares in affiliated companies (fully consolidated in the consolidated financial statements)			
Domestic			
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	KMBH	100.00
Elring Klinger Motortechnik GmbH	Idstein	EKM	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	EKLS	76.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	EKT	74.50
Foreign			
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (CH)	EKAB	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (United Kingdom)	EKGB	100.00
Elring Klinger S.p.A.	Mazzo di Rho (Italy)	EKI	100.00
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	TPH	100.00
Elring Parts Ltd.	Gateshead (United Kingdom)	EP	90.00
Elring Klinger, S.A.	Reus (Spain)	EKSA	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	EKCA	100.00
ElringKlinger North America, Inc.	Livonia/Michigan (USA)	EKNA	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	EKMX	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	EKAS	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	EKB	100.00
Elring of North America, Inc.	Branchburg/New Jersey (USA)	ELNA	60.00
ElringKlinger USA, Inc.	Buford (USA)	EKUS	100.00
Elring Gaskets (Pty) Ltd.	Johannesburg (South Africa)	EGS	51.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	EKIA	100.00
ElringKlinger China, Ltd.	Suzhou (China)	EKCI	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	CEK	78.00
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.	Qingdao (China)	EKTC	74.50
Sevex Holdings, Inc.	Kansas (USA)		100.00
ATD Thermsulate AG, i. L.	Baar (CH)		100.00
Shares in joint ventures (included in the consolidated financial statements using proportionate consolidation)			
Foreign			
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	EKKO	50,00
ElringKlinger Marusan Corporation	Tokyo (Japan)	EKMA	50,00
Taiyo Jushi Kakoh Co., Ltd.	Tokyo (Japan)		50,00
Marusan Kogyo Co., Ltd.	Tokyo (Japan)		26,00

Statutory accounts Shareholders' equity in LC '000	Statutory accounts Profit/Loss in LC '000	Local currency (LC)	Exchange rate[1] on closing date	Statutory accounts Shareholders' equity in EUR '000	Statutory accounts Profit/Loss in EUR '000	Most recent financial statements
54	-10	EUR	100.0000	54	-10	31.12.2008
3,511	1,189	EUR	100.0000	3,511	1,189	31.12.2008
1,233	473	EUR	100.0000	1,233	473	31.12.2008
30,118	9,164	EUR	100.0000	30,118	9,164	31.12.2008
29,134	2,502	CHF	67.1953	19,577	1,681	31.12.2008
6,123	490	GBP	104.2862	6,385	511	31.12.2008
1,557	317	EUR	100.0000	1,557	317	31.12.2008
1,769,094	3,386	HUF	0.3785	6,695	13	31.12.2008
1,533	182	GBP	104.2862	1,599	190	31.12.2008
7,417	2,163	EUR	100.0000	7,417	2,163	31.12.2008
32,980	5,954	CAD	58.2411	19,208	3,468	31.12.2008
3,200	-611	USD	71.5512	2,290	-437	31.12.2008
148,033	-23,031	MXN	5.1924	7,686	-1,196	31.12.2008
17,684	543	MXN	5.1924	918	28	31.12.2008
42,473	4,351	BRL	30.6993	13,039	1,336	31.12.2008
1,947	204	USD	71.5512	1,393	146	31.12.2008
71	-2,210	USD	71.5512	51	-1,581	31.12.2008
8,382	2,600	ZAR	7.5930	636	197	31.12.2008
273,293	-111,976	INR	1.4769	4,036	-1,654	31.12.2008
40,866	-4,260	CNY	10.4868	4,286	-447	31.12.2008
142,487	29,257	CNY	10.4868	14,942	3,068	31.12.2008
626	99	CNY	10.4868	66	10	31.12.2008
-193	-132	USD	71.5512	-138	-94	31.12.2008
25	-67	CHF	67.1953	17	-45	31.12.2008
5,516,060	-1,108,424	KRW	0.0570	3,146	-632	31.12.2008
4,331,619	46,358	JPY	0.7911	34,269	367	31.07.2008
350,321	502	JPY	0.7911	2,772	4	31.07.2008
662,995	-30,275	JPY	0.7911	5,245	-240	31.07.2008

[1] 100 units local currency as at balance sheet date

Acquisition of minority interests

ElringKlinger AG acquired in the first quarter of 2008 a further 49% interest in the subsidiary ElringKlinger, S.A., Reus, Spain (EKSA) as well as a 10% interest in the subsidiary ElringKlinger Sealing Systems, S.L., Reus, Spain (EKSL). This increased the interest of ElringKlinger AG in both companies as of March 7, 2008 to 100%. Subsequently, EKSL was merged into EKSA backdated January 1, 2008.

The price of the acquisitions was EUR '000 14,029, of which EUR '000 29 related to incidental costs.

The purchase of additional minority interests is modeled in the consolidated financial statements using the purchase method. This means that, in an initial step, the proportions of dormant reserves and liabilities were identified and revealed in the assets and debts of EKSA and EKSL, both on and off the face of the balance sheet (i.e. both recognized and unrecognized). After additionally accounting for deferred tax liabilities on the revealed dormant reserves, a remaining difference of EUR '000 7,174 was recognized as goodwill. The fair value of land buildings was determined based on survey reports. The portion of the purchase price relating to the goodwill was paid mainly for the positive earnings prospects of EKSA.

Business Combinations

SEVEX Group

As of April 1, 2008 ElringKlinger acquired a 100% interest in Sevex AG, Sevelen (Schweiz) and its subsidiaries ("SEVEX Group") for a total consideration of EUR '000 55,789 paid in cash. Thereof, EUR '000 1,183 relates to costs directly attributable to the business combination. The business activity of Sevex AG relates to the development, production and distribution of heat shields. Subsequent to the acquisition the entity was renamed ElringKlinger Abschirmtechnik (Schweiz) AG. The SEVEX Group was integrated into the business division heat shields of the ElringKlinger Group. In the nine months to 31 December 2008 the SEVEX Group contributed revenues of EUR '000 46,440 and profit before tax of EUR '000 -1,600 (net of taxes EUR '000 -1,055). If the acquisition had occurred on January 1, 2008, management estimates that consolidated revenue would have been EUR '000 61,920 and consolidated profit for the period would have been EUR '000 -591. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2008.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition Carrying amounts	Fair value adjustments	Recognized Values
	EUR '000	EUR '000	EUR '000
Intangible assets	1,217	2,817	4,034
Property, Plant and Equipment	25,121	-	25,121
Deferred tax assets	837	-	837
Inventories	8,592	-	8,592
Trade Receivables	8,877	-	8,877
Other assets	3,701	-	3,701
Cash	114	-	114
Provisions	4,927	-	4,927
Loans and borrowings	15,315	-	15,315
Deferred tax liabilities	1,159	370	1,529
Other liabilities	12,927	-	12,927
Net identifiable assets	**14,131**	**2,447**	**16,578**
Goodwill			39,211
Consideration paid in cash			55,789
Cash acquired			114
Net cash outflow			55,675

Pre-acquisition carrying amounts were determined based on applicable IFRSs on April 1, 2008. Fair value adjustments relate to the profit margin contained in the orders on hand as of the acquisition date and the deferred tax impact in the opposite direction.

The goodwill recognized on the acquisition is attributable mainly to the positive earnings prospects of the SEVEX Group and the synergies expected to be achieved from integrating the company into the ElringKlinger Group's existing heat shields business.

ElringKlinger Marusan Corporation

As of May 1, 2008 ElringKlinger acquired another 40% interest in Marusan Corporation, Tokyo, Japan and its subsidiaries (Marusan). This increased the interest of ElringKlinger AG in Marusan as at May 1, 2008 to 50%. The business activity of Marusan relates to the production and distribution of cam covers and cylinder head gaskets. The Joint Venture Company ElringKlinger Marusan Corporation, in which both Joint Venture partners hold a 50% interest, was merged into Marusan as of June 1, 2008. Subsequent to the acquisition Marusan was renamed ElringKlinger Marusan Corporation. The Joint Venture Marusan has been included in the consolidated financial statements proportionately pursuant to IAS 31. The purchase price for the 40% interest was EUR '000 6,075, of which EUR '000 19 relate to costs directly attributable to the acquisition. In the eight months to 31 December 2008 Marusan contributed revenues of EUR '000 13,998 and profit before tax of EUR '000 5,807 (net of taxes EUR '000 5,759). If the acquisition had occurred on January 1, 2008, management estimates that consolidated revenue would have been EUR ‘000 20,997 and consolidated profit for the period would have been EUR ‘000 5,784. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2008.

The acquisition had the following effect on the Group’s assets and liabilities on acquisition date:

	Pre-acquisition Carrying amounts	Fair value adjustments	Recognized Values
	EUR ‘000	EUR ‘000	EUR ‘000
Intangible assets	85	142	227
Property, Plant and Equipment	7,072	-	7,072
Financial assets	79	-	79
Deferred tax assets	614	-	614
Inventories	874	-	874
Receivables	8,783	-	8,783
Cash	7,200	-	7,200
Provisions	1,457	-	1,457
Loans and borrowings	4,584	-	4,584
Deferred tax liabilities	264	60	324
Other liabilities	2,539	-	2,539
Minority interests	999	-	999
Net identifiable assets	**14,864**	**82**	**14,946**
Amount recognized in profit or loss in accordance with IFRS 3.56			5,792
Consideration paid in cash for a 40% interest			6,075
Cash acquired			7,200
Net cash inflow			1,125

Pre-acquisition carrying amounts were determined based on applicable IFRSs on April 1, 2008. Fair value adjustments relate to the profit margin contained in the orders on hand as of the acquisition date and the deferred tax impact in the opposite direction.

The proportionate consolidation of Marusan led to an excess of ElringKlinger’s interest in the net fair value of identifiable assets and liabilities over the cost of the acquisition amounting to EUR ‘000 5,792, which was recognized in profit or loss in 2008 in accordance with IFRS 3.56 (b). The amount is included in the income statement line item other operating income. The purchase price for the 40% interest could be kept low as ElringKlinger was in an advantageous bargaining position.

Summary of the principal accounting and measurement methods

The consolidated financial statements were prepared on the basis of historical acquisition and manufacturing costs except for the assets and liabilities, which according to IFRS have to be measured compellingly at fair value.

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

Consolidation methods

The assets and debts of the domestic and foreign companies included in the consolidated financial statements are recognized and measured using the accounting and measurement methods that apply uniformly across the ElringKlinger Group.

On 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 interests exceeds the identified assets and liabilities to be measured at fair value, the difference is capitalized as goodwill. If the difference is negative, a remeasurement is made of the identifiable assets and liabilities and of the acquisition costs. Any negative difference remaining is recorded in income.

Uncovered dormant reserves and charges are adjusted, written off or released under the subsequent consolidation in accordance with the corresponding assets and debts. Capitalized goodwill is not amortized, but is subject to an annual impairment test instead, pursuant to IFRS 3.

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

The results of the subsidiaries acquired or sold in the course of the year are included correspondingly in the consolidated income statement from the effective time of acquisition or until the effective time of divestment.

The financial year of the companies included in the consolidated financial statements corresponds to the financial year of the parent company except for one subsidiary and three joint venture companies. Interim financial statements as at the balance sheet date of the parent company are prepared for entities with differing financial years.

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 fixed 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 pertaining at the time of the transactions. As at the balance sheet date, assets and debts in foreign currency are measured at the rate on the balance sheet date. Differences arising on translation are recorded in the income statement.

The financial statements of the foreign companies are translated to EURO since this is the functional currency of the parent company. Since subsidiaries and joint ventures operate their business independently in financial, economic and organizational respects, the functional currency is identical with the relevant national currency of the company. In the consolidated financial statements, the expenses and income from financial statements of entities included that have been prepared in foreign currencies, are, for reasons of simplification and with due regard to the principle of materiality, translated at the average rate for the year, itself determined from daily rates, since the foreign currencies existing in the group are not generally subject to any sharp fluctuations in comparison with the Euro. Assets and debts are translated at the rate on the closing date. Goodwill is treated as an asset or debt and therefore it, too, is translated at the closing rate. Currency differences are treated without effect on the income statement and are shown under equity. 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.	Rate on the closing date Dec. 31, 2008	Rate on the closing date Dec. 31, 2007	Average rate in 2008	Average rate in 2007
US Dollar (USA)	USD	1.3976	1.4718	1.47373	1.37871
Pound (United Kingdom)	GBP	0.9589	0.7347	0.80381	0.68727
Franken (Switzerland)	CHF	1.4882	1.6562	1.57871	1.64606
Canadian Dollar (Canada)	CAD	1.7170	1.4450	1.56643	1.46517
Real (Brazil)	BRL	3.25740	2.6208	2.68120	2.65601
Peso (Mexico)	MXN	19.2589	16.0381	16.39797	15.06080
RMB (China)	CNY	9.5358	10.7494	10.20669	10.44672
WON (South Korea)	KRW	1,753.1500	1,377.4600	1,611.54750	1,279.07417
Rand (South Africa)	ZAR	13.1700	10.0300	12.09396	9.66725
Yen (Japan)	JPY	126.4000	165.1000	151.43750	162.09167
Forint (Hungary)	HUF	264.2000	252.0000	250.83333	251.35000
Indian Rupee	INR	67.7100	57.8600	64.20333	56.59667

Accounting and Measurement Methods

Goodwill

The goodwill is allocated to the cash generating units (these being equivalent to segments) as follows:

	2008 EUR '000	2007 EUR '000
Original Equipment	66,582	22,279
Engineered Plastics	4,816	4,816
Aftermarket	1,604	0
Total	**73,002**	**27,095**

Goodwill is capitalized and subjected to an impairment test that must be performed annually. 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. The regular annual impairment test is performed as of December 31. The recoverable amount of the cash generating unit is compared with its carrying value. The value in use that is applied is the recoverable amount.

The values in use of the cash generating unit are determined by discounting future cash flows. The computation is based on the following principal assumptions:

A detailed plan is made of the cash flows for the cash generating units over the forecast period of five years. Subsequent periods are accounted for by a perpetual annuity that is determined on the basis of the average cash flow during the period of the detailed forecast.

The discount factor applied as at December 31, 2008 was a uniform capital cost rate of 9.27% (2007: 9.02%).

The impairment test performed as of December 31, 2008 did not lead to an impairment of goodwill.

Goodwill from company purchases prior to April 1, 2004, is mainly capitalized and otherwise offset against reserves. On divestment of a consolidated company, any goodwill relating to it is included in the computation of the de-consolidation result. The goodwill that was offset against reserves, however, is not considered in determining the profit or loss made on the divestment.

Intangible fixed assets

Purchased intangible fixed assets, mainly patents, licenses and software, are capitalized at acquisition cost. Internally generated intangible fixed assets, with the exception of goodwill, are capitalized if it is sufficiently probable that a future economic benefit will flow from the use of the asset and the costs of the asset can be determined reliably. The manufacturing costs of internally generated intangible fixed assets are determined on the basis of directly attributable individual costs as well as their proportion of overheads.

All intangible fixed assets in the group – with the exception of goodwill – have determinable useful lives and are amortized normally straight-line over these useful lives. Patents, licenses and software generally have useful lives of 10 years. Capitalized development costs and simple standard software have useful lives of 5 years. If the actual useful life is materially longer or shorter than 10 or 5 years, the actual useful life is recognized.

Property, plant and equipment

Material assets that are used in the business operation for a period longer than one year are measured as property, plant and equipment at acquisition or manufacturing costs less scheduled straight-line depreciation in accordance with use as well as any necessary impairment. The manufacturing costs of internally generated property, plant and equipment are determined on the basis of directly attributable individual costs as well as their proportion of overheads. Finance costs for the period of manufacture are not included. The allowed alternative of revaluation is not applied.

The following useful lives are applied for scheduled depreciation group-wide:

Category of property. plant and equipment	years
Buildings	15 to 40
Plant and machinery	12 to 15
Special toolings	3
Operating and office equipment	5 to 15

The useful lives and the depreciation methods 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 acquisition or manufacturing costs less scheduled, use-related, straight-line depreciation, or else, if lower, the fair value. It is shown separately under fixed assets.

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

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

As at each balance sheet date, property, plant & equipment and intangible fixed assets are submitted to an impairment test pursuant to IAS 36 if there is evidence of impairment. If the carrying value of an asset exceeds its recoverable value, an impairment is made to the recoverable amount. The recoverable amount is the higher of the net realizable value less probable costs to sell and the value in use. If the recoverable amount for an individual asset cannot be determined, an estimate is made of the recoverable amount at the level of next higher cash generating unit.

Revaluations are made up to, at most, the adjusted acquisition or manufacturing cost, if in the following periods the recoverable amount exceeds the carrying value.

Impairments and revaluations are taken to profit and loss.

Financial instruments

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

Original financial instruments

The financial instruments held in the Group are divided into the following categories:

- Financial assets measured at fair value under profit and loss
- Financial liabilities measured at fair value under profit and loss
- Loans and receivables
- Financial investments held to maturity
- Other financial liabilities that are measured by the effective interest rate method at adjusted acquisition costs.

The financial instruments are classified at the time of acquisition on the basis of their intended use:

Financial assets comprise cash, trade receivables and other loans and receivables and derivative financial assets held for trading.

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

Financial assets

All usual purchases and sales of financial assets are recorded in the balance sheet on the day of the trade, i.e. on the day that the Group has entered the obligation to purchase or to sell an asset.

When firstly recorded, financial assets are measured at fair value. In the case of all financial investments that are not classified as "measured at fair value under profit and loss" transaction costs are included that are directly attributable to the purchase.

Financial assets that have not been allocated to the category "fair value through profit and loss" are reviewed for recoverability at each balance sheet date. If the fair value of a financial asset is lower than the carrying value, the carrying value is written down to its fair value. This reduction represents an impairment expense and is charged as expense. Any impairment previously recorded as expense is reversed and credited to the income statement if warranted by events occurring after the original recognition of the impairment.

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

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

Financial assets are classified as **assets measured at fair value through profit and loss** if they have been acquired for the purpose of sale in the near future ("financial instruments held for sale"). These are derivatives for which the preconditions for hedge accounting do not apply.

Financial assets are classified as **loans and receivables** when they result from money transfer, the rendering of services or the procurement of merchandise involving third parties. The current assets and debts classified in this category are measured at acquisition cost, whereas the non-current financial assets and debts are measured at adjusted acquisition cost using the effective interest method.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables involving the creditworthiness of the customer concerned. Within the ElringKlinger Group an allowance for trade receivables is recognized if they are overdue for more than 90 days and have not been paid until the preparation of the consolidated financial statements, if it is disputed by the customer or if the customer is insolvent. The impairments on trade receivables are recorded initially on an adjustments account. When the receivable is classified as unrecoverable, the impaired receivable is retired.

Financial instruments are recorded in the category **"financial investments held to maturity"** when the group has the intention and the legal ability to keep them until maturity.

The **assets classified as available for sale** are interests in unlisted entities. Measurement is at acquisition cost, since measurement to fair value by means of discounted expected cash flows is not possible due to the inability to determine reliably the cash flows. It has therefore been assumed for reasons of simplification that the fair value corresponds to the carrying value.

Cash and cash equivalents recognized in the balance sheet comprise cash in hand, bank deposits and short-term deposits with an original term of less than three months; they are measured at adjusted acquisition cost.

Financial liabilities

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

The financial liabilities are measured on initial recognition at their fair value less any transaction costs directly connected with the take-up of the credit.

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

Financial liabilities that are measured at adjusted acquisition costs comprise at ElringKlinger the trade payables and interest-bearing loans. They are measured using the effective interest method at adjusted acquisition costs. Gains and losses are recognized in the income statement when the debts are retired or have been redeemed.

Financial liabilities measured at fair value in profit and loss comprise the financial liabilities held for trading purposes and, in this case, derivatives and any embedded derivatives that have been separated from the underlying contract, since these are not included as instruments of collateral in hedge accounting. Gains and losses are recorded in the income statement.

Derivative financial instruments and treatment of hedges

Under IAS 39, all derivative financial instruments (for example, currency, price and interest swaps as well as forward exchange transactions) must be recognized at market values, independently of the purpose or the intention of the agreement under which they were concluded. Since in the ElringKlinger Group, no hedge accounting is applied, the changes in the fair value of the derivative financial instruments are always recognized in the period results.

The derivative financial instruments used in the ElringKlinger Group are forward exchange, interest and price hedge transactions. The purpose of the derivative financial instruments is to reduce the negative effects of currency, interest and price risks on the net assets, financial position and results of operations of the Group.

Inventories

The inventories are recognized at acquisition or manufacturing costs or, if lower, their net realizable value. Raw materials, supplies and consumables as well as merchandise are measured at adjusted average acquisition costs. The manufacturing costs of the semi-finished and finished products are determined on the basis of directly attributable individual costs and a portion of the production-related overheads. The overhead portions are determined on the basis of normal levels of employment. The manufacturing costs do not include distribution costs, costs of general administration or finance costs. The net realizable value represents the estimated sales price less all estimated costs until completion as well as the costs for marketing, sale and distribution. Markdowns are made for detectable impairment due to lack of marketability and quality defects as well as in order to account for falls in sales prices.

Cash
Cash includes cash in hand, cheques and bank deposits held on demand. No cash equivalents are held. Cash is recognized at face value.

Provisions for pensions
The provisions for pensions are computed using the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, consideration is given to expected future increases in pensions and salaries with the spirit of a cautious estimate of the relevant influences. The computation is based on actuarial reports that apply biometrical bases.

Actuarial gains and losses are offset, if the actuarial gains and losses unaccounted for exceed 10% of the higher of (i) the obligation from the defined benefit plan and (ii) the fair value of the plan assets. In such cases, if the 10% corridor is exceeded by up to a further 5%, this amount is accrued in full. In the case of overshooting by more than 15%, the excess is distributed over ten years. If the average remaining service life of the employees with pension entitlements should be lower than ten years, the distribution is over this shorter remaining service life.

In determining the discount interest rates, the company is guided by the interest rates observed on the capital markets for corporate bonds of first-class standing (rating AA or better) with terms of 10 years (current pensioners) or 30 years (vested pensions).

Non-current and current provisions
Provisions are recorded when a past event gives rise to a present obligation to outside parties which are likely to be claimed and if the probable amount of the necessary provision can be estimated reliably.

The measurement of these provisions is at full cost or at the presently 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 probably necessary to meet the obligations. Refund claims are capitalized separately, if applicable.

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

If economic ownership under a lease rests with the lessor (i.e. operating leases), it is the lessor that records the leased item in its balance sheet. The lease expenditures incurred are then recorded as expense, straight-line, over the term of the lease.

Realization 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 after subtracting sales deductions, discounts and value added taxes.

Sales revenues are recognized when the performances due have been rendered and the principal opportunities and risks associated with ownership have passed to the purchaser and receipt of the payment may be expected reliably.

Interest income is accrued to the proper period according to the outstanding loan 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 value.

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

Other income is recognized in the proper period in accordance with the provisions of the underlying contract.

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

Research and non-capitalized development costs

Research costs are recorded as expense at the time they arise. Development costs are also recognized at the time they arise unless they meet the criteria for capitalization of IAS 38.57 as internally generated intangible asset.

Borrowing costs

Borrowing costs are recorded as expense when incurred.

Income taxes and deferred taxes

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

The current tax expense is determined on the basis of the taxable income for the relevant year. The taxable income is different from the net income for the year shown in the income statement since it excludes expenses and income which will be tax deductible in later years or which will never become taxable or tax deductible. The liability of the group for current tax expense is computed on the basis of the valid tax rates or of tax rates which have been announced by the balance sheet date.

Deferred taxes are the expected tax charges and reliefs from the differences in the carrying values of assets and debts in the fiscal balance sheets of the individual companies compared with the valuations in the consolidated financial statements under IFRS. Here the balance-sheet oriented liability method is applied. Such assets and debts are not recognized if the temporary difference arises from (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 it will be possible to offset the deductible temporary differences. Otherwise, deferred tax assets are set up on loss carryforwards to the extent that it may be expected that it will be possible to use them in future.

The carrying value of the deferred tax assets is examined each year as at the balance sheet date and is reduced if it is no longer probable that enough taxable income will be available.

The measurement of the deferred taxes is at the future tax rates, i.e. those that will probably be valid at the time of realization.

The changes in deferred taxes are recognized in the income statement as tax income or expense unless they relate directly to items recognized under equity, i.e. without effect on income; in this case the deferred taxes are shown under equity without effect on income.

Contingent debt and contingent receivables

No contingent debts are recognized. They are shown in the notes, unless the possibility of an outflow of resources with economic benefit is remote. Contingent receivables are not recognized in the financial statements. They are shown in the notes if the inflow of economic benefits is probable.

Use of estimates

For the preparation of financial statements in accordance with the pronouncements of the IASB estimates are necessary that influence the valuations in the balance sheet, the nature and the scope of contingent debts and contingent receivables as at the balance sheet date and the level of income and expenses in the reporting period. The assumptions and estimates relate at ElringKlinger mainly to the specification of useful lives, the recoverability of receivables, the recoverability of inventories, the recognition and measurement or provisions and the realization of future tax relief. Actual results may deviate from these estimates. When changes occur in the light of improved knowledge, these are recorded in profit and loss.

Warranty obligations may arise by force of law, by contract or for policy reasons. Provisions are set up for the expected claims 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 about to occur. The warranty risk is derived depending on the circumstances from individual estimates or from past experience and appropriate provisions are set up.

The use of estimates in other items of the consolidated balance sheet and the consolidated income statement are described in the accounting principles for the items in question. This affects in particular the following matters: impairments of goodwill, impairments of property, plant & equipment and of intangible assets; impairments of receivables; and the valuation of provisions for pensions.

Risks and uncertainties

ElringKlinger's financial position, results of operations and cash flows are subject to numerous risks and uncertainties. In 2008, the global economic environment has become increasingly uncertain, in particular, as a result of the current financial crisis and its impact on the economy. This could cause actual results to vary from current expectations.

The strained sales and income situation of some of ElringKlinger's customers increases the risk of delayed cash inflows and cessation of payments for ElringKlinger. This general risk could not be provided for in the consolidated financial statements as it is neither quantifiable nor appreciable at the moment.

Provisions are formed for risks arising from litigation if an entity of the ElringKlinger Group is the defendant and the weight of evidence speaks for rather than against a negative outcome of the lawsuit. The provision is in the amount that the entity will probably lose in the case of a negative outcome. This amount comprises 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 costs of the lawsuit only.

Individual Disclosures on the Income Statement

(1) Sales revenues

Sales revenues increased by EUR '000 49,992 in comparison with 2007 to stand at EUR '000 657,833.

The sales revenues of the group are made up as follows:

	2008 EUR '000	2007 EUR '000
Sale of goods	643,495	595,172
Proceeds from the rendering of services	5,929	4,360
Income from rental and leasehold	8,409	8,309
Total	**657,833**	**607,841**

Breakdown by geographical market:

	2008 EUR '000	2007 EUR '000
Domestic	236,133	210,067
Foreign	421,700	397,774
Total	**657,833**	**607,841**

(2) Cost of sales

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

The costs of sales include:

	2008 EUR '000	2007 EUR '000
Cost of materials	278,498	222,925
Personnel expenses	104,894	98,073
Amortization & depreciation	43,841	38,252
Other expenses	40,935	40,895
Total	**468,168**	**400,145**

(3) Selling expenses

The selling expenses comprise mainly personnel expenses, material and marketing costs as well as amortization/depreciation relating to the distribution function.

(4) General and administrative expenses

The general and administrative expenses include personnel expenses and material costs as well as the amortization/depreciation relating to the administrative area.

(5) Research and development expenses

The research and development expenses comprise the personnel expenses attributable to these activities, depreciation & amortization, as well as the costs of experimental material and tools, except in the case of development costs, which, pursuant to IAS 38.57, must be capitalized. In 2008 development costs amounting to EUR '000 4,188 have been capitalized. Amortization of capitalized development costs recognized in this line item of the income statement amounted to EUR '000 2,622 in 2008.

(6) Other operating income

	2008 EUR '000	2007 EUR '000
Gain recognized in accordance with IFRS 3.56	5,792	0
Release of provision / accrued liabilities	4,831	2,325
Reimbursements from third parties	1,927	1,320
Insurance reimbursements	1,830	14,400
Public subsidies	1,190	990
Income from disposals of fixed assets	866	1,064
Sundry	2,113	1,575
Total	**18,549**	**21,674**

As in prior year, the insurance reimbursements are connected with the fire at the Runkel facility of ElringKlinger AG. .

The other operating income includes out-of-period income of EUR '000 5,697 (2007: EUR '000 3,450). This is comprised mainly of income from the release of provisions and accrued liabilities (EUR '000 4,831; 2007: EUR '000 2,325) and gains on disposals of fixed assets (EUR '000 866; 2007: EUR '000 1,064).

The income from the release of provisions includes mainly a positive effect from the release of warranty obligations.

(7) Other operating expenses

	2008 EUR '000	2007 EUR '000
Expenses in connection with raw material related derivative contracts	15,858	0
Adjustments on receivables	1,148	747
Losses on disposal of fixed assets	2,135	648
Other expenses, fire at Runkel	1,081	6,107
Impairments of property, plant & equipment	640	3,480
Warranties	355	195
Other taxes	166	184
Impairments on intangible assets	0	19
Sundry	4,675	1,913
Total	**26,058**	**13,293**

The negative fair value as of December 31, 2008 of raw material related derivatives is included in current provisions as a provision for losses on pending business.

The other operating expenses include out-of-period expenses of EUR ‘000 3,245 (2007: EUR ‘000 659). These comprise losses on the disposal of fixed assets of EUR ‘000 2,164 (2007: EUR ‘000 648) and other expenses connected with the fire at the Runkel facility of ElringKlinger AG of EUR ‘000 1,081 (2007: EUR ‘000 0).

(8) Financial result

	2008 EUR ‘000	2007 EUR ‘000
Financial income		
Income from currency differences	13,529	2,921
Interest income	914	536
Earnings from affiliated entities	42	8
Sundry	194	6
Financial income, total	**14,679**	**3,471**
Financial expenses		
Expenses from currency differences	-18,055	-4,869
Interest expenses	-12,427	-6,674
– thereof from derivative financial instruments	(-1)	(-4)
Sundry	-2	-2
Financial expenses, total	**-30,484**	**-11,545**
Financial result	-15,805	-8,074

Of interest expenses, EUR ‘000 3,104 (2007: EUR ‘000 2,489) related to interest portions of the pension plans and the remainder to bank interest.

(9) Expenses for taxes on income

The income tax expense is composed as follows:

	2008 EUR ‘000	2007 EUR ‘000
Current tax expense	22,119	38,072
Deferred taxes	-5,274	-3,485
Tax expense shown	16,845	34,587

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

The income tax rate computed for the companies in Germany is 27.5% (2007: 37.0%). The foreign taxation is computed at the tax rates that apply in the countries concerned and lies between 13,5% und 45,0% (2007: between 18.0% und 40.0%). The average foreign tax rate is 30.5% (2007: 30.4%).

The deferred taxes are computed 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 of the income tax expense that might theoretically be expected to arise from application of the current domestic income rate if it were unchanged at 27.5% (2007: 37.0%) with the income tax expense that is in fact shown.

	2008 EUR '000	2007 EUR '000
Earnings before taxes	60,025	114,880
Expected tax rate	**27.5%**	**37.0%**
Expected tax expense	**16,507**	**42,506**
Change in the expected tax expense on account of:		
– changes in tax rates	0	-5,532
– Tax-free income and non-deductible expenses	-1,874	319
– use of non-capitalized tax loss carry forwards	0	-331
– out-of-period taxes	1,100	104
– deviations due to foreign tax-rates	507	-1,680
– other effects	605	-799
Actual tax expense	16,845	34,587
Effective tax rate	**28.1%**	**30.1%**

ElringKlinger recorded deferred tax liabilities for German tax of EUR '000 168 (2007: EUR '000 0) on EUR '000 12,408 in cumulative undistributed earnings of German and non-German subsidiaries on the future payout of these foreign dividends to Germany. Further retained earnings of German and non-German subsidiaries are intended to be permanently reinvested in those operations.

Deferred tax assets on tax loss carry forwards have been recognized in Switzerland and Mexico. Deferred tax assets on tax loss carry forwards of group companies in India, China and the USA amounting to EUR '000 2,240 have not been recognized as the criteria for capitalization are not met.

Additional adjustments on deferred tax assets are not necessary.

The tax deferrals relate to the following line items:

Balance sheet items	Deferred tax assets Dec. 31, 2008	Deferred tax assets Dec. 31, 2007	Deferred tax liabilities Dec. 31, 2008	Deferred tax liabilities Dec. 31, 2007
	EUR '000	EUR '000	EUR '000	EUR '000
Intangible fixed assets	262	172	2,911	2,068
Property, plant and equipment	510	148	24,909	21,545
Investment property	0	0	335	316
Financial assets	3	0	0	0
Other non-current assets	361	0	0	0
Inventories	1,478	1,261	1,175	610
Trade receivables	354	190	676	407
Other current assets	0	33	48	5
Provisions for pensions	4,063	3,824	0	0
Non-current provisions	395	605	0	0
Non-current financial liabilities	69	0	0	0
Other non-current liabilities	1,100	61	7	0
Current provisions	4,989	353	0	0
Trade payables	4	0	9	1
Current financial liabilities	62	0	328	72
Other current liabilities	1,675	805	370	1,481
Deferred taxes associated with investments in subsidiaries	0	0	168	0
Tax loss carry forwards	510	0	0	0
Shown in the balance sheet	**15,835**	**7,452**	**30,936**	**26,505**

In the year under audit there was an increase, without effect on the income statement, in deferred tax liabilities of EUR '000 1.069 on account of the purchase of minority interests in EKSA and EKSL. Otherwise, all changes in deferred taxes have been recorded with effect on income.

(10) Diluted and undiluted earnings per share

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

The diluted earnings per share correspond to the undiluted earnings per share and are calculated as follows:

	2008	2007
Profit attributable to shareholders of ElringKlinger AG in EUR '000	39,845	75,904
Dividend-bearing shares	57,600,000	19,200,000
Earnings per share in EUR	**0.69**	**3.95**

Individual Disclosures on the Balance Sheet

(11) Intangible fixed assets

	Development costs (internally generated)	Goodwill (purchased)	Patents, licences, software (purchased)	Tangible fixed assets under construction (purchased)	Total
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Acquisition/manufacturing costs Balance as at Jan. 1, 2008	**7,717**	**40,277**	**21,106**	**2,451**	**71,551**
Currency changes	138	-757	71	0	-548
Change consolidated group	2,466	39,211	3,337	0	45,014
Additions	4,188	7,399	1,911	27	13,525
Reclassifications	0	0	355	0	355
Disposals	746	0	319	0	1,065
Balance as at Dec. 31, 2008	**13,763**	**86,130**	**26,461**	**2,478**	**128,832**
Amortization Balance as at Jan. 1, 2008	**3,551**	**13,182**	**17,781**	**0**	**34,514**
Currency changes	79	-54	73	0	98
Change consolidated group	1,403	0	140	0	1,543
Additions	2,622	0	4,485	0	7,107
Reclassifications	0	0	93	0	93
Disposals	746	0	319	0	1,065
Balance as at Dec. 31, 2008	**6,909**	**13,128**	**22,253**	**0**	**42,290**
Net carrying value as at Dec. 31, 2008	6,854	73,002	4,208	2,478	86,542
Acquisition/manufacturing costs Balance as at Jan. 1, 2007	**5,279**	**35,199**	**20,231**	**400**	**61,109**
Currency changes	0	262	-59	0	203
Additions	3,044	4,816	944	2,051	10,855
Disposals	606	0	10	0	616
Balance as at Dec. 31, 2007	**7,717**	**40,277**	**21,106**	**2,451**	**71,551**
Amortization Balance as at Jan. 1, 2007	**2,614**	**13,164**	**17,144**	**0**	**32,922**
Currency changes	0	18	-51	0	-33
Additions	1,543	0	679	0	2,222
Impairment	0	0	19	0	19
Disposals	606	0	10	0	616
Balance as at Dec. 31, 2007	**3,551**	**13,182**	**17,781**	**0**	**34,514**
Net carrying value as at Dec. 31, 2007	4,166	27,095	3,325	2,451	37,037

The line item “change consolidated group” contains additions due to the acquisition of SEVEX Group and a 40% interest in Marusan during 2008.

The additions in 2008 include goodwill of EUR ‘000 7,174 from the acquisition of minority shares in two consolidated Spanish subsidiaries.

Intangible assets under construction relate in full to a licensed PTFE machining process.

The scheduled amortization on intangible assets is contained in full under the following line items in the income statement:

	2008	2007
	EUR ‘000	EUR ‘000
Cost of sales	3,803	76
Selling expenses	84	86
General and administrative expenses	424	371
Research and development expenses	2,796	1,689
Total	7,107	2,222

The cost of sales in 2008 include amortization amounting to EUR ‘000 3,573 (2007: EUR ‘000 0) of orders on hand capitalized in connection with business combinations.

As at the balance sheet date, there were contractual payments obligations to acquire a licensed PTFE machining process of EUR ‘000 800, 55% of which will be offset against future sales-related license fees.

(12) Property, plant and equipment

	Land and buildings EUR '000	Technical plant and machinery EUR '000	Other plant, office equipment EUR '000	PPE under construc-tion EUR '000	Total EUR '000
Acquisition/manufacturing costs Balance as at Jan. 1, 2008	**97,243**	**323,419**	**109,068**	**38,673**	**568,403**
Currency changes	-151	-5,357	-637	-1,649	-7,794
Change consolidated group	22,124	35,897	2,337	2,523	62,881
Additions	15,098	61,310	7,035	52,358	135,801
Reclassifications	9,638	23,206	1,264	-34,463	-355
Disposals	5,991	12,113	4,017	5	22,126
Balance as at Dec. 31, 2008	**137,961**	**426,362**	**115,050**	**57,437**	**736,810**
Depreciation Balance as at Jan. 1, 2008	**34,052**	**181,077**	**96,935**	**0**	**312,064**
Currency changes	429	-2,430	-297	0	-2,298
Change consolidated group	9,519	19,554	1,615	0	30,688
Additions	3,161	46,569	3,001	0	52,731
Impairment	0	630	0	0	630
Reclassifications	0	-2	-91	0	-93
Disposals	4,547	8,999	3,792	0	17,338
Balance as at Dec. 31, 2008	**42,614**	**236,399**	**97,371**	**0**	**376,384**
Carrying value as at Dec. 31, 2008	95,347	189,963	17,679	57,437	360,426
Acquisition/manufacturing costs Balance as at Jan. 1, 2007	**92,639**	**281,469**	**108,111**	**12,047**	**494,266**
Currency changes	-336	-1,503	-312	-90	-2,241
Additions	6,858	42,876	3,848	37,616	91,198
Reclassifications	74	10,630	180	-10,884	0
Disposals	1,992	10,053	2,759	16	14,820
Balance as at Dec. 31, 2007	**97,243**	**323,419**	**109,068**	**38,673**	**568,403**
Depreciation Balance as at Jan. 1, 2007	**32,995**	**152,452**	**96,910**	**0**	**282,357**
Currency changes	-102	-527	-191	0	-820
Additions	2,322	36,218	2,554	0	41,094
Impairment	762	2,632	70	16	3,480
Reclassifications	-5	11	-6	0	0
Disposals	1,920	9,709	2,402	16	14,047
Balance as at Dec. 31, 2007	**34,052**	**181,077**	**96,935**	**0**	**312,064**
Carrying value as at Dec. 31, 2007	63,191	142,342	12,133	38,673	256,339

Property, plant and equipment include technical equipment capitalized under finance lease arrangements of EUR ‘000 281 (2007: EUR ‘000 0). In 2008, depreciation expense on assets under finance lease arrangements amounted to EUR ‘000 43 (2007: EUR ‘000 0).

The line item “change consolidated group” contains additions due to the acquisition of SEVEX Group and a 40% interest in Marusan during 2008.

The additions under the item Land and buildings include in 2008 EUR ‘000 3,588 from the acquisition of minority interests in two Spanish consolidated entities.

Impairment expense have been recorded on technical equipment and machinery in an amount of EUR ‘000 148 (2007: EUR ‘000 246). These were machines that, following the discontinuation of cylinder head seal production in the United Kingdom, were no longer in use for the generation of revenues and for which no sales proceeds can be obtained.

Further impairment expenses have been recorded on technical equipment and machinery in an amount of EUR ‘000 482. This relates to a product specific tool that has been bought for a project with an US customer. After the customer having filled under Chapter 11 of the US bankruptcy code, the product specific tool can no longer be used for the generation of revenues. Sales proceeds can likely not be obtained.

The impairment expenses on property, plant and equipment is contained in the item “Other operating expenses” in the income statement.

(13) Investment property

	Investment property	Investment property under construction	Total
	EUR '000	EUR '000	EUR '000
Acquisition/manufacturing costs			
Balance as at Jan. 1, 2008	**53,319**	**76**	**53,395**
Currency changes	-708	-4	-712
Additions	41	16	57
Disposals	258	0	258
Balance as at Dec. 31, 2008	**52,394**	**88**	**52,482**
Depreciation			
Balance as at Jan. 1, 2008	**22,953**	**0**	**22,953**
Currency changes	-138	0	-138
Additions	1,194	0	1,194
Disposals	115	0	115
Balance as at Dec. 31, 2008	**23,894**	**0**	**23,894**
Carrying value as at Dec. 31, 2008	28,500	88	28,588
Acquisition/manufacturing costs			
Balance as at Jan. 1, 2007	**53,302**	**76**	**53,378**
Currency changes	-6	0	-6
Additions	70	0	70
Disposals	47	0	47
Balance as at Dec. 31, 2007	**53,319**	**76**	**53,395**
Depreciation			
Balance as at Jan. 1, 2007	**21,737**	**0**	**21,737**
Currency changes	-1	0	-1
Additions	1,217	0	1,217
Balance as at Dec. 31, 2007	**22,953**	**0**	**22,953**
Carrying value as at Dec. 31, 2007	30,366	76	30,442

The investment property includes industrial parks in Ludwigsburg, Idstein and Kecskemét-Kádafalva (Hungary). The fair value determined using the discounted cash flow method is EUR '000 68,756 (2007: EUR '000 79,235). This was determined by discounting the surplus of expected future rental payments over the expected cash expenses to the valuation date. The capitalization factor applied was a risk-adjusted interest rate of 5.75%. The measurement of the fair values was not made by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR ‘000 8,409 (2007: EUR ‘000 8,309). The expense directly connected with this financial investment was EUR ‘000 5,965 (2007: EUR ‘000 3,988).

(14) Financial assets

	Participations EUR ‘000	Non-current securites EUR ‘000	Other financial investments EUR ‘000	Total EUR ‘000
Acquisition cost **Balance as at Jan. 1, 2008**	**3,086**	**1,418**	**49**	**4,553**
Currency changes	0	10	0	10
Change consolidated group	0	79	0	79
Additions	0	610	0	610
Disposals	3,078	572	9	3,659
Balance as at Dec. 31, 2008	**8**	**1,545**	**40**	**1,593**
Depreciation **Balance as at Jan. 1, 2008**	**0**	**10**	**0**	**10**
Additions	0	1	0	1
Revaluations	0	10	0	10
Balance as at Dec. 31, 2008	**0**	**1**	**0**	**1**
Carrying value as at Dec. 31, 2008	8	1,544	40	1,592
Fair value Dec. 31, 2008		1,570	40	
Acquisition cost **Balance as at Jan. 1, 2007**	**3,086**	**1,419**	**36**	**4,541**
Currency changes	0	-6	0	-6
Additions	0	220	25	245
Disposals	0	215	12	227
Balance as at Dec. 31, 2007	**3,086**	**1,418**	**49**	**4,553**
Depreciation **Balance as at Jan. 1, 2007**	**0**	**13**	**0**	**13**
Additions	0	2	0	2
Revaluations	0	4	0	4
Disposals	0	1	0	1
Balance as at Dec. 31, 2007	**0**	**10**	**0**	**10**
Carrying value as at Dec. 31, 2007	3,086	1,408	49	4,543
Fair value Dec. 31, 2007		1,425	49	

The line item “change consolidated group” contains additions due to the acquisition of a 40% interest in Marusan during 2008.

The disposal of participations relates to Marusan, which after the acquisition of another 40% interest is included in the consolidated financial statements as of December 31, 2008 proportionately.

Of the securities of non-current assets, EUR '000 1,365 (2007: EUR '000 1,354) is pledged in full to secure pension claims.

(15) Other non-current assets

The other non-current assets contain mainly the corporation tax credit of ElringKlinger AG in the amount of EUR '000 4,764 (2007: EUR '000 4,836), which has been capitalized at its net present value. The corporation tax credit will be disbursed to ElringKlinger AG in ten equal annual installments from 2008 until 2017.

(16) Inventories

	Dec. 31, 2008 EUR '000	Dec. 31, 2007 EUR '000
Raw materials, consumables and supplies	48,985	42,379
Work in progress	9,872	11,302
Finished goods and merchandise	70,552	56,075
Prepayments	375	3,615
Total	129,784	113,371

Under inventories, markdowns of EUR '000 13,682 (2007: EUR '000 11,062) have been made to account for marketability risks.

(17) Trade receivables and other current assets

For trade receivables and other current assets, impairments of EUR '000 4,045 (2007: EUR '000 2,919) were set up for specific detectable risks and probable use of discounts.

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

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

The adjustment account for trade receivables has developed as follows:

	2008 EUR '000	2007 EUR '000
Balance as at Jan. 1	**2,919**	**3,049**
Addition	2,242	1,744
Release/utilization	-1,099	-1,855
Exchange rate effects	-17	-19
Balance as at Dec. 31	4,045	2,919

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 given below:

	Dec. 31, 2008	Dec. 31, 2007
	EUR '000	EUR '000
Neither overdue nor impaired:	**74,463**	**75,982**
Overdue, not impaired:		
– less than 30	10,969	10,205
– from 30 to 60	4,571	2,175
– from 60 to 90	2,696	1,112
– from 90 to 180	222	326
– more than 180	460	520
Total:	18,918	14,338
impaired	**4,651**	**3,265**
Carrying value	**98,032**	**93,585**

With regard neither to the overdue nor to the impaired receivables was anything identified to indicate that the debtors will not meet their payments obligations.

Other current assets contain mainly tax receivables (EUR '000 13,791; 2007: 10,177), in prior year besides claims for insurance reimbursements for the fire in the Runkel factory of ElringKlinger AG of EUR '000 3,728.

(18) 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 value of these assets corresponds to their fair value.

(19) Shareholders' equity

The changes in the individual items of equity in the group are shown separately in the "Statement of changes in equity".

The share capital shown is the nominal capital of the parent company ElringKlinger AG. The nominal capital of ElringKlinger AG amounts to 57.6 million Euro.,

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

After the share split the share capital is divided into 57,600,000 individual shares. The shares are registered.

Under the German stock corporation act, 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 2008, ElringKlinger AG distributed to its shareholders a dividend of EUR '000 26,880 (Euro 1.40 per share) from the retained earnings for 2007. In the financial year 2007 the distribution was EUR '000 24,000 (EUR 1.25 per share) from the retained earnings for 2006. The amount for dividend per share relates to the number of shares outstanding prior to the stock split.

The management board and the supervisory board of the parent company Elring-Klinger AG will propose to the shareholders‘ meeting to be held on May 26, 2009, distribution of a dividend of EUR 0.15 per share with dividend entitlement, representing a total distribution of EUR ‘000 8,640.

At the shareholders‘ meeting held on June 8, 2005, the approved capital was set at EUR ‘000 28,800. With the consent of the supervisory board, the management board can call this capital in until June 15, 2010.

The reconciliation of net exchange differences classified as a separate component of equity is as follows:

	2008 EUR ‘000	2007 EUR ‘000
Balance as at Jan. 1	**-7,275**	**-5,706**
Currency differences in carry forward values	-4,121	-1,637
Currency differences on book values of investments in foreign currency	-614	0
Currency differences due to differences between net profit according to income statement and net profit shown in the balance sheet	-213	-79
Minority interest in currency differences in carry forward values	-189	191
Currency differences due to capital increases at subsidiaries	-134	-43
Sundry	-11	-1
Balance as at Dec. 31	**-12,557**	**-7,275**

(20) Minority interests in equity and period result

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 shareholdings are shown in the consolidated balance sheet, under equity, separate from the equity relating to the shareholders of the parent company. Similarly, in the consolidated income statement, minority interests in the period result are shown separately.

The minority shares in equity shown in the consolidated financial statements relate to non-group shareholders in subsidiaries. In an amount of EUR ‘000 6,236 (2007: EUR ‘000 7,610) they relate to interests in the capital; in an amount of EUR ‘000 1,522 (2007: EUR ‘000 2,078) to interests in the revenue reserves from the initial application of IFRS; and in the amount of EUR ‘000 7,130 (2007: EUR ‘000 5,796) to profit shares.

Due to the first time proportionate inclusion of Marusan in the consolidated financial statements in 2008, minority interests in equity increased by EUR ‘000 999. The acquisition by ElringKlinger of minority interests in two Spanish subsidiaries resulted in 2008 in a reduction of the minority interests in equity of EUR ‘000 3,913.

(21) Provisions for pensions

The pension obligations at the foreign companies mainly take the form of defined contribution plans while in the case of domestic companies it is on the basis of defined benefit and defined contribution plans.

Under the defined contribution plans the entity pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. On payment of the contributions, the entity does not have any further obligations. The current contribution payments are shown as pension expense of the relevant year: they came to a group total of EUR '000 596 (2007: EUR '000 464).

The defined benefit plans are accounted for in the group by setting up provisions for pensions that are determined by the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, consideration is given to expected future increases in pensions and salaries with cautious estimate of the relevant influences. In the case of the domestic companies, the computation is based on actuarial reports using biometric calculations (guideline tables 2005 G of Prof. Dr. Klaus Heubeck).

Under the defined benefit plans, on reaching the retirement age of 63 years, employees have a claim to benefits that depend of their length of time with the company. Employees that come under the collective agreement receive a pension claim of about 0.16% of the remuneration per year of employment, with the maximum being 30 years of employment and 4.87% of remuneration. The company pension for senior employees is a maximum of 32% of the final monthly salary.

The most important assumptions are:

Measurement at	Dec. 31, 2008	Dec. 31, 2007
Discount rate (weighted)	3.6 – 5.84%	5.52%
Expected percentage of salary increases	2.00%	2.00%
Future pension increases	2.00%	2.00%

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

	2008	2007
	EUR '000	EUR '000
Current service costs	1,860	1,174
Interest expense	3,104	2,489
Expected return on plan assets	-253	0
Past service costs	179	0
Accrued actuarial gains (-)/losses	0	-8
Total expense	**4,890**	**3,655**

Actual return on plan assets was EUR '000 269 (2007: EUR '000 4).

The current service costs and the recording of actuarial gains/losses are generally recorded under the personnel costs of the functional areas; the annual interest expense is shown under net interest.

The changes in the present value of the defined benefit obligations of the current financial year are as follows:

	2008 TEUR	2007 TEUR
Present value of the pension claims as at Jan. 1	52,107	55,892
Current service costs	1,860	1,174
Interest expense	3,104	2,489
Disbursements / Utilization	-3,347	-2,699
Actuarial gains / losses	-1,003	-4,767
Additions due to business combinations	12,903	0
Other changes	0	18
Present value of the pension claims as at Dec. 31	65,624	52,107

Additions due to business combinations relate to ElringKlinger Abschirmtechnik (Schweiz) AG (EUR '000 11,935) and ElringKlinger Marusan Corporation (EUR '000 968).

The amount shown in the balance sheet for the group's obligation is derived as follows:

	Dec. 31, 2008 EUR '000	Dec. 31, 2007 EUR '000	Dec. 31, 2006 EUR '000	Dec. 31, 2005 EUR '000
Present value of obligations covered by funds and not covered by funds	65,624	52,107	55,892	58,515
Fair market value of plan assets	-10,750	-175	-180	-160
Present value of net obligations	54,874	51,932	55,712	58,355
Actuarial losses not booked	3,645	2,498	-2,261	-5,926
Net debt recorded in the balance sheet	58,519	54,430	53,451	52,429
Experience adjustments arising on the plan liabilities	-1,003	-4,767	-3,655	3,002

Of the fair value of the plan assets, EUR '000 10,714 relates to ElringKlinger Abschirmtechnik (Schweiz) AG and EUR '000 36 (2007: EUR '000 44) to ElringKlinger Korea Co., Ltd. The significant increase compared to prior year results from the first-time inclusion of ElringKlinger Abschirmtechnik (Schweiz) AG in the consolidated financial statements as of December 31, 2008.

(22) Current and non-current provisions

The current and non-current provisions are comprised as follows:

	Dec. 31, 2008 EUR '000	Dec. 31, 2007 EUR '000
Current provisions	22,915	8,105
Non-current provisions	5,461	6,508
Total	28,376	14,613

The provisions break down as follows:

	Personnel obligations	Warranty obligations	Losses in orders on hand	Litigation costs	Other risks	Total
	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000
Balance as at Jan. 1, 2008	**7,723**	**4,635**	**1,324**	**278**	**653**	**14,613**
Change consolidated group	778	67	838	0	0	1,683
Exchange rate difference	10	5	0	0	-40	-25
Utilization	3,441	120	1,323	62	233	5,179
Release	10	3,020	0	23	143	3,196
Unwinding of discount	69	0	0	0	0	69
Addition	2,443	150	1,371	286	16,161	20,411
Balance as at Dec. 31, 2008	**7,572**	**1,717**	**2,210**	**479**	**16,398**	**28,376**

Provisions in the personnel area are set up for the pre-retirement part-time scheme, long-service anniversary benefits and similar obligations.

The provision for warranties represents the best estimate of management and was set up on the basis of past experience and the industrial average for defective products with regard to the group liability for a warranty of twelve months.

The other risks refer to numerous detectable individual risks and uncertain obligations, which have been taken into consideration in line with the probability of their incidence. The provision for other risks contains an addition amounting to EUR ‘000 16,177 for expected losses on derivative contracts.

(23) Current and non-current financial liabilities

Breakdown of financial habilities by residual term:

	Domestic	Foreign	Total Dec. 31, 2008	Domestic	Foreign	Total Dec. 31, 2007
	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000
Overdrafts	84,309	442	84,751	32,912	3,385	36,297
Financial liabilities up to one year	10,317	12,961	23,278	4,948	0	4,948
Current Financial liabilities	**94,626**	**13,403**	**108,029**	**37,860**	**3,385**	**41,245**
Financial liabilities more than one year	139,094	11,054	150,148	56,768	109	56,877
Total	**233,720**	**24,457**	**258,177**	**94,628**	**3,494**	**98,122**

The financial liabilities (excluding overdrafts) have the following terms:

	Domestic	Foreign	Total Dec. 31, 2008	Domestic	Foreign	Total Dec. 31, 2007
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Payable on demand or less than one year	10,317	12,961	23,278	4,948	0	4,948
More than one and less than five years	63,011	10,905	73,916	15,081	109	15,190
More than five years	76,083	149	76,232	41,687	0	41,687
Total	**149,411**	**24,015**	**173,426**	**61,716**	**109**	**61,825**

Breakdown of financial liabilities by category, residual term and currency:

Currency	Category	Residual term	Weighted interest rate	Amount in local currency	Amount in Euro
			%	'000	EUR '000
at Dec. 31, 2008					
EUR	Overdraft	< 1 year	4.73	84,416	84,416
MXN	Overdraft	< 1 year	0.00	2,489	129
KRW	Overdraft	< 1 year	4.87	100,000	57
USD	Overdraft	< 1 year	4.50	208	149
	Total				**84,751**
EUR	Financial liabilities	< 1 year	4.73	8,157	8,157
BRL	Financial liabilities	< 1 year	1.65	4,037	1,239
CHF	Financial liabilities	< 1 year	3.67	5,000	3,360
CHF	Financial liabilities	< 1 year	3.67	12,887	8,660
JPY	Financial liabilities	< 1 year	1.32	215,000	1,701
USD	Financial liabilities	< 1 year	5.00	225	161
EUR	Financial liabilities	1-5 years	4.63	31,255	31,255
CHF	Financial liabilities	1-5 years	3.90	43,000	28,894
CHF	Financial liabilities	1-5 years	3.90	4,000	2,688
CNY	Financial liabilities	1-5 years	5.00	130	14
KRW	Financial liabilities	1-5 years	4.87	50,000	28
MXN	Financial liabilities	1-5 years	9.19	150,000	7,789
USD	Financial liabilities	1-5 years	4.32	4,000	2,862
USD	Financial liabilities	1-5 years	4.50	541	387
EUR	Financial liabilities	> 5 years	4.45	47,861	47,861
CHF	Financial liabilities	> 5 years	3.96	42,000	28,222
JPY	Financial liabilities	> 5 years	1.90	18,750	148
	Total				**173,426**
Total					**258,177**

Currency	Category	Residual term	Weighted interest rate %	Amount in local currency '000	Amount in Euro EUR '000
at Dec. 31, 2007					
EUR	Overdraft	< 1 year	4.89	34,112	34,112
GBP	Overdraft	< 1 year	6.00	847	1,152
BRL	Overdraft	< 1 year	1.15	2,569	980
KRW	Overdraft	< 1 year	5.25	50,000	36
USD	Overdraft	< 1 year	7.75	25	17
	Total				36,297
EUR	Financial liabilities	< 1 year	4.02	4,948	4,948
EUR	Financial liabilities	1-5 years	4.20	15,081	15,081
KRW	Financial liabilities	1-5 years	5.25	150,000	109
EUR	Financial liabilities	> 5 years	4.55	41,687	41,687
	Total				61,825
Total					98,122

The average interest rates were:

	Dec. 31, 2008 %	Dec. 31, 2007 %
Overdrafts:		
Domestic	4.73	4.94
Foreign	3.28	3.76
Financial liabilities:		
Domestic up to one year	4.73	4.02
Domestic more than one and less than five years	4.63	4.20
Domestic more than five years	4.45	4.55
Foreign up to one year	3.20	-
Foreign: more than one and less than five years	7,51	5,25
Foreign more than five years	1,90	-

Fixed interest rates have been agreed for financial liabilities of EUR '000 150,401 (2007: EUR '000 61,716).

As collateral, land charges on works grounds have been issued in the amount of EUR '000 18,389 (2007: EUR '000 12,361).

As at December 31, 2008, the Group had unused credit lines of EUR '000 56,914 (2007: EUR '000 92,635).

As of December 31, 2008 an US subsidiary has violated debt covenants laid down in the loan agreement. In February 2009, the lender has refrained from demanding immediate repayment of the entire loan liability (EUR '000 535) as of December 31, 2008. For future balance sheet dates the debt covenants will continue to apply.

(24) Trade payables and other current and non-current liabilities

Trade payables and other current and non-current liabilities comprise outstanding obligations from trade and running costs.

The carrying value of the trade payables corresponds approximately to their fair value.

The trade payables and other current and non-current liabilities are not secured except for the reservations of title that are usual in trading relationships.

Current and non-current liabilities include accrued liabilities of tooling revenue and accrued expenses.

(25) 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 and interest rates and in prices of raw materials have effects on the net assets, financial position and results of operations of the company. 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 are connected with credit risks and market price risks or accompany a deterioration of business operations and disturbances of the financial markets, respectively.

In concluding hedges the management board of ElringKlinger has the objective of controlling the risk factors that may affect the net assets, financial position and results of operations adversely and hence of minimising 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. Included therein are alloy surcharges, in particular for nickel, which as a quoted metal is subject to market price swings. In order to partly hedge alloy surcharges assessed in internal part price calculations, ElringKlinger uses derivative financial instruments. Hedged is a price range, in which the average budget price falls in. If the stock exchange quotation of nickel goes beyond the upper range of the corridor, ElringKlinger receives a compensatory payment. In case the stock exchange quotation of nickel falls below the lower range of the corridor, ElringKlinger has to make a compensatory payment.

Hedge accounting in the meaning of IAS 39 (revised 2000) is 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.

The exchange rate risk arises for the Group in its operating business principally when sales revenues are made in a different currency to the related costs. Sales revenues are generated generally in the functional currency (which is usually 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 activates are generally accounted for in the functional currency of the Group entity. The Group also endeavours to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

In order to limit the currency risk, ongoing receivables, liabilities and debts in foreign currency are hedged with forward currency transactions.

The units are not permitted to take up finance in foreign currency or to invest it for speculative reasons. Intergroup finance and investment is usually denominated in the relevant functional currency.

A number of subsidiaries of ElringKlinger AG are domiciled outside the euro area. Since the reporting currency of the ElringKlinger Group is the Euro, income and expenses of these participations are translated into euro on consolidation. Changes in the average exchange rates in comparison with the prior period can therefore have transaction effects that are reflected in the net profit of the Group.

Due to these subsidiaries the Group also presents assets and liabilities outside of the euro area that are denominated in national currencies. When these assets are translated into euro, currency exchange fluctuations can lead to changes in the values stated. The changes in these net assets are reflected in Group equity.

In order to finance investments in new subsidiaries, ElringKlinger has taken up significant financial liabilities denominated in CHF (CHF ‘000 90,000). Depending on the revenues generated in CHF, currency swings can have a significant impact on the Group’ s net profit.

In order to quantify the possibly effects of exchange rate changes on the consolidated results, consolidated revenues and group equity, a sensitivity analysis has been conducted. This represents the negative change in the consolidated results, consolidated revenues and Group equity in the event that the Euro is revalued by 10% in comparison with the other Group currencies.

Dec. 31, 2008 EUR ‘000	USD	CHF	CAD	Sundry	Total
Group sales	-1.280	-3.720	-3.742	-10.499	-19.241
Consolidated result	14	-200	-346	-245	-777
Group equity	-327	-2.180	-1.746	-7.655	-11.908

Interest risk

The interest risk arises mainly from financial liability. The Group controls the interest risk with the aim of optimizing interest income and expense.

Fixed interest rates have been agreed mainly for financial liabilities of the ElringKlinger Group. In rare cases, Swap transactions have been concluded in order to transform variable interest rates into fixed interest rates. Hence the risk due to fluctuations in interest rates is only slight.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials used in production. In order to lessen fluctuations in the purchase prices for raw materials, ElringKlinger has concluded hedges for purchases of nickel.

Credit risk

Credit risk is the risk of economic loss arising from counterparty's failure to repay or service debt according to the contractual terms. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks. The maximum risk positions of financial assets, which generally can be subject to credit risk, are equal to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds comprise essentially bank deposits available on demand. In connection with the investment of liquid funds, the ElringKlinger Group would be exposed to losses from credit risks if financial institutions failed to meet their obligations. In order to minimise this risk, care is taken in selecting the financial institutions used for investment. The maximum risk exposure corresponds to the carrying value of the liquid funds as at the balance sheet date.

Trade receivables

Trade receivables relate mainly to the global sales of gaskets, sealing materials, plastic products and modules for the vehicle and for general industries. The credit risk resides in the possibility of default by a contractual partner.

In domestic business, most receivables are secured by reservation of title. In order to limit the credit risk, creditworthiness reviews are performed in the form of enquiries with credit information services for selected counterparties. Moreover, internal processes are in place to monitor continually receivables where a partial or complete default may be anticipated.

In its export business, ElringKlinger forms judgements on the credit standing of its counterparties by submitting enquiries to credit information services and on the basis of the specific country risk. Moreover, in certain cases credit guarantee insurance policies are concluded or letters of credit required as collateral for credit.

Moreover, adjustments are made to account for the default risk in the case of detectable individual risks as well as the probable utilisation of discounts. The maximum risk exposure from trade receivables corresponds to the carrying value of these receivables as at the balance sheet date. The carrying values of trade receivables, together with a separate presentation of overdue and adjusted receivables, are given in note 17.

The dependence on the three biggest customers could be reduced in the past years by widening the customer basis in the international automotive industry and by increasing volumes of trade with other supplier companies. However, a significant part of revenues is still generated from sales to the three biggest customers.

Derivative financial instruments

Derivative financial instruments comprise derivatives that are not included in hedge accounting. ElringKlinger does not enter into derivative contracts for speculative reasons. In the ElringKlinger Group, derivatives are usually used only for purposes of reducing interest risks, currency risks and commodity price risks.

ElringKlinger processes a significant volume of high-grade steel. Included therein are alloy surcharges, in particular for nickel, which as a quoted metal is subject to market price swings. In order to partly hedge alloy surcharges assessed in internal part price calculations, ElringKlinger uses derivative financial instruments. Hedged is a price range, in which the average budget price falls in. If the stock exchange quotation of nickel goes beyond the upper range of the corridor, ElringKlinger receives a compensatory payment. ‘In case the stock exchange quotation of nickel falls below the lower range of the corridor, ElringKlinger has to make a compensatory payment. The group controls the credit risk of derivatives by entering derivative financial transactions exclusively with major banks with unimpeachable credit standing and applying uniform guidelines.

Liquidity risk

The liquidity risk describes the danger of ElringKlinger being unable to meet its payments obligations sufficiently.

ElringKlinger generates liquid funds mainly through its operating business and, to a slight extent, from external finance. These funds are applied mainly to finance the working capital and investments.

ElringKlinger ensures its ongoing liquidity by maintaining sufficient liquid funds, apart from the inflow of funds from operating activity, and by maintaining credit facilities with banks. As at the balance sheet date, the group had facilities available of EUR ‘000 56,914 (2007: EUR ‘000 92,635).

At present, due to the crisis of the financial markets, refinancing for enterprises in general and in particular for firms within the automotive supplier industry – when taking up higher volumes – is generally impeded. However, due to ElringKlinger’s low debt-to-equity ratio, we see ourselves at present in a good position for the procurement of debt capital. In the case of a continued negative trend in the financial markets ElringKlinger could be faced with increasing borrowing costs and lower financial flexibility.

The following table shows all contractually fixed payments for redemptions, repayments and interest from financial liabilities recognized in the balance sheet, including derivative financial instruments that have a negative market value.

	Trade liabilities	Financial liabilities	Finance Lease	Derivatives	Total
	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000	EUR ‘000
as at Dec. 31, 2008					
Carrying value	**33,269**	**258,177**	**303**	**16,162**	**307,911**
Payments outflows					
expected payments outflows:	**33,269**	**302,378**	**311**	**17,660**	**353,618**
– up to one month	22,969	913		1,257	25,139
– from one to three months	9,928	23,663	87	2,705	36,383
– from three months to one year	372	68,779		11,403	80,554
– from one to five years	0	123,757	224	2,295	126,276
– more than five years	0	85,266	0	0	85,266

Further explanations on financial liabilities are given in note 23.

(26) Additional information on financial instruments

This section provides an overview of the meaning of financial instruments and gives additional information on balance sheet line items containing financial instruments.

The following table shows the carrying values (CV) and the fair values (FV) of the financial assets:

	Cash		Trade receivables		Derivatives		Other financial instruments	
	CV	FV	CV	FV	CV	FV	CV	FV
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
per Dec. 31, 2008								
Cash	19,741	19,741	0	0	0	0	0	0
Loans and receivables	0	0	98,032	98,032	0	0	25	25
to be held until maturity	0	0	0	0	0	0	1,444	1,470
held for trading purposes	0	0	0	0	0	0	0	0
available for sale	0	0	0	0	0	0	108	108
Total	**19,741**	**19,741**	**98,032**	**98,032**	**0**	**0**	**1,577**	**1,603**
as at Dec. 31, 2007								
Cash	7,405	7,405	0	0	0	0	0	0
Loans and receivables	0	0	93,585	93,585	0	0	25	25
to be held until maturity	0	0	0	0	0	0	1,408	1,425
held for trading purposes	0	0	0	0	17	17	0	0
available for sale	0	0	0	0	0	0	3,086	3,086
Total	**7,405**	**7,405**	**93,585**	**93,585**	**17**	**17**	**4,519**	**4,536**

The fair value of loans and receivables coincides with their carrying values. This is in view of the short term to maturity of such instruments. For the financial instruments held to maturity, ElringKlinger applies as the fair value the market rate in an active market.

In the case of financial assets available for sale, it is assumed that the fair value coincides with the carrying value (see also the explanations in the section “Financial instruments”).

The following table shows the carrying values and the fair values of the financial liabilities:

	Trade payables		Liabilities from Finance Lease-		Other financial liabilities	
	CV	FV	CV	FV	CV	FV
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
as at Dec. 31, 2008						
Trade payables	33,269	33,269	0	0	0	0
Financial liabilities	0	0	303	303	258,177	258,177
Financial liabilities measured at acquisition cost	**33,269**	**33,269**	**303**	**303**	**258,177**	**258,177**
held for trading purposes *)	0	0	0	0	16,162	16,162
Financial liabilities measured at fair value under profit and loss	**0**	**0**	**0**	**0**	**16,162**	**16,162**
as at Dec. 31, 2006						
Trade payables	38,375	38,375	0	0	0	0
Financial liabilities	0	0	0	0	98,122	98,122
Financial liabilities measured at acquisition cost	**38,375**	**38,375**	**0**	**0**	**98,122**	**98,122**
held for trading purposes *)	0	0	0	0	124	124
Financial liabilities measured at fair value under profit and loss	**0**	**0**	**0**	**0**	**124**	**124**

*) These are derivatives that are not included in hedge accounting.

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards to the Group as lessee. Future minimum lease payments under finance leases at December 31, 2008 amounted to EUR '000 311 (2007: EUR '000 0). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities at December 31, 2008 is as follows:

	Minimum lease payments Dec. 31, 2008	Interest included in future minimum lease payments Dec. 31, 2008	Liabilities from finance lease Dec. 31, 2008
	EUR '000	EUR '000	EUR '000
Maturity			
within one year	87	1	86
between one and five years	224	7	217
Later than five years	0	0	0
Total	**311**	**8**	**303**

Net gains and losses on financial instruments:

	2008 EUR '000	2007 EUR '000
Financial instruments held for trading purposes *)	-17,252	8,035
Assets available for sale	72	8
Financial investments held to maturity	9	3
Loans and receivables	-1,212	118
Financial liabilities measured at acquisition cost	-379	-391

*) These are derivatives that are not included in hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values that have been recorded in full in the result for the period.

The net gains of the assets available for sale include income from participations.

Net gains and losses of financial instruments held until maturity include impairments and revaluations.

Net gains and losses on loans and receivables contain mainly impairments and revaluations.

Net losses from financial liabilities measured at acquisition costs include amortization on discounts.

Total interest income and expense for financial assets and liabilities that are not measured at fair value through profit and loss was as follows:

	2008 EUR '000	2007 EUR '000
Total interest income	296	376
Total interest expense	-8,969	-3,610

Of the total interest income, EUR '000 6 (2007: EUR '000 5) results from impaired financial assets.

Derivative financial instruments

As at the balance sheet date, December 31, 2008, there were the following financial derivatives that serve exclusively to hedge risks arising from changes in interest and currency exchange rates and to smooth fluctuations in the procurement prices for raw materials (nickel):

	Fair value EUR '000	Carrying value EUR '000	Provision EUR '000
Interest-related derivatives			
Interest swap	-260	-260	-260
Derivatives relating to raw materials			
Accrual swap	-15,902	-15,902	-15,902
Total	**-16,162**	**-16,162**	**-16,162**

The negative fair values are shown under the current provisions as provisions for impending losses from pending transactions and have increased other operating expenses.

The computation of the market values of the financial derivatives, which are confirmed by a bank, uses recognized mathematical methods and the market data available as at the balance sheet date (mark-to-market method).

(27) Capital management

ElringKlinger considers a solid financial base of the Group as constituting the condition for further growth. Good capital resources enable investments to be made in organic growth or external growth.

The supervisory board and management board of ElringKlinger have set the minimum equity ratio in the AG and in the group at 40%. The articles of incorporation of ElringKlinger AG do not define any capital requirements ElringKlinger is not authorized to acquire own shares. There are no share option schemes with an effect on the capital structure.

The following table shows equity and balance sheet total (total assets) as at December 31, 2008 in comparison with December 31, 2007.

	2008 Million EUR	2007 Million EUR
Shareholders' equity	**288.1**	**281.0**
as % of total capital	37.7	49.1
Non-current liabilities	272.4	161.2
Current liabilities	204.0	130.3
Outside capital	**476.4**	**291.5**
as % of total capital	62.3	50.9
Total capital	764.5	572.5

With equity ratios of 38.2% in the AG and 37.7% in the Group, the equity ratio falls slightly below the 40% defined by the supervisory and management boards. In the medium range ElringKlinger aims to again reach the ratio of 40%. The slight short fall on the equity ratio of 40% is due to the financing of the acquisition of the SEVEX Group.

In 2008 ElringKlinger has complied with all externally imposed capital requirements.

(28) Explanations on the cash flow statement

The consolidated cash flow statement shows how the liquidity of the ElringKlinger Group has changed as a result of inflows and outflows in the course of the financial year. Pursuant to IAS 7, a distinction is made between payments flows from operating activity and from investing and financing activities.

The cash considered in the cash flow statement comprises liquid funds shown in the balance sheet, i.e. cash in hand, cheques and bank deposits.

The cash flows from investing and financing activity are determined by reference to payments. The cash flow from operating activity is derived indirectly from the net profit for the year. For the indirect computation, effects from currency translation and the scope of consolidation are eliminated from the changes to the balance sheet items arising from operating activity. For this reason, it is not possible to reconcile the changes in the relevant balance sheet items with the corresponding figures evident from the published consolidated balance sheet.

The disbursement for the acquisition of consolidated entities contains in full the purchase price made in cash for the acquisitions of the SEVEX Group, a 40% interest in Marusan and minority interests in two Spanish subsidiaries, which were already fully consolidated.

The disbursements for investments in intangible fixed assets (EUR ‘000 5,735) and disbursements for investments in property, plant and equipment and for investment property (EUR ‘000 132,195) shown in the consolidated cash flow statement do not contain the additions from the acquisition of consolidated entities, in contrast to the schedule of fixed assets (pursuant to (11) and (12)), as these are shown in a separate line item of the cash flow statement.

(29) Segment reporting

The ElringKlinger Group is organized around five business areas. Correspondingly, the segments analyzed are Original Equipment, Aftermarket, Engineered Plastics, Services, and Industrial Parks.

The activities in the reporting segments Original Equipment and Aftermarket relate to the manufacture and distribution of parts and modules for engine, gear and exhaust applications in motorized vehicles (Powertrain). Additionally, services are rendered that are connected with this activity.

In the segment “Engineered Plastics”, technical products are manufactured and distributed for the vehicle and general industry made of heavy-duty PTFE plastics.

The reporting segment “Services” relates mainly to the operation of motor test benches and contributions for engine development.

The segment “Industrial Parks” comprises the administration and rental of landed property and buildings.

The following overview, entitled “Segment reporting”, presents revenues and results as well as assets and debts of the individual Group segments. With the exception of the supplies in the area of Original Equipment to the aftermarket area, trading between the different segments is only of an insignificant magnitude. Trade between the segments is conducted at prices that would also have been agreed with parties outside the Group.

In the results of the Original Equipment segment, an impairment expense of EUR ‘000 630 is included.

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics	
	2008 EUR '000	2007 EUR '000	2008 EUR '000	2007 EUR '000	2008 EUR '000	2007 EUR '000
Segment revenues	**553.190**	**522.857**	**105.834**	**102.424**	**69.554**	**64.994**
- Intersegment revenues	-20.428	-21.015	0	0	0	0
- Consolidation	-56.302	-66.310	-7.727	-7.610	-626	-168
Sales revenues	**476.460**	**435.532**	**98.107**	**94.814**	**68.928**	**64.826**
- Segment expenses	-441.954	-352.783	-79.307	-75.490	-56.127	-51.849
Segment profit/loss	**34.506**	**82.749**	**18.800**	**19.324**	**12.801**	**12.977**
- Net interest	-10.035	-5.156	-591	-520	-116	-96
Earnings before taxes	24.471	77.593	18.209	18.804	12.685	12.881
Amortization & depreciation	56.885	43.733	645	522	2.223	1.945
Investments*	131.647	89.056	3.199	877	10.241	10.952
Segment assets	592.703	431.902	49.759	45.549	53.801	46.645
Segment debts	155.069	129.056	16.529	16.883	10.415	11.548

Segment	Industrial Parks		Services		Group	
	2008 EUR '000	2007 EUR '000	2008 EUR '000	2007 EUR '000	2008 EUR '000	2007 EUR '000
Segment revenues	**8.551**	**8.435**	**9.594**	**7.762**	**746.723**	**706.472**
- Intersegment revenues	0	0	0	0	-20.428	-21.015
- Consolidation	-142	-126	-3.665	-3.402	-68.462	-77.616
Sales revenues	**8.409**	**8.309**	**5.929**	**4.360**	**657.833**	**607.841**
- Segment expenses	-5.199	-3.590	-3.707	-3.111	-586.294	-486.823
Segment profit/loss	**3.210**	**4.719**	**2.222**	**1.249**	**71.539**	**121.018**
- Net interest	-766	-398	-6	32	-11.514	-6.138
Earnings before taxes	2.444	4.321	2.216	1.281	60.025	114.880
Amortization & depreciation	1.112	1.137	797	695	61.662	48.032
Investments*	153	70	4.143	1.168	149.383	102.123
Segment assets	29.973	31.964	9.431	6.008	735.667	562.068
Segment debts	763	1.081	1.798	996	184.574	159.564

* Investments in intangible assets, property, plant & equipment and in investment property

Reconciliation segment assets

	2008 EUR '000	2007 EUR '000
Non-current assets acc. to consolidated balance sheet	498,450	340,940
- Non-current assets on income tax	-20,599	-12,288
- Sundry	-703	-291
Non-current assets of the regions	**477,148**	**328,361**
+ Current assets	266,084	231,585
- Receivables on income tax	-8,728	-1,640
+ Others	1,163	3,762
Segment assets	735,667	562,068

Reconciliation segment debts

	2008 EUR '000	2007 EUR '000
Non-current liabilities	272,433	161,177
Current liabilities	203,954	130,288
Total liabilities	**476,387**	**291,465**
- Financial liabilities	-258,177	-98,122
- Deferred tax liabilities	-30,936	-26,505
- Tax liabilities on income tax	-2,700	-7,274
Segment debts	184,574	159,564

Region

		Sales EUR '000	Non-current assets EUR '000	Investments* EUR '000
Germany	2008	236,133	262,777	79,067
	2007	210,067	239,333	77,314
Rest of Europe	2008	212,955	116,867	30,653
	2007	199,181	30,777	4,451
NAFTA	2008	100,709	52,949	21,400
	2007	107,498	36,444	9,546
Asia and Australia	2008	73,744	32,944	13,151
	2007	60,883	12,172	7,458
South America and others	2008	34,292	11,611	5,112
	2007	30,212	9,635	3,354
Group	2008	657,833	477,148	149,383
	2007	**607,841**	**328,361**	**102,123**

* Investments in intangible assets, property, plant & equipment and in investment property

Other Disclosures

Contingent liabilities

The ElringKlinger Group is subject to contingent liabilities of EUR '000 274 (2007: EUR '000 233) from the issue and transfer of bills. The ElringKlinger Group is subject to contingent liabilities of EUR '000 0 (2007: EUR '000 60) from the granting of sureties and contract fulfillment guarantees.

The carrying value of the pledged land was EUR '000 18,389 (2007: EUR '000 12,361).

A lawsuit against ElringKlinger in Brazil involves a contingent liability with a maximum risk of less than EUR 1 million.

Operating leases

The expense includes payments from operating leases of EUR '000 4,653 (2007: EUR '000 3,351).

As at the balance sheet date, the Group had outstanding obligations arising from binding operating leases that fall due as follows:

	Dec. 31, 2008	Dec. 31, 2007
	EUR '000	EUR '000
Up to one year	2,464	1,617
More than one and up to five years	5,637	3,109
More than five years	1,368	129
Total	9,469	4,855

Number of employees

The workforce in the ElringKlinger group, as an annual average and excluding board members, was as follows:

	2008	2007
Workers	2,815	2,324
Salaried staff	1,186	1,033
	4,001	3,357
Apprentices	84	74
Total	4,085	3,431

On the average in 2008, there were 77 workers and 55 salaried staff employed in Joint Venture companies within the ElringKlinger Group.

Personnel expenses

Personnel expenses in the reporting year came to EUR '000 161,545 (2007: EUR '000 150,525). A share of 7.4% (2007: 7.3%) of the personnel expenses relate to contributions to the statutory pension scheme.

Events after the balance sheet date

On March 4, 2009 the German Stock Exchange Commission decided that ElringKlinger shares after being listed in the stock index "SDAX" for five years will be part of the stock index "MDAX" starting March 20, 2009.

The management board of ElringKlinger AG released the consolidated financial statements for approval by the supervisory board on March 26, 2009.

Related party disclosures

Transactions between the parent company and its subsidiaries and participations, that are related parties, were eliminated in the course of consolidation and are not described in these disclosures in the notes.

In addition, there are business relationships between companies in the ElringKlinger Group and related persons or companies, that are controlled by related persons, as follows:

1. Rental contract between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary, (TPH), and Lechler Kft, Kecskemét-Kádafalva, Hungary. The rental income of TPH from this contract was EUR '000 149 (2007: EUR '000 157) in the year under review. As at the balance sheet date there was no outstanding balance (2007: EUR '000 37).
2. Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen regarding training of apprentices and the consignment of canteen food. The receipts of ElringKlinger AG in 2008 were EUR '000 226 (2007: EUR '000 199). As at the balance sheet date there was an outstanding balance of EUR '000 3.5 (2007: EUR '000 3).
3. Contract between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, on assembly activities and storage of components. In the year under review this gave rise to sales revenues of EUR '000 414 (2007: EUR '000 299). As at the balance sheet date, December 31, 2008, there was a receivable in this connection of EUR '000 22 (2007: EUR '000 18).
4. Framework contract between Rich. Klinger Dichtungstechnik GmbH & Co. KG, Gumpoldskirchen, Austria, and companies of the ElringKlinger Group on the procurement of material. Under this contract, ElringKlinger AG obtained material for EUR '000 2,462 (2007: EUR '000 2,056) in 2008. The outstanding balance as at the balance sheet date was EUR '000 65 (2007: EUR '000 176).
5. Framework contract between Klinger AG Egliswil, Switzerland, and ElringKlinger on the procurement of material. Under this contract, ElringKlinger AG purchased material for a price of EUR '000 155 (2007: EUR '000 150) in 2008. As at the balance sheet date, there were liabilities in this connection of EUR '000 19 (2007: EUR '000 14).
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 '000 306 (2007: EUR '000 595) from ElringKlinger's joint venture partner in the year under review. As at the balance sheet date EKKO had liabilities arising from these supplies in the amount of EUR '000 8 (2007: EUR '000 41).
7. Sale of land from ElringKlinger AG to Lechler Beteiligungs GmbH for a sales price of EUR '000 560.

Corporate bodies

Supervisory board

Dr. Helmut Lerchner, Aichtal, Chairman	Corporate advisor Member of the supervisory board of Deutz AG, Cologne Member of the advisory board region southwest of Dresdner Bank AG, Stuttgart
Walter Herwarth Lechler, Stuttgart, Deputy Chairman	Managing shareholder Positions on advisory boards or administrative boards at Lechler Inc., St. Charles/USA Lechler Ltd., Sheffield, United Kingdom Lechler India Pvt. Ltd., Thane, India Lechler Kft, Kecskemét, Hungary Lechler France S.A., Montreuil, France Lechler AB, Hagfors, Sweden Lechler SA, Wavre, Belgium Lechler S.A., Madrid, Spain and ETS-Elex (India) Pvt. Ltd., Thane, India
Gert Bauer, Reutlingen, Employee Representative	First commissioner of IG Metall Reutlingen, Tübingen Member of the supervisory board of Hugo Boss AG, Metzingen Member of advisory council of BIKOM GmbH, Reutlingen
Dr. Rainer Hahn, Stuttgart	Former member of the management of Robert Bosch GmbH, Stuttgart Supervisory board seats at Robert Bosch GmbH, Stuttgart Bosch Rexroth AG, Stuttgart Rieter Holding AG, Winterthur/Switzerland Member of TÜV SÜD Gesellschafterausschuss GbR, Munich, and member of the administrative board of TÜV SÜD e. V., Mannheim
Karl-Uwe van Husen, Waiblingen	Managing director Member of the supervisory board of Schaltbau Holding AG, Munich

Dr. Thomas Klinger-Lohr, Egliswil, Switzerland	President of the board Dr. Klinger-Lohr is a member of the advisory or administrative council, as the case may be, of the following subsidiaries of Betal Netherland Holding B.V., Rotterdam, Netherlands, of which holding company he is also the managing director: Klinger Holding Plc., Sidcup, United Kingdom Klinger Holding Austria GmbH, Gumpoldskirchen, Austria Klinger S.p.A., Mazzo di Rho, Italy Saidi, Madrid, Spain Klinger AG, Egliswil, Switzerland Klinger Finnland OY, Masala, Finland and Uni Klinger Ltd., Mumbai, India
Manfred Rupp, Pfullingen, Employee Representative	Experimental technician
Markus Siegers, Altbach, Employee Representative	Chairman of the workers council of ElringKlinger AG
Manfred Strauß, Stuttgart	Managing director Member of the advisory council in the Pro Stuttgart Verkehrsverein

Remuneration of the supervisory board

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

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

	fixed (prior year)		variable (prior year)		total (prior year)	
		EUR		EUR		EUR
Dr. Helmut Lerchner	38,000	(38,000)	24,400	(45,962)	62,400	(83,962)
Walter Herwarth Lechler	31,000	(28,500)	18,300	(34,471)	49,300	(62,971)
Gert Bauer	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Dr. Rainer Hahn	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Karl-Uwe van Husen	26,000	(19,000)	12,200	(22,981)	38,200	(41,981)
Dr. Thomas Klinger-Lohr	18,000	(18,000)	12,200	(22,981)	30,200	(40,981)
Manfred Rupp	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Markus Siegers	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Manfred Strauß	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Total	**183,000**	**(178,500)**	**128,100**	**(241,300)**	**311,100**	**(419,800)**

The variable remuneration reflects the expense for which provisions have been set up, based on the provisional consolidated income before taxes prepared under IFRS for the year 2008.

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

Management board

Dr. Stefan Wolf, Leinfelden-Echterdingen, Chairman	responsible for the group companies, the central divisions finance, controlling, law, human resources, investor relations, IT and public relations as well as the business divisions spare parts and industrial parks
Theo Becker, Metzingen	responsible for the business divisions cylinder head gaskets/central research & development, special gaskets, casings/modules/elastomer technology, shielding technology and the central divisions quality and environment, procurement and Runkel plant
Karl Schmauder, Hülben	responsible for the distribution of original equipment and new business fields
Memberships in supervisory boards and similar bodies	Dr. Stefan Wolf is a member of the regional state advisory board Baden-Württemberg of Commerzbank AG, Frankfurt.

Remuneration of the management board

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

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

	fixed components (prior year) EUR	components dependent on the results of the reporting year (prior year) EUR	long-term results-dependent bonuses (prior year) EUR	total (prior year) EUR
Dr. Stefan Wolf	302,016.50 (301,854.27)	304,861.00 (555,711.94)	32,514.51 (496,790.98)	639,392.01 (1,354,357.19)
Theo Becker	237,963.46 (226,248.96)	182,917.40 (333,426.30)	0.00 (365,093.24)	420,880.86 (924,768.50)
Karl Schmauder	220,534.92 (221,494.15)	182,917.40 (333,426.30)	24,643.70 (377,093.24)	428,096.02 (932,013.69)
Total **Total**	**760,514.88 (749,597.38)**	**670,695.80 (1,222,564.54)**	**57,158.21 (1,238,977.46)**	**1,488,368.89 (3,211,139.38)**

The variable remuneration shown as “components dependent on the result of the reporting year” reflects the expense, including accrued provisions based on the provisional income before taxes for the year 2008 of the consolidated accounts that are prepared in accordance with IFRS. In addition, the difference amounts between the provisions formed as at December 31, 2007 and the amounts actually disbursed in 2008 are included. For Stock Appreciation Rights the fair value as of the grant date is used. No remunerations arose from the bonuses relating to the company value.

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

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

For the fiscal year 2008 the following data arose:

	1st portion
Date of issue	2008
Number of Stock Appreciation Rights granted in the year 2008	20,341
Strike Price (EUR)	24.63
Number of Stock Appreciation Rights existing as of December 31, 2008 (still exercisable)	20,341
Remaining time to maturity	2.08
Value of Participation Rights held by members of the management board	
December 31, 2008 (EUR ’000)	1
December 31, 2007 (EUR ’000)	0

The additions to pension provisions for the members of the management board amount to EUR ’000 168 (p.y. EUR ’000 184) and are related to Stefan Wolf amounting to EUR ’000 64 (p.y. EUR ’000 70), Theo Becker amounting to EUR ’000 47 (p.y. EUR ’000 52) and Karl Schmauder amounting to EUR ’000 57 (p.y. EUR ’000 62).

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

Provisions of EUR ‘000 10,906 (2007: EUR ‘000 11,131) have been set up for pension obligations to former members of the management board, the management of merged companies and their surviving dependants. The total remuneration of former members of the management board – including remuneration of former members of corporate bodies of merged companies – came to EUR ‘000 837 (2007: EUR ‘000 810) in the financial year 2007.

The fees of the **auditor** were:

	2008 EUR '000	2007 EUR '000
Audit of the financial statements	487	370
Other confirmatory performances	0	3
Tax services	14	13
Other services	22	24
Total	523	410

This disclosure relates to the fees of the auditor of the consolidated financial statements and other domestic and foreign member firms of KPMG Europe LLP: The number of member firms of KPMG Europe LLP has increased in 2008.

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

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

1. Voting rights notification

Details about the person obligated to give notice:

Name: DWS Investment GmbH

Place: Frankfurt/ Main

State: Germany

Published on December 16, 2008

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

2. Voting rights notification

Details about the person obligated to give notice:

Name: Walter Herwarth Lechler

State: Germany

Published on December 2, 2008

ElringKlinger received the following notification from Mr. Walter Herwarth Lechler on December 1, 2008:
I hereby notify, pursuant to sec. 21 para 1 of the WpHG, that on November 25, 2008 my voting interest in ElringKlinger AG exceeded the threshold of 25% and amounts to 25.001% (14,400,800 voting rights) on this day.

10.13% of these voting rights (5,837,000 voting rights) are attributed to me in accordance with sec. 22 para. 1 no. 1 WpHG.

Voting rights attributed to me are held over the following companies controlled by me, whose voting interest in ElringKlinger AG amounts in each case to 3% or more: Lechler GmbH, Metzingen."

3. Voting rights notification

Details about the person obligated to give notice:

Name: Columbia Wanger Asset Management, L.P.

Place: Chicago, IL

State: USA

Published on December 2, 2008

ElringKlinger AG has received the following notification:

"Notification of Voting Rights pursuant to sec. 21, 22 WpHG

1 October 2008

On behalf of Columbia Wanger Asset Management, L.P., 227 W. Monroe Street, Suite 3000, Chicago, IL, USA, we hereby give notice, pursuant to sec. 21 para. 1 WpHG, that on 29 September 2008 the voting interest of Columbia Wanger Asset Management, L.P., in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/ Erms, Germany, fell below the threshold of 3% and amounted to 2,99% of the voting rights [i.e., 1,727,000 shares with voting rights, out of 57,600,000 shares with voting rights outstanding (based on Bloomberg)] on this day.

2,99% (all) of the voting rights (1,727,000 voting rights) are attributed to us in accordance with sec. 22 para. 1 sent. 1 no. 6."

4. Voting rights notification

Details about the person obligated to give notice:

Name: KWL GmbH i. Gr. u. a.

Place: Ludwigsburg

State: Germany

Published on April 2, 2008

We received the following notification on April 1, 2008:

"Notification pursuant to sec. 21 para. 1 WpHG

Persons obligated to give notice:

1. KWL GmbH i.Gr., Ludwigsburg, Germany 2. Elrena GmbH, Basel, Switzerland

We, the Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to sec. 21 para. 1 WpHG on behalf of the following companies as follows:

1. KWL GmbH i.Gr.

The percentage of voting rights of KWL GmbH i.Gr. in ElringKlinger AG on March 20, 2008 exceeded the threshold of 3%, 5%, 10%, 15% and 20% and amounts to 20.02% (3,843,560 voting rights) on this day.

10.02% (1,922,912 voting rights) of these voting rights are attributed to KWL GmbH i.Gr. in accordance with sec. 22 para. 1 sent. 1 no. 1 WpHG and further 10.003% (1,920,648 voting rights) are attributed in accordance with sec. 22 para. 2 sent. 1 WpHG.

The voting rights, which were attributable to KWL GmbH i.Gr., were held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:

- Elrena GmbH.

The voting rights, which were attributable to KWL GmbH i.Gr., were held by the following companies that were controlled by it and hold 3% or more of the voting rights in ElringKlinger AG:

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

2. Elrena GmbH

The percentage of voting rights of Elrena GmbH in ElringKlinger AG exceeded the thresholds of 15% and 20% on March 20, 2008 and amounts to 20.02% (3,843,560 voting rights) on this day.

10.02% (1,922,912 voting rights) of these voting rights are attributed to Elrena GmbH in accordance with sec. 22 para. 2 sent. 1 WpHG.

The voting rights, which were attributable to Elrena GmbH, were held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:

- Elgarta GmbH
- Eroca AG
- Klaus Lechler Beteiligungs-GmbH
- KWL GmbH i.Gr."

5. Voting rights notification

Details about the person obligated to give notice:

Name: Paul Lechler Stiftung gGmbH u.a.

Place: Ludwigsburg

State: Germany

Published on March 31, 2008

We received the following notification on March 27, 2008:

"Notification pursuant to sec. 21 para. 1 WpHG

Persons obligated to give notice:

1. Mrs Lieselotte Lechler, Stuttgart, Germany 2. Paul Lechler Stiftung gGmbH, Ludwigsburg, Germany

We, the Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to sec. 21 para. 1 WpHG on behalf of Mrs Lieselotte Lechler and Paul Lechler Stiftung gGmbH as follows:

1. Lieselotte Lechler

The percentage of voting rights of Lieselotte Lechler in ElringKlinger AG fell under the threshold of 10%, 5% and 3% on March 20, 2008 and amounts to 0% (0 voting rights) on this day.

2. Paul Lechler Stiftung gGmbH

The percentage of voting rights of Paul Lechler Stiftung gGmbH in ElringKlinger AG exceeded the thresholds of 3%, 5% and 10% on March 20, 2008 and amounts to 10.02% (1,922,912 voting rights) on this day.

10.02% (1,922,912 voting rights) of these voting rights are attributed to Paul Lechler Stiftung gGmbH in accordance with sec. 22 para. 1 sent. 1 no. 1 WpHG.

The voting rights, which were attributable to Paul Lechler Stiftung gGmbH, were held by the following companies that were controlled by it and hold 3% or more of the voting rights in ElringKlinger AG:

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

6. Voting rights notification

Details about the person obligated to give notice:

Name: New Star Asset Management

Place: London SW1X 7NE

State: Great Britain

Published on February 20, 2008

We received the following notification of the New Star Asset Management, Great Britain, on February 19, 2008:

"Notification pursuant to sec. 21 para. 1 WpHG

We hereby give notice, pursuant to sec. 21 para 1 of the WpHG, that on 18th February 2008 our voting interest in ElringKlinger AG fell below the threshold of 3% and amounts to 2.97% (569,624 voting rights) on this day.

2.97% of the voting rights (569,624 voting rights) are attributable to us in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG."

7. Voting rights notification

Details about the person obligated to give notice:

Name: Elrena GmbH, and others

Place: Basel

State: Switzerland

Published on May 7, 2007

Parties required to give notice:

1. Elrena GmbH, Basel, Switzerland

2. Karl Uwe van Husen, Germany

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

„On behalf of Elrena GmbH, Basel, Switzerland, and Mr Karl Uwe van Husen, we inform you pursuant to sec. 41 para. 2 and sec. 21 para. 1 WpHG (in the respective current version) for the purpose of correction and supplement to notifications made in the past by the parties on which notification is incumbent as follows:

1. **Karl Uwe van Husen, Germany:**
   a. The percentage of voting rights of Mr Karl Uwe van Husen in ElringKlinger AG (formerly ZWL Grundbesitz- und Beteiligungs- AG) at September 4, 1997, fell below the thresholds of 10% and 5% and amounted to 0.025% (900 voting rights).
   b. Today, at May 3, 2007, the percentage of voting rights of Mr van Husen in ElringKlinger AG amounts to 0.016% (3,000 voting rights).
2. **Elrena GmbH, Basel, Switzerland:**
   c. The percentage of voting rights of Elrena GmbH in ElringKlinger AG at April 1, 2002 amounted to 10.69% (512,012 voting rights).
   d. Today, at May 3, 2007, the percentage of voting rights of Elrena GmbH in ElringKlinger AG amounts to 10.003% (1,920,648 voting rights)."

8. Voting rights notification

Details of the parties required to give notice:

Name: Elgarta GmbH, and others

Place: Basel

State: Switzerland

Published on May, 7, 2007

Parties required to give notice:

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

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

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

1. Elgarta GmbH, Basel, Switzerland:

a) The percentage of voting rights of Elgarta GmbH in ElringKlinger AG at April 1, 2002, amounted to 13.25% (635,878 voting rights).

b) Today, May 3, 2007, the percentage of voting rights of Elgarta GmbH in ElringKlinger AG amounts to 10.004% (1,920,712 voting rights).

2. Eroca AG, Basel, Switzerland:

a) The percentage of voting rights of Eroca AG in ElringKlinger AG at April 1, 2002, amounted to 13.25% (635,878 voting rights). These voting rights were in the percentage of 13.25% (635,878 voting rights) attributable to Eroca AG pursuant to sec. 22 para. 1 sent. 1 No.1 WpHG.

b) The voting rights, which were attributable to Eroca AG, were held by the following company that was controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:
   - Elgarta GmbH.

c) Today, May 3, 2007, the percentage of voting rights of Eroca AG in ElringKlinger AG amounts to 10.004% (1,920,712 voting rights). These voting rights are entirely attributable to Eroca AG pursuant to sec. 22 para. 1 sent. 1 no. 1 WpHG.

d) The voting rights, which are attributable to Eroca AG, are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG:
   - Elgarta GmbH.

3. Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:

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

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

4. Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:

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

5. Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany:

a) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at November 30, 2001, exceeded the thresholds of 5% and 10% and amounted to 12.13% (582,012 voting rights). These voting rights were in the percentage of 12.13% (582,012 voting rights) attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG (essentially corresponding with sec. 22 para. 1 No. 2 WpHG valid on November 30, 2001).

The voting rights, which were attributable to Paul Lechler Gesellschaft bürgerlichen Rechts, were held by the following company that was controlled by it and hold 3% or more of the voting rights in ElringKlinger AG:

- Lechler Beteiligungs- GmbH.

b) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at April 1, 2002, amounted to 12.13% (582,012 voting rights). These voting rights were entirely attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

The voting rights, which are attributable to Paul Lechler Gesellschaft bürgerlichen Rechts, were held by the following company that was controlled by it and hold at least 3% of voting rights in ElringKlinger AG:

- Lechler Beteiligungs- GmbH.

c) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at December 4, 2003, fell below the thresholds of 10% and 5% and have amounted since then to 0.00% (0 voting rights).

6. INLOVO GmbH, Ludwigsburg, Germany:

a) The percentage of voting rights of INLOVO GmbH in ElringKlinger AG at December 4, 2003, exceeded the thresholds of 5% and 10% and amounted to 10.04% (482.012 voting rights). These voting rights were in the percentage of 10.04% (482,012 voting rights) attributable to INLOVO GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

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

- Lechler Beteiligungs- GmbH.

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

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

- Lechler Beteiligungs- GmbH.

7. Klaus Lechler, Germany:

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

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

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

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

- Lechler Beteiligungs- GmbH.

b) The percentage of voting rights of Mr Klaus Lechler in ElringKlinger AG at June 18, 2003 fell below the threshold of 25% and amounted to 23.29% (1,117,890 voting rights). These voting rights were in the percentage of 13.25% (635,878 voting rights) attributable to Mr Klaus Lechler pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG and in the percentage of 10.04% (482,012 voting rights) pursuant to sec. 22 para. 1 sent. 1 No. 2 WpHG. The voting rights, which were attributable to Mr Klaus Lechler, were held by the following companies that were controlled by him and hold at least 3% or more in ElringKlinger AG:

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

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

- Lechler Beteiligungs- GmbH."

Statement of compliance with the German Corporate Governance Code

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

Dettingen/Erms, March 26, 2009

The Management Board

Dr. Stefan Wolf Theo Becker Karl Schmauder

Responsibility Statement According to §§ 297(2) Sentence 4 and 315(1) Sentence 6 HGB (German Commmercial 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 26, 2009

Dr. Stefan Wolf   Theo Becker   Karl Schmauder

Auditor's Report

We have audited the consolidated financial statements prepared by the ElringKlinger AG, Dettingen/Erms comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1 to December 31, 2008. The preparation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the additional requirements of German commercial law pursuant to § 315a sec. 1 of the German Commerical Code (HGB) are the responsibility of the parent company's management. 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 entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, 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 IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the ElringKlinger-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 26, 2009

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

Dr. Kursatz	Hagg
Wirtschaftsprüfer	Wirtschaftsprüfer

Glossary

Financials

Acquisition

An acquisition refers to the purchase of a company or of interests in a company.

Cash flow

Figure used to determine a company's financial strength and earnings power. It is calculated by taking the difference between cash inflows and outflows in the accounting period. Net cash from operating activities (also known as operating cash flow) is the cash surplus generated by operating activities over a certain period of time. Operating cash flow includes the net profit in the accounting period, the change in depreciation as well as the increase/decrease in long-term provisions.

Cash flow statement

The cash flow statement 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 cash flow statement helps determine the company's ability to generate cash.

Corporate governance

Term that describes responsible company management and monitoring procedures focused on adding value over the long term. Corporate governance refers to a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled.

Earnings per share

Earnings per share is used to evaluate a company's profitability. This figure is calculated by dividing profit attributable to shareholders of ElringKlinger AG by the weighted average number of ordinary shares outstanding during the period.

EBIT margin

The EBIT margin is a financial indicator of a company's profitability over a specific time period. It is defined as EBIT divided by sales revenues and is reported in percentage terms.

EBIT/Operating profit

EBIT stands for earnings before interest and taxes; it corresponds to operating profit before net finance costs and taxes. At international level, this figure is commonly used to compare companies' earnings power. In contrast to operating result, EBIT presented by ElringKlinger includes factors relating to foreign exchange movements.

Equity method

A valuation method for interests in entities over which the investor has a significant influence (associate). The investor's share of the profit or loss of the investee is recognized in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment.

Free cash flow

Free cash flow represents the funds freely available to the company. This figure is calculated as follows: cash flow (surplus in cash) minus investment expenditure minus dividend payments.

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. According to the definition of Deutsche Börse AG, share packages under 5% belong to the free float.

HGB

Abbreviation for Handelsgesetzbuch (German Commercial Code). The financial statements of the AG are prepared in accordance with HGB.

Increase in shareholding

An increase in the ownership interest in a company, executed by means of a capital contribution either in the form of cash or assets other than cash.

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. In 2004, ElringKlinger made the transition from HGB to IFRS for its consolidated financial reporting.

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.

Net finance income/cost

Net finance income or cost is a component of pre-tax earnings presented in the income statement. This item can include interest income and expense, income and expense from investments as well as income and expense from foreign currency differences, e. g. in connection with operating and financing activities.

Purchase price allocation

Purchase price allocation 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.

SDAX

The SDAX comprises the next 50 stocks that are ranked below the MDAX in terms of market capitalization and trading volume. The SDAX came into existence in 1999.

Stock split

In the case of a stock split, the number of shares issued increases in line with the split ratio. The rationale behind a stock split is to achieve higher trading volumes as a result of the increased number of shares outstanding and to make a company‘s shares seem more affordable.

WpHG

Abbreviation for Wertpapierhandelsgesetz (Securities Trading Act).

Technology

AdBlue

AdBlue is a fluid used to reduce nitrogen oxide (NO_x) exhaust emissions from vehicles and consists of a highly purified, synthetically produced solution comprising 32.5% urea. With the help of AdBlue, for example, diesel commercial vehicles are able to convert poisonous nitrogen oxides in the exhaust to water vapor and elemental nitrogen (a natural component of air). AdBlue is considered to be a key technology in achieving the stricter emissions standards stipulated by European and US legislation.

Bipolar battery

A bipolar battery consists of individual cells that are combined to create a stack in order to achieve the required voltage level. One of the key benefits of this electrical cell connection is that the internal resistance is reduced, as a result of which a bipolar battery delivers higher performance and dynamics, together with lower weight, in comparison with conventional rechargeable battery technology. Therefore, bipolar batteries are particularly well suited to applications in micro- and mild-hybrid vehicles.

Bipolar plate

The bipolar plate is a standard component of fuel cells. Its main function is to create an electrical interconnection between two levels (cells) within a fuel cell stack. The bipolar plate is used for the purpose of supplying the reactant gases to the anode and cathode, as well as distributing the cooling fluid within an individual level. Metal bipolar plates perform these tasks simply and efficiently. Among the essential prerequisites for a well-designed bipolar plate are high-precision metalforming within the contact area (in the micrometer range) and accurate, low-distortion laser welding of the cathode and anode plates.

C-steel

C-steel (or carbon steel) refers to steel with a carbon content of >0.25% and is used for such applications as the production of cylinder-head gaskets and heat shields.

DPF (Diesel Particulate Filter)

The diesel particulate filter is a component of the exhaust tract in diesel-powered vehicles. Its task is to remove diesel particulate matter or soot from the exhaust gas. One of the most commonly used filter materials is SiC (silicon carbide). In the EU, the Euro 5 emission standard to be introduced in September 2009 specifies a further reduction of around 80% in the level of particulates emitted by new vehicles. Industry experts predict that by 2009 almost every diesel car newly registered in Europe will be equipped with a DPF.

Elastomer

An elastomer is a polymer with the property of elasticity. In the automotive sector, elastomers are used for applications such as engine or transmission gasketing. Within this area, elastomers must create a seal under various engine conditions – at temperatures of -25°C as well as at operating temperatures of +150°C, independent of the degree of sealing gap movements. ElringKlinger utilizes proprietary applications for its elastomer materials, which are then optimized to meet individual customer requirements. ElringKlinger's specialization in high-performance materials underscores its system integration expertise in sealing systems within the area of engines and transmissions.

Fuel cell technology

Fuel cell technology has opened up new opportunities for energy generation. Fuel cells enable chemical energy to be converted directly to highly effective electricity with a minimum of harmful emissions.

Hybrid engine

In the automotive industry, the term hybrid engine refers to the combination of various engine types or energy sources; this includes, for instance, the combination of a diesel or gasoline internal combustion engine with one or more electric motors. Depending on how they are used, hybrids can result in reduced emissions and lower fuel consumption. However, they are often heavier and more expensive than conventional engines.

Meander, honeycomb and segment stoppers

New embossing and stamping technologies provide engineers with various possibilities for influencing the distribution of pressure in the sealing gap. Aside from being cost-effective, metal layer cylinder-head gaskets with coined meander, honeycomb or segment stoppers provide other significant advantages. The meander stoppers in spring steel layers enable the optimal use of the geometric space provided by the engine. In the case of diesel engines, differing thickness upon installation is typically used to compensate for engine manufacturing tolerance, and the exact calibration occurs through variable supporting plate thickness. The coined stopper in the carrier layer has a geometrical honeycomb shape.

Metal-elastomer

Metal-elastomer gaskets are tailor-made, robust and long-lived sealing systems made from a metal core with vulcanized elastomer profiles.

Metaloflex®

Metaloflex® by ElringKlinger is an internationally recognized brand for innovative metal layer cylinder-head gaskets (CHG) made from beaded, elastomer-coated spring steel layers – single-layer or multi-layer, depending on the application. Due to the modular construction element, this sealing system can be individually tailored to specific engine demands.

Metaloseal®

Metaloseal® by ElringKlinger is a highly effective sealing system based on elastomer-coated and uncoated metal carrier materials.

Moldflon®

Moldflon®, a brand belonging to the plastics company ElringKlinger Kunststofftechnik, is injection moldable PTFE.

NO_x

Nitrogen oxide is a generic term for gaseous oxides of nitrogen. These are also abbreviated as NO_x as numerous nitrogen and oxygen connections exist due to the various levels of oxidation. In 1998, road traffic accounted for 45% of NO_x emissions in Germany. However, overall emissions in this segment have halved since 1980 and continue to decline. There is a trade-off in engine technology between low fuel consumption and the reduction of NO_x emissions. Efficient engines have a high combustion temperature and thus produce more NO_x.

PEM

PEM stands for “Proton Exchange Membrane”. In this low-temperature fuel cell the working temperatures are approx. 90°C. This type of fuel cell is operated by merging two elements, oxygen and hydrogen, which react with one another aided by a catalyst (usually platinum). In the synthesis reaction, so-called “cold combustion”, water forms and electricity is released.

Shielding systems

Shielding systems are used in vehicle engines to protect temperature-sensitive engine parts. In light of increasing power density, higher temperatures inside the engine and increasingly scarce interior space in modern engines have placed high demands on shielding systems.

SOFC

SOFC stands for Solid Oxide Fuel Cell and refers to “hot” fuel cells which function at operating temperatures of around 800°C. The hydrogen required for the cell can be extracted from gasoline, ethanol, natural gas and diesel. SOFC maintains a high degree of overall efficiency.

Teflon® (Polytetrafluoroethylene)

Polytetrafluoroethylene (PTFE), commonly known as Teflon®, is a thermoplastic fluoropolymer. It is milky-white in appearance and feels wax-like. Compared to other thermoplastic synthetics, PTFE maintains a unique position due to the special properties of its composition. The production process involves pressing PTFE powder into blocks. The incorporation of filler material (compounding) makes it possible to adapt the physical properties of PTFE to specific applications. The inclusion of filler material helps prevent so-called cold flow when exposed to mechanical stress. Key benefits: PTFE shows no changes when it comes into contact with the majority of chemicals, and it is non-reactive in conjunction with solvents and other aggressive chemicals. Its surface is so smooth that hardly any foreign substance will adhere to it. Neither moisture nor UV radiation cause changes in volume, decomposition or brittleness. PTFE can withstand temperatures of up to -200°C. Its melting point is at over 320°C.

GLOBAL

Canada Leamington | USA Plymouth · Branchburg · Buford | Mexico Toluca | Brazil Piracicaba | Germany Dettingen/Erms Langenzenn · Runkel · Bietigheim-Bissingen · Heidenheim/Brenz · Idstein · Rottenburg/Neckar | United Kingdom Redcar Gateshead | Switzerland Sevelen | Spain Reus | Italy Mazzo di Rho | Hungary Kecskemét-Kádafalva | South Africa Johannesburg | India Ranjangaon | China Changchun · Suzhou · Qingdao | South Korea Changwon · Seoul | Japan Tokio · Saitama

Disclaimer – Future-oriented Statements and Predictions

This report contains statements about the future. These statements are based on current expectations, market evaluations and predictions by the Management Board, and on information that is currently available to them. The statements about the future should not be interpreted as guarantees of the future developments and results that they refer to. Whilst the Management Board are convinced that the statements that have been made, and the convictions and expectations on which they are based, are realistic, they rely on suppositions that may conceivably prove to be incorrect; future results and developments are dependant on a multitude of factors, they involve various risks and imponderabilities that can affect whether the ongoing development deviates from the expectations 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.

The English version of this report is a translation of the original German report. Only the German version of this report is legally binding.

Imprint

ElringKlinger AG, Max-Eyth-Straße 2, D-72581 Dettingen/Erms
Phone +49 (0)71 23/724-0 | Fax +49 (0)71 23/724-90 06 | www.elringklinger.de
IR-Contact: Stephan Haas | Phone +49 (0)71 23/724-137 | Fax +49 (0)71 23/724-641
stephan.haas@elringklinger.de
Design & Layout | Lorenz & Company Werbeagentur, Reutlingen
ElringKlinger AG assumes no liability for any figures or statistics excerpted from third-party publications.
Picture credits | Wilhelm Henning and Roland Hutzenlaub

Calendar

Annual Press Conference | Stuttgart	March 30, 2009
Analysts' Meeting | Frankfurt	March 30, 2009
Interim Report on the 1st Quarter of 2009	May 7, 2009
104th Annual General Shareholders' Meeting Cultural and Congress Centre Liederhalle, Stuttgart, Hegelsaal, 10.00 CET	May 26, 2009
Dividend distribution	May 27, 2009
Interim Report on the 1st half of 2009	August 6, 2009
IAA International Motor Show | Frankfurt	September 17 – 27, 2009
Engine colloquium Aachen	October 5 – 7, 2009
Equip Auto | Paris	October 13 – 18, 2009
Interim Report on the 3rd Quarter of 2009	November 3, 2009
German Equity Forum | Frankfurt	November 9 – 11, 2009
105th Annual General Shareholders' Meeting Cultural and Congress Centre Liederhalle, Stuttgart, Hegelsaal, 10.00 CET	May 21, 2010

If you would like to receive our interim reports by e-mail please send your details to: stephan.haas@elringklinger.de or give us a call at +49 (0)71 23/724-137

Further information is available at www.elringklinger.de

ElringKlinger AG | Max-Eyth-Straße 2 | D-72581 Dettingen/Erms | Phone +49 (0)71 23/724-0 | Fax +49 (0)71 23/724-90 06 | www.elringklinger.de

IN MOTION

Financial Statements of ElringKlinger AG | 2008

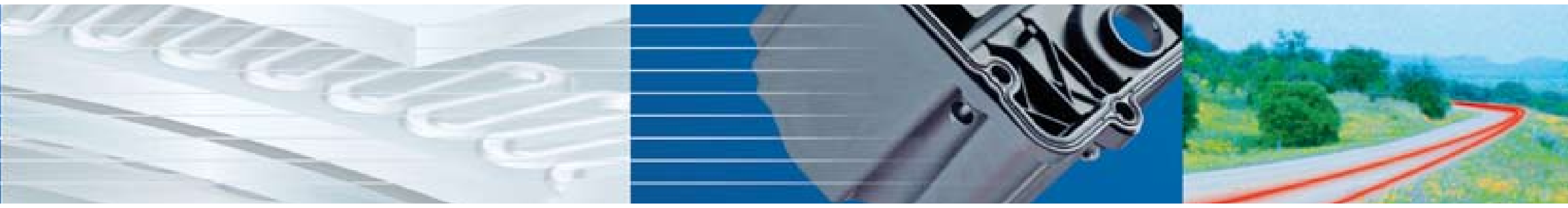
elringklinger

Meeting a challenge takes substance.

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

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

CONTENTS



ElringKlinger AG Balance Sheet as at December 31, 2008

ASSETS	Dec. 31, 2008 EUR '000	Dec. 31, 2007 EUR '000
Fixed assets		
Intangible fixed assets	1,412	1,295
Tangible fixed assets	176,127	154,432
Financial assets	225,318	154,204
	402,857	**309,931**
Current assets		
Inventories	67,108	68,036
Receivables and other assets	106,560	85,230
Cash in hand and bank balances	1,114	172
	174,782	**153,438**
Prepaid and deferred expenses	**202**	**175**
	577,841	463,544

LIABILITIES AND SHAREHOLDERS' EQUITY	Dec. 31, 2008 EUR '000	Dec. 31, 2007 EUR '000
Shareholders' Equity		
Share capital	57,600	57,600
Capital reserve	2,747	2,747
Revenue reserves	151,889	149,552
Retained earnings	8,640	26,880
	220,876	**236,779**
Untaxed Special Reserve	**1,747**	**5,930**
Provisions		
Provisions for pensions	38,292	37,423
Provisions for taxes	1,688	3,375
Other provisions	33,695	31,260
	73,675	**72,058**
Liabilities	**281,543**	**148,777**
	577,841	463,544

ElringKlinger AG Income Statement
for the period from January 1 to December 31, 2008

	2008 EUR '000	2007 EUR '000
Sales	387,697	396,268
Change in inventories of finished goods and work in progress	1,341	6,089
Other own work capitalized	9,056	6,589
Other operating income	34,172	28,745
Cost of materials	-181,609	-180,279
Personnel expenses	-95,026	-94,497
Amortization and depreciation on intangible fixed and tangible fixed assets	-38,300	-34,456
Other operating expenses	-81,887	-61,801
Income from affiliated companies	-5,057	4,127
Net interest result	-6,813	-2,097
Income from ordinary activities	**23,574**	**68,688**
Taxes on income	-12,432	-24,673
Other taxes	-165	-472
Net income	**10,977**	**43,543**
Transfer to other revenue reserves	-2,337	-16,663
Retained earnings	8,640	26,880

Notes to the financial statements for the year 2008

General statements

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

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

Accounting and valuation principles

Fixed assets

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

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

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

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

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

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

Current assets

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

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

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

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

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

Untaxed special reserve

Untaxed special reserves are recorded if permissible.

Provisions and liabilities

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

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

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

Liabilities are recognized at their repayment amounts.

Foreign currency items and currency translation

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

Explanations in relation to the balance sheet

Fixed assets

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

Financial assets include shares in affiliated companies, participations, loans and securities.

Changes in fixed assets as at December 31, 2008

	Acquisition and Construction Cost				
	Jan. 1, 2008	Additions	Reclassifi-cations	Disposals	Dec. 31, 2008
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
I. Intangible fixed assets					
Patents, licences	18,884	720	165	151	19,618
II. Tangible fixed assets					
1. Property and buildings	114,280	6,607	8,896	5,861	123,922
2. Technical equipment and machines	202,397	24,477	13,476	5,586	234,764
3. Other machines, furnitures and fixtures	95,890	4,303	1,399	3,412	98,180
4. Advance payments and fixed assets under construction	25,457	24,893	-23,936	0	26,414
	438,024	**60,280**	**-165**	**14,859**	**483,280**
III. Financial assets					
1. Shares in affiliated companies	139,924	73,428	0	0	213,352
2. Loans to affiliated companies	27,938	12,918	0	13,392	27,464
3. Participations	5,430	6,076	0	40	11,466
4. Non-current securities	622	200	0	199	623
5. Other financial investments	41	0	0	5	36
	173,955	**92,622**	**0**	**13,636**	**252,941**
	630,863	153,622	0	28,646	755,839

Accumulated amortization and depreciation					Net carrying value	
Jan. 1, 2008	Charge in year	Disposals	write-ups	Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2007
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
17,589	767	150	0	18,206	1,412	1,295
61,901	3,932	5,412	0	60,421	63,501	52,379
131,649	30,930	5,213	0	157,366	77,398	70,748
90,042	2,671	3,347	0	89,366	8,814	5,848
0	0	0	0	0	26,414	25,457
283,592	**37,533**	**13,972**	**0**	**307,153**	**176,127**	**154,432**
17,063	8,000	0	0	25,063	188,289	122,861
2,686	1,572	1,698	0	2,560	24,904	25,252
0	0	0	0	0	11,466	5,430
2	0	0	2	0	623	620
0	0	0	0	0	36	41
19,751	**9,572**	**1,698**	**2**	**27,623**	**225,318**	**154,204**
320,932	47,872	15,820	2	352,982	402,857	309,931

Schedule of shareholdings as at December 31, 2008

Name of company	Domicile	Abbreviation	Capital share in %
Shares in affiliated companies			
Domestic			
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	KMBH	100.00
Elring Klinger Motortechnik GmbH	Idstein	EKM	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	EKLS	76.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	EKT	74.50
Foreign			
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (CH)	EKAB	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (United Kingdom)	EKGB	100.00
Elring Klinger S.p.A.	Mazzo di Rho (Italy)	EKI	100.00
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	TPH	100.00
Elring Parts Ltd.	Gateshead (United Kingdom)	EP	90.00
Elring Klinger, S.A.	Reus (Spain)	EKSA	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	EKCA	100.00
ElringKlinger North America, Inc.	Livonia/Michigan (USA)	EKNA	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	EKMX	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	EKAS	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	EKB	100.00
Elring of North America, Inc.	Branchburg/New Jersey (USA)	ELNA	60.00
ElringKlinger USA, Inc.	Buford (USA)	EKUS	100.00
Elring Gaskets (Pty) Ltd.	Johannesburg (South Africa)	EGS	51.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	EKIA	100.00
ElringKlinger China, Ltd.	Suzhou (China)	EKCI	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	CEK	78.00
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.	Qingdao (China)	EKTC	74.50
Sevex Holdings, Inc.	Kansas (USA)		100.00
ATD Thermsulate AG, i. L.	Baar (CH)		100.00
Shares in joint ventures			
Foreign			
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	EKKO	50,00
ElringKlinger Marusan Corporation	Tokyo (Japan)	EKMA	50,00
Taiyo Jushi Kakoh Co., Ltd.	Tokyo (Japan)		50,00
Marusan Kogyo Co., Ltd.	Tokyo (Japan)		26,00

Statutory accounts Shareholders' equity in LC '000	Statutory accounts Profit/Loss in LC '000	Local currency (LC)	Exchange rate[1] on closing date	Statutory accounts Shareholders' equity in EUR '000	Statutory accounts Profit/Loss in EUR '000	Most recent financial statements
54	-10	EUR	100.0000	54	-10	31.12.2008
3,511	1,189	EUR	100.0000	3,511	1,189	31.12.2008
1,233	473	EUR	100.0000	1,233	473	31.12.2008
30,118	9,164	EUR	100.0000	30,118	9,164	31.12.2008
29,134	2,502	CHF	67.1953	19,577	1,681	31.12.2008
6,123	490	GBP	104.2862	6,385	511	31.12.2008
1,557	317	EUR	100.0000	1,557	317	31.12.2008
1,769,094	3,386	HUF	0.3785	6,695	13	31.12.2008
1,533	182	GBP	104.2862	1,599	190	31.12.2008
7,417	2,163	EUR	100.0000	7,417	2,163	31.12.2008
32,980	5,954	CAD	58.2411	19,208	3,468	31.12.2008
3,200	-611	USD	71.5512	2,290	-437	31.12.2008
148,033	-23,031	MXN	5.1924	7,686	-1,196	31.12.2008
17,684	543	MXN	5.1924	918	28	31.12.2008
42,473	4,351	BRL	30.6993	13,039	1,336	31.12.2008
1,947	204	USD	71.5512	1,393	146	31.12.2008
71	-2,210	USD	71.5512	51	-1,581	31.12.2008
8,382	2,600	ZAR	7.5930	636	197	31.12.2008
273,293	-111,976	INR	1.4769	4,036	-1,654	31.12.2008
40,866	-4,260	CNY	10.4868	4,286	-447	31.12.2008
142,487	29,257	CNY	10.4868	14,942	3,068	31.12.2008
626	99	CNY	10.4868	66	10	31.12.2008
-193	-132	USD	71.5512	-138	-94	31.12.2008
25	-67	CHF	67.1953	17	-45	31.12.2008
5,516,060	-1,108,424	KRW	0.0570	3,146	-632	31.12.2008
4,331,619	46,358	JPY	0.7911	34,269	367	31.07.2008
350,321	502	JPY	0.7911	2,772	4	31.07.2008
662,995	-30,275	JPY	0.7911	5,245	-240	31.07.2008

[1] 100 units local currency as at balance sheet date

Current assets

Inventories

	Dec. 31, 2008 EUR '000	Dec. 31, 2007 EUR '000
Raw materials, consumables and supplies	19,587	20,555
Work in progress	4,405	6,573
Finished goods and merchandise	43,083	37,789
Prepayments	33	3,119
	67,108	68,036

Accounts receivable and other assets

	Dec. 31, 2008 EUR '000	Dec. 31, 2007 EUR '000
Trade receivables	43,302	52,221
Receivables from affiliated companies	43,932	15,722
Receivables from participations	4,303	3,189
Other assets	15,023	14,098
	106,560	85,230

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

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

Shareholders' equity

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

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

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

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

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

The **retained earnings** developed as follows:

	EUR '000
Retained earnings as at December 31, 2007	26,880
Profit distribution for 2007	-26,880
Profit brought forward	**0**
Net profit for 2008	10,977
Appropriation to other revenue reserves	-2,337
Retained earnings at December 31, 2008	**8,640**

Untaxed special reserve

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

Provisions

The other provisions relate to:

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

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

Liabilities

	Total amount as at Dec. 31, 2008	thereof with a remaining term			thereof secured	Total amount as at Dec. 31, 2007
		up to one year	from one up to five years	more than five years		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Bank debts	234,961	95,867	63,011	76,083	11,861	98,046
Prepayments received	119	119	0	0	0	190
Trade payables	14,427	14,427	0	0	0	21,065
Payables to affiliated companies	791	744	47	0	0	1,453
Other liabilities	31,245	17,795	13,450	0	0	28,023
	281,543	**128,952**	**76,508**	**76,083**	**11,861**	**148,777**

Bank debts include EUR ‘000 11,861 that are secured by mortgage on own property. The other liabilities are unsecured, except for the reservation of title until the purchase price payment with respect to trade payables.

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

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

Explanations on the income statement

Sales

Breakdown by geographical markets

	2008 EUR ‘000	2007 EUR ‘000
Domestic	153,759	159,507
Foreign	233,938	236,761
Total sales	**387,697**	**396,268**

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

Other operating income

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

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

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

Cost of materials

	2008 EUR ‘000	2007 EUR ‘000
Expenses for raw materials, supplies & consumables and for merchandise	165,532	164,025
Expenses for purchased services	16,077	16,254
	181,609	**180,279**

Personnel expenses

	2008 EUR ‘000	2007 EUR ‘000
Wages and salaries	77,239	77,119
Social security charges and expenses for retirement pensions	17,787	17,378
– of which, for retirement pensions –	(3,745)	(3,494)
	95,026	**94,497**

Amortization and depreciation

Amortization and depreciation of the financial year 2008 include EUR ‘000 5,686 (p.y. EUR ‘000 3,765) impairment charges for fixed assets. They relate to buildings and machines in the amount of EUR ‘000 4,731 (p.y. EUR ‘000 3,765) due to the fire at Runkel plant. They resulted from the transfer of untaxed special reserves to the replacing assets.

Other operating expenses

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

Income from affiliated companies

	2008 EUR ‘000	2007 EUR ‘000
Income from affiliated companies	2,943	8,627
Appreciations on financial assets	0	2,200
Writedowns on financial assets	-8,000	-6,700
	-5,057	**4,127**

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

Net interest result

	2008 EUR ‘000	2007 EUR ‘000
Income from other securities and loans of financial assets	1,258	2,010
Other interest and similar income	1,356	419
Appreciations on loans and securities	2	562
Depreciations on loans and securities	-1,572	-1,676
Interest and similar expenses	-7,857	-3,412
	-6,813	**-2,097**

The interest result includes income from loans of financial fixed assets to affiliated companies of EUR ‘000 1,236 (p.y. EUR ‘000 1,990), interest income from affiliated companies in the amount of EUR ‘000 733 (p.y. EUR ‘000 248) and interest expense to affiliated companies of EUR ‘000 163 (p.y. EUR ‘000 147).

Tax on income

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

Other taxes

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

Contingent liabilities

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

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

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

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

Other financial obligations

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

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

Other disclosures

Number of employees

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

	2008	2007
Workers	1,105	1,065
Salaried staff	565	531
	1,670	**1,596**
Apprentices	62	61
	1,732	**1,657**

Derivative financial instruments

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

	Fair market value EUR '000	Carrying value EUR '000	Provision EUR '000
Interest-related derivatives			
Interest swaps	-260	-260	-260
Derivatives relating to raw materials			
Nickel forward contracts	-15,902	-15,902	-15,902
	-16,162	**-16,162**	**-16,162**

The negative fair market values are classified as other provisions in the balance sheet.

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

Corporate bodies

Supervisory board

Dr. Helmut Lerchner, Aichtal, Chairman	Corporate advisor Member of the supervisory board of Deutz AG, Cologne Member of the Südwest advisory board of Dresdner Bank AG, Stuttgart
Walter Herwarth Lechler, Stuttgart, Deputy Chairman	Managing shareholder Positions on advisory boards or administrative boards at Lechler Inc., St. Charles/USA Lechler Ltd., Sheffield, United Kingdom Lechler India Pvt. Ltd., Thane, India Lechler Kft, Kecskemét, Hungary Lechler France S.A., Montreuil, France Lechler AB, Hagfors, Sweden Lechler SA, Wavre, Belgium Lechler S.A., Madrid, Spain and ETS-Elex (India) Pvt. Ltd., Thane, India
Gert Bauer, Reutlingen, Employee Representative	First commissioner of IG Metall Reutlingen, Tübingen Member of the supervisory board of Hugo Boss AG, Metzingen Member of advisory council of BIKOM GmbH, Reutlingen
Dr. Rainer Hahn, Stuttgart	Former member of the management of Robert Bosch GmbH, Stuttgart Supervisory board seats at Robert Bosch GmbH, Stuttgart Bosch Rexroth AG, Stuttgart Rieter Holding AG, Winterthur/Switzerland Member of TÜV SÜD Gesellschafterausschuss GbR, Munich, and member of the administrative board of TÜV SÜD e. V., Mannheim

Karl-Uwe van Husen, Waiblingen	Managing director Member of the supervisory board of Schaltbau Holding AG, Munich
Dr. Thomas Klinger-Lohr, Egliswil, Switzerland	President of the board Dr. Klinger-Lohr is a member of the advisory or administrative council, as the case may be, of the following subsidiaries of Betal Netherland Holding B.V., Rotterdam, Netherlands, of which holding company he is also the managing director: Klinger Holding Plc., Sidcup, United Kingdom Klinger Holding Austria GmbH, Gumpoldskirchen, Austria Klinger S.p.A., Mazzo di Rho, Italy Saidi, Madrid, Spain Klinger AG, Egliswil, Switzerland Klinger Finnland OY, Masala, Finland and Uni Klinger Ltd., Mumbai, India
Manfred Rupp, Pfullingen, Employee Representative	Experimental technician
Markus Siegers, Altbach, Employee Representative	Chairman of the workers council of ElringKlinger AG
Manfred Strauß, Stuttgart	Managing director Member of the advisory council in the Pro Stuttgart Verkehrsverein

Remuneration of the supervisory board

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

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

	fixed (prior year)		variabel (prior year)		total (prior year)	
		EUR		EUR		EUR
Dr. Helmut Lerchner	38,000	(38,000)	24,400	(45,962)	62,400	(83,962)
Walter Herwarth Lechler	31,000	(28,500)	18,300	(34,471)	49,300	(62,971)
Gert Bauer	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Dr. Rainer Hahn	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Karl-Uwe van Husen	26,000	(19,000)	12,200	(22,981)	38,200	(41,981)
Dr. Thomas Klinger-Lohr	18,000	(18,000)	12,200	(22,981)	30,200	(40,981)
Manfred Rupp	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Markus Siegers	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Manfred Strauß	14,000	(15,000)	12,200	(22,981)	26,200	(37,981)
Total	183,000	(178,500)	128,100	(241,300)	311,100	(419,800)

The variable remuneration reflects the expense for which provisions have been set up, based on the provisional consolidated income before taxes prepared under IFRS for the year 2008.

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

Management board

Dr. Stefan Wolf, Leinfelden-Echterdingen, Chairman	responsible for the group companies, the central divisions finance, controlling, law, human resources, investor relations, IT and public relations as well as the business divisions spare parts and industrial parks
Theo Becker, Metzingen	responsible for the business divisions cylinder head gaskets/central research & development, special gaskets, casings/modules/elastomer technology, shielding technology and the central divisions quality and environment, procurement and Runkel plant
Karl Schmauder, Hülben	responsible for the distribution of original equipment and new business fields
Memberships in supervisory boards and similar bodies	Dr. Stefan Wolf is a member of the regional state advisory board Baden-Württemberg of Commerzbank AG, Frankfurt.

Remuneration of the management board

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

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

	fixed components (prior year)	components dependent on the results of the reporting year (prior year)	long-term results-dependent bonuses (prior year)	total (prior year)
	EUR	EUR	EUR	EUR
Dr. Stefan Wolf	302,016.50 (301,854.27)	304,861.00 (555,711.94)	32,514.51 (496,790.98)	639,392.01 (1,354,357.19)
Theo Becker	237,963.46 (226,248.96)	182,917.40 (333,426.30)	0.00 (365,093.24)	420,880.86 (924,768.50)
Karl Schmauder	220,534.92 (221,494.15)	182,917.40 (333,426.30)	24,643.70 (377,093.24)	428,096.02 (932,013.69)
Total **Total**	**760,514.88** **(749,597.38)**	**670,695.80** **(1,222,564.54)**	**57,158.21** **(1,238,977.46)**	**1,488,368.89** **(3,211,139.38)**

The variable remuneration shown as "components dependent on the result of the reporting year" reflects the expense, including accrued provisions based on the provisional income before taxes for the year 2008 of the consolidated accounts that are prepared in accordance with IFRS. In addition, the difference amounts between the provisions formed as at December 31, 2007 and the amounts actually disbursed in 2008 are included. For Stock Appreciation Rights the fair value as of the grant date is used. No remunerations arose from the bonuses relating to the company value.

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

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

For the fiscal year 2008 the following data arose:

	1st portion
Date of issue	2008
Number of Stock Appreciation Rights granted in the year 2008	20,341
Strike Price (EUR)	24.63
Number of Stock Appreciation Rights existing as of December 31, 2008 (still exercisable)	20,341
Remaining time to maturity	2.08
Value of Participation Rights held by members of the management board	
December 31, 2008 (EUR '000)	1
December 31, 2007 (EUR '000)	0

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

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

Provisions of EUR '000 9,051 (p.y. EUR '000 8,873) have been set up for pension obligations to former members of the management board, the management of merged companies and their surviving dependants. The total remuneration of former members of the management board – including remuneration of former members of corporate bodies of merged companies – came to EUR '000 837 (p.y. EUR '000 810) in the financial year 2008.

The **fees of the auditor** amount to:

	2008 EUR '000	2007 EUR '000
Audit of the financial statements	294	263
Other confirmation services	0	3
Tax consultancy services	6	0
Other services	22	24
	322	290

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

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

1. Voting rights notification

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

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

2. Voting rights notification

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

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

3. Voting rights notification

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

ElringKlinger AG has received the following notification:
"Notification of Voting Rights pursuant to sec. 21, 22 WpHG
1 October 2008
On behalf of Columbia Wanger Asset Management, L.P., 227 W. Monroe Street, Suite 3000, Chicago, IL, USA, we hereby give notice, pursuant to sec. 21 para. 1 WpHG, that on 29 September 2008 the voting interest of Columbia Wanger Asset Management, L.P., in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/ Erms, Germany, fell below the threshold of 3% and amounted to 2,99% of the voting rights [i.e., 1,727,000 shares with voting rights, out of 57,600,000 shares with voting rights outstanding (based on Bloomberg)] on this day.
2,99% (all) of the voting rights (1,727,000 voting rights) are attributed to us in accordance with sec. 22 para. 1 sent. 1 no. 6."

4. Voting rights notification

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

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

2. Elrena GmbH

The percentage of voting rights of Elrena GmbH in ElringKlinger AG exceeded the thresholds of 15% and 20% on March 20, 2008 and amounts to 20.02% (3,843,560 voting rights) on this day.

10.02% (1,922,912 voting rights) of these voting rights are attributed to Elrena GmbH in accordance with sec. 22 para. 2 sent. 1 WpHG.

The voting rights, which were attributable to Elrena GmbH, were held by the following shareholder that holds 3 % or more of the voting rights in ElringKlinger AG:

• Elgarta GmbH
• Eroca AG
• Klaus Lechler Beteiligungs-GmbH
• KWL GmbH i.Gr.“

5. Voting rights notification

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

We received the following notification on March 27, 2008:
”Notification pursuant to sec. 21 para. 1 WpHG
Persons obligated to give notice:

1. Mrs Lieselotte Lechler, Stuttgart, Germany 2. Paul Lechler Stiftung gGmbH, Ludwigsburg, Germany

We, the Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to sec. 21 para. 1 WpHG on behalf of Mrs Lieselotte Lechler and Paul Lechler Stiftung gGmbH as follows:

1. Lieselotte Lechler

The percentage of voting rights of Lieselotte Lechler in ElringKlinger AG fell under the threshold of 10%, 5% and 3% on March 20, 2008 and amounts to 0% (0 voting rights) on this day.

2. Paul Lechler Stiftung gGmbH

The percentage of voting rights of Paul Lechler Stiftung gGmbH in ElringKlinger AG exceeded the thresholds of 3%, 5% and 10% on March 20, 2008 and amounts to 10.02% (1,922,912 voting rights) on this day.

10.02% (1,922,912 voting rights) of these voting rights are attributed to Paul Lechler Stiftung gGmbH in accordance with sec. 22 para. 1 sent. 1 no. 1 WpHG.

The voting rights, which were attributable to Paul Lechler Stiftung gGmbH, were held by the following companies that were controlled by it and hold 3 % or more of the voting rights in ElringKlinger AG:

• Elgarta GmbH
• Eroca AG
• Klaus Lechler Beteiligungs-GmbH.“

6. Voting rights notification

Details about the person obligated to give notice:

Name: New Star Asset Management

Place: London SW1X 7NE

State: Great Britain

Published on February 20, 2008

We received the following notification of the New Star Asset Management, Great Britain, on February 19, 2008:

"Notification pursuant to sec. 21 para. 1 WpHG

We hereby give notice, pursuant to sec. 21 para 1 of the WpHG, that on 18th February 2008 our voting interest in ElringKlinger AG fell below the threshold of 3% and amounts to 2.97% (569,624 voting rights) on this day.

2.97% of the voting rights (569,624 voting rights) are attributable to us in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG."

7. Voting rights notification

Details about the person obligated to give notice:

Name: Elrena GmbH, and others

Place: Basel

State: Switzerland

Published on May 7, 2007

Parties required to give notice:

1. **Elrena GmbH, Basel, Switzerland**
2. **Karl Uwe van Husen, Germany**

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

"On behalf of Elrena GmbH, Basel, Switzerland, and Mr Karl Uwe van Husen, we inform you pursuant to sec. 41 para. 2 and sec. 21 para. 1 WpHG (in the respective current version) for the purpose of correction and supplement to notifications made in the past by the parties on which notification is incumbent as follows:

1. **Karl Uwe van Husen, Germany:**
   a. The percentage of voting rights of Mr Karl Uwe van Husen in ElringKlinger AG (formerly ZWL Grundbesitz- und Beteiligungs- AG) at September 4, 1997, fell below the thresholds of 10 % and 5 % and amounted to 0.025 % (900 voting rights).
   b. Today, at May 3, 2007, the percentage of voting rights of Mr van Husen in ElringKlinger AG amounts to 0.016 % (3,000 voting rights).
2. **Elrena GmbH, Basel, Switzerland:**
   c. The percentage of voting rights of Elrena GmbH in ElringKlinger AG at April 1, 2002 amounted to 10.69 % (512,012 voting rights).
   d. Today, at May 3, 2007, the percentage of voting rights of Elrena GmbH in ElringKlinger AG amounts to 10.003 % (1,920,648 voting rights)."

8. Voting rights notification

Details of the parties required to give notice:

Name: Elgarta GmbH, and others

Place: Basel

State: Switzerland

Published on May, 7, 2007

Parties required to give notice

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

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

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

1. Elgarta GmbH, Basel, Switzerland:

a) The percentage of voting rights of Elgarta GmbH in ElringKlinger AG at April 1, 2002, amounted to 13.25 % (635,878 voting rights).

b) Today, May 3, 2007, the percentage of voting rights of Elgarta GmbH in ElringKlinger AG amounts to 10.004 % (1,920,712 voting rights).

2. Eroca AG, Basel, Switzerland:

a) The percentage of voting rights of Eroca AG in ElringKlinger AG at April 1, 2002, amounted to 13.25 % (635,878 voting rights). These voting rights were in the percentage of 13.25 % (635,878 voting rights) attributable to Eroca AG pursuant to sec. 22 para. 1 sent. 1 No.1 WpHG.

b) The voting rights, which were attributable to Eroca AG, were held by the following company that was controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:

- Elgarta GmbH.

c) Today, May 3, 2007, the percentage of voting rights of Eroca AG in ElringKlinger AG amounts to 10.004 % (1,920,712 voting rights). These voting rights are entirely attributable to Eroca AG pursuant to sec. 22 para. 1 sent. 1 no. 1 WpHG.

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

- Elgarta GmbH.

3. Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:

a) The percentage of voting rights of Klaus Lechler Beteiligungs- GmbH in ElringKlinger AG at May 8, 2002, exceeded the thresholds of 5 % and 10 % and amounted to 10.35 % (496,678 voting rights) on this day. These voting rights were entirely attributable to Klaus Lechler Beteiligungs- GmbH pursuant to sec. 22 para. 1 sent. 1 no. 1 WpHG.

The voting rights, which were attributable to Klaus Lechler Beteiligungs- GmbH, were held by the following companies that were controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:

- Elgarta GmbH,
- Eroca AG.

b) Today, May 3, 2007, the percentage of voting rights of Klaus Lechler Beteiligungs- GmbH in ElringKlinger AG amounts to 10.02 % (1,922,912 voting rights). These voting rights are in the percentage of 10.004 % (1,920,712 voting rights) attributable to Klaus Lechler Beteiligungs- GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

The voting rights, which are attributable to Klaus Lechler Beteiligungs- GmbH, are held by the following companies that are controlled by it and hold at least 3% or more of voting rights in ElringKlinger AG:

- Elgarta GmbH,
- Eroca AG.

4. Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:

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

5. Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany:

a) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at November 30, 2001, exceeded the thresholds of 5 % and 10 % and amounted to 12.13 % (582,012 voting rights). These voting rights were in the percentage of 12.13 % (582,012 voting rights) attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG (essentially corresponding with sec. 22 para. 1 No. 2 WpHG valid on 30. November 2001).

The voting rights, which were attributable to Paul Lechler Gesellschaft bürgerlichen Rechts, were held by the following company that was controlled by it and hold 3 % or more of the voting rights in ElringKlinger AG:

- Lechler Beteiligungs- GmbH.

b) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at April 1, 2002, amounted to 12.13 % (582,012 voting rights). These voting rights were entirely attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

The voting rights, which are attributable to Paul Lechler Gesellschaft bürgerlichen Rechts, were held by the following company that was controlled by it and hold at least 3 % of voting rights in ElringKlinger AG:

- Lechler Beteiligungs- GmbH.

c) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at December 4, 2003, fell below the thresholds of 10 % and 5 % and have amounted since then to 0.00 % (0 voting rights).

6. INLOVO GmbH, Ludwigsburg, Germany:

a) The percentage of voting rights of INLOVO GmbH in ElringKlinger AG at December 4, 2003, exceeded the thresholds of 5 % and 10 % and amounted to 10.04 % (482.012 voting rights). These voting rights were in the percentage of 10.04 % (482,012 voting rights) attributable to INLOVO GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

The percentage of voting rights, which were attributable to INLOVO GmbH, were held by the following company that was controlled by it and hold at least 3 % or more of the voting rights in ElringKlinger AG:
• Lechler Beteiligungs- GmbH.

b) Today, May 3, 2007, the percentage of voting rights of INLOVO GmbH in ElringKlinger AG amounts to 10.0003 % (1,920,048 voting rights). These voting rights are entirely attributable to INLOVO GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.
The percentage of voting rights, which are attributable to INLOVO GmbH, are held by the following company that is controlled by it and holds at least 3 % or more of the voting rights in ElringKlinger AG:
• Lechler Beteiligungs- GmbH.

7. Klaus Lechler, Germany:

a) The percentage of voting rights of Mr Klaus Lechler in ElringKlinger AG at April 1, 2002 amounted to 25.37 % (1,217,890 voting rights). These voting rights were in the percentage of 13.25 % (635,878 voting rights) attributable to Mr Klaus Lechler pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG and in the percentage of 12.13% (582,012 voting rights) pursuant to sec. 22 para. 1 sent. 1 No. 2 WpHG.
The voting rights, which were attributable to Mr Klaus Lechler, were held by the following companies that were controlled by him and hold at least 3 % or more in ElringKlinger AG :
• Elgarta GmbH,
• Eroca AG,
• Klaus Lechler Beteiligungs- GmbH.
The voting rights of the following shareholder, who hold 3 % or more in ElringKlinger AG, were assigned to him:
• Lechler Beteiligungs- GmbH.

b) The percentage of voting rights of Mr Klaus Lechler in ElringKlinger AG at June 18, 2003 fell below the threshold of 25% and amounted to 23.29 % (1,117,890 voting rights). These voting rights were in the percentage of 13.25 % (635,878 voting rights) attributable to Mr Klaus Lechler pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG and in the percentage of 10.04% (482,012 voting rights) pursuant to sec. 22 para. 1 sent. 1 No. 2 WpHG.
The voting rights, which were attributable to Mr Klaus Lechler, were held by the following companies that were controlled by him and hold at least 3 % or more in ElringKlinger AG:
• Elgarta GmbH,
• Eroca AG,
• Klaus Lechler Beteiligungs- GmbH.
The voting rights of the following shareholder, who hold at least 3 % or more in ElringKlinger AG, were assigned to him:
• Lechler Beteiligungs- GmbH.“

Statement of compliance with the German Corporate Governance Code

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

Proposal for the appropriation of profits

In agreement with the Supervisory Board, the Management Board proposes to the Shareholders' Meeting to appropriate the retained earnings as at December31, 2008 amounting to EUR '000 8,640 to distribute a dividend of EUR 0.15 per share.

Dettingen/Erms, March 26, 2009

The Management Board

Dr. Stefan Wolf Theo Becker Karl Schmauder

ElringKlinger AG Management Report for the 2008 Financial Year

Macroeconomic Conditions and Business Environment

Global economic downturn

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

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

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

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

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

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

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

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

Automobile market severely affected by financial and credit crisis

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

Dip in global demand for automobiles

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

German automobile market contracts slightly

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

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

Slump in European demand for automobiles

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

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

Record year for Russia

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

Double-digit production downsizing in the US

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

Positive trend in South America

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

Signs of weakening in Asian car market

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

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

Share of diesel remains stable amid general market contraction

The share of diesel-powered vehicles among new car registrations remained solid against the backdrop of a rapidly declining automobile market in 2008. Despite what was at times a more pronounced rise in diesel prices compared to other fuels, around 53% of Western European consumers purchasing a new vehicle opted for a fuel-efficient diesel engine in 2008. To a certain extent, the introduction of a CO_2-based vehicle tax in some European countries also had a positive effect on the proportion of diesel vehicles sold. Particularly in Scandinavia, the UK and France the share of diesel engines among total new registrations was higher than in the previous year. In Germany, diesel vehicles came in slightly lower than the year before accounting for 44.1% (47.7%) of new registrations.

Demand for commercial vehicles dampened by financial crisis and global recession

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

Significant Events

Takeover of minority interests in Spain

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

Acquisition of the SEVEX Group, Switzerland

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

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

ElringKlinger AG increases stake in Marusan Corporation to 50%

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

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

Sales and Earnings Performance

Weak second half prompts 2.2% decline in annual sales

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

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

Original Equipment bears the brunt of market downturn

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

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

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

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

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

Record sales in the Aftermarket

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

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

Industrial Parks and Services

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

High commodity prices and increasing energy costs

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

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

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

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

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

Slight increase in personnel expenses as a percentage of sales

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

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

More pronounced increase in depreciation and amortization expense

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

Other operating income

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

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

Significant increase in other operating expenses

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

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

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

Higher interest expense

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

Lower income from affiliated companies

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

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

Income from ordinary activities

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

High tax rate

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

Decline in net income

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

Dividend proposal

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

Net assets

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

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

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

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

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

Current assets grew at a less pronounced rate in relation to fixed assets. As at December 31, 2008, current assets attributable to ElringKlinger AG were EUR 21.4 million higher than in the previous year, amounting to EUR 174.8 (153.4) million.

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

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

Due to the dividend payment of EUR 26.9 million for fiscal 2007 and the decline in net income in 2008, ElringKlinger AG‘s equity receded to EUR 220.9 (236.8) million.

The decline in the equity ratio by 12.9 percentage points to 38.2% (51.1%) was attributable primarily to the reduction in equity and the larger amount of borrowings taken on for the purpose of financing investments in property, plant and equipment as well as corporate acquisitions. The return on equity (income from ordinary activities in relation to average equity of the AG) contracted to 10.3% (30.3%).

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

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

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

Financial Position

Cash flow from operating activities

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

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

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

Capital expenditure driven by acquisitions

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

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

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

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

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

ElringKlinger AG invested EUR 2.2 million in the refurbishment and extension of its office space at its headquarters in Dettingen/Erms.

Within the area of Cylinder-head Gaskets several assembly lines were expanded during the first half of 2008 in preparation for new projects launched within this division. The division bought two stamping systems with belt units, a coating unit as well as laser-welding machines, in addition to implementing streamlining investments to extend the level of automation on its assembly lines.

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

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

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

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

Cash outflow for acquisitions

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

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

Cash flow from financing activities

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

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

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

Procurement

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

Signs of turnaround in commodity costs

Looking back over an extended period of time, the cost of raw materials remained at an elevated level in 2008, and together with surging energy prices this factor continued to place pressure on ElringKlinger AG during the first nine months of the fiscal year.

The principal raw materials used by ElringKlinger AG were high-grade steel or steel alloys, aluminum, aluminized steel and carbon steel as well as polymer granules.

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

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

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

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

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

Higher energy prices

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

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

Reduction in purchasing volume

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

Expansion of global supplier structures

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

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

Continued focus on research and development

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

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

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

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

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

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

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

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

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

SCR module for cars

As a result of new environmental regulations such as Euro 6, vehicle manufacturers are having to scale back the level of nitrogen oxide emissions by significant margins. This also applies to direct-injection gasoline engines. Based on the solution already in production for commercial vehicles, the Specialty

Gaskets and Shielding Technology divisions joined forces with a German car manufacturer and developed a combined module that seals and shields (thermal/mechanical) SCR (Selective Catalytic Reduction) direct-injection systems used in automobiles.

Innovative transmission products

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

Complete solutions in shielding technology

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

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

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

Elastomer Technology/Modules focuses on low-weight solutions

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

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

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

New Business Areas

Diesel particulate filter

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

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

Within this context, it should be noted that both competitive forces and price-related pressure are becoming increasingly evident within the area of diesel particulate filters. With this in mind, ElringKlinger is now also looking to incorporate a new catalytic coating within the filter, thus facilitating filter regeneration. The specific properties of the ElringKlinger filter design are such that nano technology has been identified as a suitable coating method. The rationale behind this approach is to differentiate the company within the competitive arena by offering an end-to-end solution.

Fuel cell technology

ElringKlinger AG again filed a number of important patents and intellectual property rights in 2008, thus further strengthening its formidable market position within this key field of future technology.

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

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

Battery technology

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

Development project solar thermal power plant

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

Own R&D pipeline generates organic growth

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

Employees

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

Higher staffing levels

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

Staff motivation and commitment

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

Personalized training

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

Nurturing talent

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

Participating in the company's success

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

Compensation Report

Compensation structure for members of the Management Board

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

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

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

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

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

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

Compensation structure for members of the Supervisory Board

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

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

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

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

Details of share capital and disclosure of potential takeover obstacles (Section 289 (4) of the German Commercial Code (HGB))

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

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

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

Elgarta GmbH, Basel	10.02%
Elrena GmbH, Basel	10.07%
Lechler Beteiligungs GmbH, Ludwigsburg	10.15%
Walter H. Lechler, Stuttgart	Total of 25.001% (of which 10.13% is attributable under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

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

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

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

Quality and Environmental Management

ElringKlinger AG feels duty-bound to handle scarce resources such as energy and water in a responsible manner, as well as avoiding and reducing CO_2 emissions and waste, and maintaining occupational safety. For this purpose, quality and environmental management officers were employed at all company sites in 2008. These staff members are responsible for ensuring that environmental, quality and labor guidelines are complied with in the areas of emission control, waste separation, hazardous goods and water management as well as occupational safety and fire protection.

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

Environmental awareness in production

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

Expansion of quality management

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

Occupational safety and health protection

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

Report on Opportunities and Risks

Risk management system

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

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

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

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

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

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

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

Risks

Market and sales risks

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

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

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

Customer risks

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

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

Pricing risks

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

Currency risks

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

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

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

In fiscal 2008, loans denominated in Swiss francs were taken out for the purpose of financing payments in connection with the acquisition of the former SEVEX Group. In view of this, movements in the EUR/CHF exchange rate might in future contribute to more significant fluctuations in net income. The objective is to minimize this risk by scaling back CHF-denominated financial liabilities on a regular basis with the help of profit distributions from ElringKlinger Abschirmtechnik (Schweiz) AG.

Financing risks

Potentially, the crisis within the financial markets may result in more restrictive loan policies being implemented by banks. In turn, this may lead to a marked deterioration in the terms and conditions attached to loan and refinancing agreements, in addition to making new transactions more difficult than in the past. For ElringKlinger AG the risk emanating from this scenario is that the overall scope for entrepreneurial activity, e.g. in the case of acquisitions or more substantial investments in buildings, plant and machinery, will be restricted.

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

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

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

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

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

Wage cost risks

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

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

In addition to the first stage of the collective pay increase on February 1, 2009, and the one-off payment made in the fourth quarter of 2008 on the basis of a collective agreement, the planned increase in wages effective from May 1, 2009, may have an adverse effect on ElringKlinger AG's profitability and international competitiveness, particularly against the backdrop of an extremely weak automotive sector and the significant proportion of staff employed in Germany. In view of this, the company is considering whether it could make use of the option to postpone the collective wage increase by seven months in order to be able adjust its cost base in line with sluggish market conditions as quickly as possible and thus ultimately secure jobs for its core workforce as much as possible for the time being.

Supplier risks

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

In the majority of cases, the company's supply base for key raw materials consists of large international corporations. In view of the supplier structure established by ElringKlinger AG, the risk of default has been greatly restricted. Risk has also been mitigated by the increasing internationalization of purchasing activities and the qualification of additional suppliers.

Legal risks

ElringKlinger AG addresses its exposure to legal risks by recognizing appropriate provisions in its annual accounts. In contrast with the previous year, there were no other significant risks in the period under review.

Risks associated with derivative transactions

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

Market opportunities

The introduction of government-backed programs aimed at stimulating new vehicle sales, such as the environmental incentive paid in Germany to new car buyers when they scrap their old vehicle, as well as the enactment of widely debated vehicle taxation rules based on CO_2 could lead to a tangible increase in the demand for new vehicles.

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

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

Acquisitions

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

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

Financing

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

Technology and climate change

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

The growing demands placed on the automotive industry by such regulations have opened up attractive opportunities for ElringKlinger AG to position itself even more favorably and capture additional market share by drawing on the strengths of its product portfolio, which is designed to make a considerable contribution to the reduction of CO_2 emissions and fuel consumption.

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

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

Cost of materials

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

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

Assessment of aggregated risk

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

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

Report on Expected Developments

Outlook – Market and Sector

Global economy faces exceptional circumstances

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

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

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

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

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

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

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

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

Global financial and economic crisis weighs heavily on automobile markets

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

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

Within this context, ElringKlinger AG anticipates that domestic demand for passenger vehicles will continue to slide after enjoying a relatively stable spell in 2008. On the other hand, the German automobile market may receive fresh impetus from the newly introduced environmental incentive package, as part of which consumers receive a government-funded rebate if they scrap a used vehicle that has been in service for at least nine years and replace it with a new car. Germany's new law governing vehicle taxation, which comes into force on July 1, 2009, and combines the previous taxation system based on engine size with a new CO_2-based component, will finally provide consumers with a more reliable basis for their future purchasing decisions. Original forecasts suggested that new car registrations in Germany may continue to fall to 2.9 million units in 2009. However, in view of the more encouraging signs emanating from the domestic auto market, which has been buoyed by the government-led scrapping program, the trend within this area might in fact be less severe than anticipated.

In 2009, Europe as a whole is expected to see automobile sales decline at a rate of 16,0 to 21,0%. In January, the number of new vehicles registered was down 27,0%. This was attributable not only to the protracted weakness in sales within the high-volume Western European markets of Italy, the UK and above all Spain but also to trends within the Eastern European vehicle markets, which were unable to emulate the solid sales performance recorded last year.

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

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

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

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

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

Cyclical downturn impacts on commercial vehicle business

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

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

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

Prospect of gradual stabilization in second half of 2009

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

Outlook – Company

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

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

Adjustments to capital expenditure in preparation for further decrease in demand

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

Cost reduction program initiated

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

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

Visible decline in order intake

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

Forecast:
Sales and Earnings Position 2009 and 2010

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

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

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

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

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

Within this challenging market environment, it has become evident that in addition to technological expertise, financial strength and a solid equity base are now increasingly important when it comes to acquiring new customer projects and development contracts. ElringKlinger AG has the opportunity to benefit from this trend and enhance its competitive position. Offering a range of products designed to reduce fuel consumption and CO_2 emissions, the company considers itself well positioned to again generate organic sales revenue of a minimum of 5% per annum and, at the very least, proportionate growth in net income in the medium term once the current crisis is over. For 2010, ElringKlinger AG anticipates that it will be in a position to exceed its fiscal 2009 figures both in terms of sales revenue and net income.

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

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

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

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

Events after the Reporting Date

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

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

Dettingen/Erms, March 26, 2009

The Management Board

Dr. Stefan Wolf

Theo Becker

Karl SchmauderBilanzeid

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

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

Dettingen/Erms, March 26, 2009

Dr. Stefan Wolf

Theo Becker

Karl Schmauder

Auditor's Report

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

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

Our audit has not led to any reservations.

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

Stuttgart, March 26, 2009

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

Dr. Kursatz
Wirtschaftsprüfer

Gloß
Wirtschaftsprüferin

ElringKlinger AG | Max-Eyth-Straße 2 | D-72581 Dettingen/Erms | Phone +49 (0)71 23/724-0 | Fax +49 (0)71 23/724-90 06 | www.elringklinger.de