

ELRINGKLINGER AG

Future Inside

FINANCIAL STATEMENTS

2012



elringklinger

Contents



FINANCIAL STATEMENTS OF ELRINGKLINGER AG

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Future Inside

ELRINGKLINGER

Which way is the automotive industry heading? What technology will be driving our cars in the future? These questions concern us all in a society characterized by almost unrestricted mobility. The answers will bring about fundamental changes in terms of resource management and infrastructure.

Will personal transport be fully electric? Will the combustion engine still be around in twenty or thirty years' time? Will fuel cell technology come out on top? Whatever the future holds, ElringKlinger is well prepared.

ElringKlinger is one of just a handful of suppliers around the globe that develop and produce technologically sophisticated components for all drive systems – for conventional combustion engines optimized by downsizing as well as for hybrid and electric vehicles using either battery-powered electric engines or fuel cells.

As a development partner and original equipment manufacturer with a global presence, we supply almost all of the world's vehicle and engine manufacturers. To round off our portfolio, ElringKlinger Kunststofftechnik also supplies products made of high-performance PTFE plastics to manufacturers outside the automotive industry. We harness our innovative strengths to achieve the company's goals of sustainable mobility and profitable growth. These efforts are supported by our committed workforce of over 6,200 people at 41 ElringKlinger Group locations worldwide.

ElringKlinger AG Balance Sheet

as at December 31, 2012

	Dec. 31, 2012 EUR k	Dec. 31, 2011 EUR k
ASSETS		
Fixed assets		
Intangible fixed assets	3,899	2,942
Tangible fixed assets	242,457	224,823
Long-term financial assets	363,141	359,030
	609,497	586,795
Current Assets		
Inventories	93,256	83,254
Receivables and other assets	131,798	129,221
Cash in hand, bank balances, and checks	808	382
	225,862	212,857
Prepaid expenses	513	380
	835,872	800,032
LIABILITIES AND SHAREHOLDERS' EQUITY		
Equity		
Share capital	63,360	63,360
Capital reserve	120,827	120,827
Revenue reserves	240,552	212,137
Retained earnings	28,512	37,146
	453,251	433,470
Provisions		
Provisions for pensions	56,638	56,060
Provisions for taxes	1,941	5,323
Other provisions	29,273	27,192
	87,852	88,575
Liabilities	285,574	269,112
Deferred income	567	121
Deferred tax liabilities	8,628	8,754
	835,872	800,032

ElringKlinger AG Income Statement

for the period from January 1 to December 31, 2012

	2012 EUR k	2011 EUR k
Sales revenue	471,092	438,136
Change in inventories of finished goods and work in progress	9,190	17,749
Other own work capitalized	3,249	12,952
Other operating income	20,425	51,662
Cost of materials	-224,210	-221,665
Personnel expenses	-123,202	-115,184
Amortization and depreciation on intangible fixed and tangible fixed assets	-34,001	-36,957
Other operating expenses	-63,610	-64,836
Income from long-term equity investments	19,042	24,936
Net interest result	-7,161	-8,722
Income from ordinary activities	70,814	98,071
Extraordinary expense	0	-1,073
Taxes on income	-13,989	-22,591
Other taxes	-295	-115
Net income	56,530	74,292
Transfer to other revenue reserves	-28,018	-37,146
Retained earnings	28,512	37,146

ElringKlinger AG Notes to the Financial Statements for the year 2012

General information

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

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

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

The financial year is the calendar year.

With effect from January 1, 2012, ThaWa GmbH Thaler Warenautomaten, Thale, and AGD Group Entwicklungs- und Vertriebs GmbH, Gütersloh, were merged in their entirety with ElringKlinger AG, with all rights and obligations, by way of acquisition. Since January 1, 2012, all activities and transactions of ThaWa GmbH Thaler Warenautomaten and AGD Group Entwicklungs- und Vertriebs GmbH have been carried out for the account of ElringKlinger AG. The mergers were recognized at fair value outside profit and loss. We refer to the disclosures provided in the Management Report.

Accounting policies

Fixed assets

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

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

Assets with finite useful lives are depreciated using the straight-line method applied over their expected useful lives. The tax considerations which continue to be applied in some instances have no material effect on the annual financial statements.

Movable property acquired or manufactured through December 31, 2009, was initially depreciated using the declining-balance method and then later using the straight-line method. Additions subsequent to January 1, 2010, are depreciated on a straight-line basis over the expected useful lives.

Since January 1, 2008, the provisions under § 6 (2) and (2a) of the German Income Tax Act (Einkommensteuergesetz, "EStG") are applied in accounting for low-value assets in accordance with HGB. Movable items of finite-lived fixed assets which are independently usable are recognized as operating expenses in the amount of their acquisition or manufacturing cost in the year they are acquired, manufactured or put into service, if, after deduction of any input tax amounts, the cost does not exceed EUR 150 for the individual asset. Each year, a collective item within the meaning of § 6 (2a) EStG is recorded for low-value assets with acquisition or manufacturing costs exceeding EUR 150 but less than EUR 1,000, less any input tax. Each annual collective item is depreciated over a period of five years. The early disposal of operating assets does not reduce the carrying amount of this collective item.

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

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

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

Current assets

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

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

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

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

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

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

Equity

Share capital is recognized at its par value.

Provisions and liabilities

Pension obligations are measured as of December 31, 2012, in accordance with actuarial principles using the projected unit credit method. The 2005 G Heubeck mortality tables are used as the biometrical basis for calculation. The average market interest rate of the past seven years is applied as the actuarial interest rate assuming a remaining term of 15 years. In addition to this, salary and pension trends are applied, as are age and gender-specific fluctuation probabilities.

Provisions for obligations arising from partial retirement schemes are recognized according to the block model. Provisions for partial retirement are measured on the basis of an annual actuarial interest rate of 3.71% and the 2005 G mortality tables established upon actuarial principles by Dr. Klaus Heubeck. Provisions for partial retirement were recognized for partial retirement contracts agreed as of the balance sheet date, as well as potential future contracts. They include benefit increases and the Company's settlement obligations which have expired as of the balance sheet date.

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

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

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

Liabilities are recognized at their settlement amount.

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

Foreign currency items and currency translation

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

Deferred taxes

Deferred taxes are recognized at a tax rate of 27.6% for the temporary and semi-permanent differences arising between the carrying amounts of assets, liabilities, prepaid expenses and deferred income compared with their respective tax bases. If necessary, tax loss carryforwards are also taken into account. Deferred tax assets and liabilities are offset against each other. If an overall deferred tax asset results, this is not recognized in accordance with the option under § 274 (1) sentence 2 HGB.

Expenses and income arising from the change of deferred tax carrying amounts are reported separately in the income statement under the heading "Taxes on income".

Deferred taxes are calculated on the basis of an effective tax rate of 27.6% (15.8% for the corporate tax rate including solidarity surcharge and 11.8% for municipal trade income tax) which is expected to arise when the differences are reduced. The tax rate for municipal trade income tax is determined on the basis of the average trade tax rate of 336%.

Balance sheet disclosures

Fixed assets

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

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

Write-downs for expected permanent impairment were made to the carrying amount of affiliated companies in the amount of EUR 8,044 k. Write-downs were reversed in the amount of EUR 5,504 k for the shares in affiliated companies.

Changes in fixed assets

in the financial year 2012

	Acquisition or manufacturing cost					
	Jan. 1, 2012 EUR k	Addition from merger of ThaWa/AGD EUR k	Additions EUR k	Reclassifi- cations EUR k	Disposals EUR k	Dec. 31, 2012 EUR k
Intangible fixed assets						
Purchased industrial and similar rights and assets, and licences	21,795	34	1,600	135	26	23,538
Prepayments (intangible fixed assets)	135	0	0	-135	0	0
	21,930	34	1,600	0	26	23,538
Tangible fixed assets						
Property and buildings	119,975	2,100	16,804	20,392	484	158,787
Technical equipment and machines	311,100	1,506	14,273	13,505	3,984	336,400
Other equipment, operating and office equipment	95,256	200	4,508	1,949	1,564	100,349
Advance payments and fixed assets under construction	42,893	0	13,411	-35,846	0	20,458
	569,224	3,806	48,996	0	6,032	615,994
Long-term financial assets						
Shares in affiliated companies	319,290	0	7,586	0	3,191	323,685
Loans to affiliated companies	51,223	0	6,086	0	5,423	51,886
Other long-term equity investments	11,466	0	0	0	0	11,466
Non-current securities	621	0	4	0	0	625
Other loans	26	0	0	0	1	25
	382,626	0	13,676	0	8,615	387,687
	973,780	3,840	64,272	0	14,673	1,027,219

Accumulated amortisation and depreciation							Net carrying amount		
Jan. 1, 2012 EUR k	Addition from merger of ThaWa/AGD EUR k	Depreciation, Amortization and write- downs of the year EUR k	Revaluations EUR k	Reclassifi- cations EUR k	Disposals EUR k	Dec. 31, 2012 EUR k	Dec. 31, 2012 EUR k	Dec. 31, 2011 EUR k	
18,988	18	659	0	0	26	19,639	3,899	2,807	
0	0	0	0	0	0	0	0	135	
18,988	18	659	0	0	26	19,639	3,899	2,942	
41,504	137	3,501	0	0	76	45,066	113,721	78,471	
225,673	549	26,715	0	0	3,509	249,428	86,972	85,427	
77,224	167	3,126	0	0	1,474	79,043	21,306	18,032	
0	0	0	0	0	0	0	20,458	42,893	
344,401	853	33,342	0	0	5,059	373,537	242,457	224,823	
23,596	0	8,044	5,504	0	1,590	24,546	299,139	295,694	
0	0	0	0	0	0	0	51,886	51,223	
0	0	0	0	0	0	0	11,466	11,466	
0	0	0	0	0	0	0	625	621	
0	0	0	0	0	0	0	25	26	
23,596	0	8,044	5,504	0	1,590	24,546	363,141	359,030	
386,985	871	42,045	5,504	0	6,675	417,722	609,497	586,795	

Schedule of Shareholdings and group of consolidated companies

as of December 31, 2012

Name of company	Domicile	Capitalshare in %
Parent		
ElringKlinger AG	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Domestic		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	74.50
Hug Engineering GmbH ²	Magdeburg	68.67
Hummel-Formen GmbH	Lenningen	100.00
Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Hug Engineering AG	Elsau (Switzerland)	68.67
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Hug Engineering S.p.A. ²	Milan (Italy)	68.67
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	90.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
Codinox Beheer B.V. ²	Enschede (Netherlands)	6.87
HURO Supermold S.R.L. ³	Timisoara (Romania)	100.00
HURO Invest S.R.L. ³	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger North America, Inc.	Plymouth, Michigan (USA)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
Hug Engineering Inc. ²	Austin (USA)	68.67
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	51.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd. ⁴	Qingdao (China)	74.50
Shares in joint ventures (included in the consolidated financial statements using proportionate consolidation)		
Foreign		
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	50.00
ElringKlinger Marusan Corporation	Tokyo (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd. ⁵	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd. ⁵	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia ⁵	Karawang (Indonesia)	50.00

¹ 100 units local currency (LC) as of balance sheet date

² Subsidiary of HUG Engineering AG

³ Subsidiary of Hummel-Formen GmbH

⁴ Subsidiary of ElringKlinger Kunststofftechnik GmbH

⁵ Subsidiary of ElringKlinger Marusan Corporation

Current assets

INVENTORIES	Dec. 31, 2012 EUR k	Dec. 31, 2011 EUR k
Raw materials, consumables and supplies	14,796	16,807
Work in progress	14,782	12,542
Finished goods and merchandise	59,775	50,537
Advance payments	3,903	3,368
	93,256	83,254

RECEIVABLES AND OTHER ASSETS	Dec. 31, 2012 EUR k	Dec. 31, 2011 EUR k
Trade receivables	61,801	63,840
Receivables from affiliated companies	41,785	37,671
Receivables from other long-term investees and investors	3,316	4,359
Other assets	24,896	23,351
	131,798	129,221

Of the receivables from affiliated companies, EUR 19,032 k (p.y. EUR 16,827 k) concern financial transactions, while the remainder are trade receivables. As in the previous year, receivables from long-term investees and investors relate exclusively to transactions arising from the exchange of goods and services.

Of the other assets, EUR 2,714 k (p.y. EUR 2,934 k) have a remaining term of more than one year. As in the previous year, all other receivables and other assets are due in less than one year.

In connection with a warranty claim, ElringKlinger AG and the customers concerned agreed to the payment of EUR 24.4 million in a compensation agreement in 2011. The warranty claim related to gaskets delivered in early 2008. A portion totaling EUR 17.4 million had already been paid in 2011. A further partial payment totaling EUR 5.0 million was paid in the first quarter of 2012, followed by an additional payment of EUR 1.0 million in the second quarter of 2012. The remaining EUR 1.0 million will fall due in 2013. This payment is offset by receivables in the same amount from our direct and/or excess loss insurer, of which EUR 10.0 million had already been settled in July 2011. The outstanding amount of the receivable has not yet been settled. ElringKlinger AG has therefore brought legal action. The proceedings are still pending. ElringKlinger AG continues to assume that the receivable will be paid in full.

Equity

During the 2012 financial year, equity developed as follows:

	Dec. 31, 2011 EUR k	Dividend EUR k	Revenue reserves EUR k	Net income EUR k	Dec. 31, 2012 EUR k
Share capital	63,360				63,360
Capital reserves	120,827				120,827
Revenue reserves	212,137		397	28,018	240,552
Retained earnings	37,146	-36,749	-397	28,512	28,512
	433,470	-36,749	0	56,530	453,251

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2012 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with § 60 AktG in conjunction with § 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by issuing new shares for cash and/or in-kind contributions on one or more occasions, however by no more than EUR 31,679,995, by May 17, 2017 (Authorized Capital 2012). As a rule, the shareholders are entitled to subscription rights. The shares may also be acquired by one or more banks subject to the proviso that they offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights

- in order to eliminate fractional amounts;
- if the capital increase against in-kind contributions is implemented specifically for the purpose of acquiring companies, parts of companies, equity investments or other assets in connection with an intended acquisition or within the framework of business combinations;
- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to § 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization in exclusion of shareholders' subscription rights in direct or indirect application of § 186 (3) sentence 4 AktG.

The Management Board has not exercised the authorization to date.

The amount of EUR 28,018 k was transferred from net income for 2012 to other revenue reserves.

As of December 31, 2012, revenue reserves consist of a statutory reserve amounting to EUR 3,013 k (p.y. EUR 3,013 k) and other revenue reserves of EUR 237,539 k (p.y. EUR 209,124 k).

Retained earnings developed as follows:

	EUR k
Retained earnings as of December 31, 2011	37,146
Profit distribution for 2011	-36,749
Transfer to other revenue reserves	-397
Profit brought forward	0
Net income for 2012	56,530
Transfer to other revenue reserves	-28,018
Retained earnings as of December 31, 2012	28,512

The measurement of plan assets related to partial retirement in accordance with § 268 (8) HGB results in a theoretical restriction on distribution in the amount of EUR 41 k (fair value of the plan assets of EUR 818 k less acquisition cost of the plan assets amounting to EUR 777 k). Sufficient distributable reserves are available.

Provisions

Provisions for pensions

As of the balance sheet date, pension obligations which must be covered by provisions exist in the amount of EUR 56,638 k (p.y. EUR 56,060 k). Pension provisions are measured according to the projected unit credit method by applying an interest rate of 5.05% (p.y. 5.14%) in accordance with the 2005 G mortality tables by Dr. Klaus Heubeck. In addition, the calculation is based on assumptions of a 2.61% income trend (p.y. 2.0%), a 0.53% career trend (p.y. 0.5%), a pension trend of 1.75% (p.y. 2.0%) for benefit entitlements and 1.75% (p.y. 1.5%) for current pensions and an average fluctuation of 1.19% (p.y. 1.0%).

Other provisions relate to:

	Dec. 31, 2012 EUR k	Dec. 31, 2011 EUR k
Relating to employees	14,417	13,634
Outstanding purchase invoices	5,429	3,376
Expected losses from customer transactions	1,783	2,092
Warranty obligations	1,725	2,288
Litigation costs	574	660
Derivatives risk	227	393
Other risks	5,118	4,749
Total	29,273	27,192

Provisions relating to employees include partial retirement obligations which must be covered by provisions in the amount of EUR 3,043 k. In accordance with § 246 (2) HGB, this provision was offset against plan assets in the amount of EUR 818 k. Plan assets were identified as the specific and

pledged trust agreement which is protected from insolvency covering asset transfer, reimbursement and agency between ElringKlinger AG and ElringKlinger Treuhänder e.V. and ElringKlinger Mitarbeiter-Treuhänder e.V. dated March 3, 2005. The fair value of plan assets amounts to EUR 818 k at the balance sheet date with acquisition costs of EUR 777 k. Fair value of the plan assets is based on the measurement of the investment at its price at the balance sheet date. There was no gain on the plan assets in 2012.

Other risks mainly comprise outstanding payments for tools amounting to EUR 1,783 k (p.y. EUR 1,353 k) and credit notes amounting to EUR 1,075 k (p.y. EUR 1,000 k).

Liabilities

	Total as of Dec. 31, 2012 EUR k	thereof with a remaining term of			of which secured EUR k	Total as of Dec. 31, 2011 EUR k
		less than one year EUR k	between one and five years EUR k	more than five years EUR k		
Liabilities due to banks	221,041	138,178	66,776	16,087	14,581	188,775
Payments received on account of orders	329	329	0	0	0	270
Trade payables	16,203	16,203	0	0	0	22,599
Liabilities to affiliated companies	11,611	11,578	33	0	0	10,842
Liabilities to other long-term investees and investors	7,009	0	7,009	0	0	0
Other liabilities	29,381	20,526	8,855	0	0	46,626
	285,574	186,814	82,673	16,087	14,581	269,112

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

EUR 14,581 k (p.y. EUR 15,301 k) of liabilities due to banks are secured by land charges on operating property. With the exception of the customary reservation of title until the purchase price payment with respect to trade payables, the other liabilities are unsecured.

Liabilities to affiliated companies relate to financial transactions in the amount of EUR 8,577 k (p.y. EUR 10,215 k) and current trade payables in the amount of EUR 3,034 k (p.y. EUR 627 k).

Other liabilities consist of EUR 1,524 k (p.y. EUR 1,193 k) related to tax and EUR 208 k (p.y. EUR 342 k) related to social security charges.

Deferred tax liabilities

Deferred tax liabilities in the amount of EUR 8,628 k (p.y. EUR 8,754 k) result from the total differences arising between the carrying amounts and tax bases of fixed and current assets, including prepaid expenses and deferred income. Deferred taxes are measured using a tax rate of 27.6%. Differences between the carrying amounts and the tax bases resulting in a deferred tax liability are due mainly to tangible fixed assets.

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

Income statement disclosures

Sales revenue

Breakdown by geographical market

	2012 EUR k	2011 EUR k
Germany	179,609	162,847
Europe	189,270	190,353
Asia	44,653	34,735
NAFTA	36,151	33,604
Rest of the world	21,409	16,597
Total sales revenue	471,092	438,136

Broken down by Division, sales revenue of EUR 362,348 k (p.y. EUR 332,760 k) relate to Original Equipment, EUR 108,287 k (p.y. EUR 102,226 k) to Aftermarket and EUR 457 k (p.y. EUR 3,150 k) to Industrial Parks.

Other operating income

Other operating income includes EUR 1,541 k (p.y. EUR 33,136 k) in prior-period income. This is comprised mainly of EUR 918 k (p.y. EUR 28,202 k) in income from disposals of fixed assets and EUR 623 k (p.y. EUR 4,907 k) in income from the reversal of provisions.

In addition, other operating income consists primarily of licensing income of EUR 7,273 k (p.y. EUR 5,743 k), government grants of EUR 3,727 k (p.y. EUR 3,697 k) and currency translation gains of EUR 1,302 k (p.y. EUR 3,447 k).

Cost of materials

	2012 EUR k	2011 EUR k
Expenses for raw materials, supplies and for merchandise	202,848	200,482
Expenses for purchased services	21,362	21,183
	224,210	221,665

Personnel expenses

	2012 EUR k	2011 EUR k
Wages and salaries	103,419	95,103
Social security charges and expenses for retirement pensions	19,783	20,081
– of which, for retirement pensions –	(1,595)	(3,629)
	123,202	115,184

Depreciation and amortization

Depreciation and amortization amounted to EUR 34,001 k (p.y. EUR 36,957 k), and included depreciation of tangible fixed assets and amortization of intangible fixed assets. No impairments of fixed assets were recognized in financial year 2012 (p.y. EUR 2,363 k).

Other operating expenses

Other operating expenses included EUR 1,085 k (p.y. EUR 1,904 k) in prior-period items relating to the disposal of fixed assets (EUR 775 k; p.y. EUR 1,688 k) and defaults on receivables (EUR 310 k; p.y. EUR 216 k). Currency translation losses amounted to EUR 1,320 k (p.y. EUR 3,476 k).

Net investment income

	2012 EUR k	2011 EUR k
Income from long-term equity investments	21,582	23,059
Reversals of write-downs on long-term financial assets	5,504	6,548
Write-downs of long-term financial assets	-8,044	-4,671
	19,042	24,936

EUR 21,530 k (p.y. EUR 23,011 k) of income from long-term equity investments was derived from affiliated companies. EUR 5,504 k (p.y. EUR 4,720 k) of reversals of write-downs on long-term financial assets related to affiliated companies. No write-downs of equity investments were reversed in 2012 (p.y. EUR 1,828 k). As in the previous year, write-downs on long-term financial assets were related entirely to affiliated companies (EUR 8,044 k; p.y. EUR 4,671 k).

Net interest result

	2012 EUR k	2011 EUR k
Income from other securities and long-term loans	2,066	1,560
Other interest and similar income	694	576
Interest and similar expenses	-9,921	-10,858
	-7,161	-8,722

Net interest result includes income from loans of long-term financial assets to affiliated companies in the amount of EUR 2,050 k (p.y. EUR 1,540 k), interest income from affiliated companies in the amount of EUR 469 k (p.y. EUR 340 k) and interest expense to affiliated companies in the amount of EUR 396 k (p.y. EUR 321 k). Expenses from the unwinding of discounts on provisions amounted to EUR 3,001 k (p.y. EUR 3,716 k).

Extraordinary expenses

No extraordinary expenses were reported in 2012. Extraordinary expenses in 2011 included the EUR 1,073 k loss resulting from the merger of ElringKlinger Spezialdichtungen GmbH.

Taxes on income

Taxes on income included EUR 329 k in prior-period expenses (offset against prior-period income). In the previous year, prior-period income (offset against prior-period expenses) amounted to EUR 58 k. Taxes on income include deferred tax expenses of EUR 543 k (p.y. EUR 7,825 k). In the previous year, deferred taxes were attributable primarily to the application of § 6b EStG in relation to the gain on the sale of the Ludwigsburg industrial park.

Other taxes

Other taxes included prior-period tax expenses of EUR 57 k (p.y. EUR 84 k in tax income).

Contingent liabilities

As in the previous year, contingent liabilities arising from the issue or transfer of bills of exchange did exist in connection to guarantees and performance bonds (EUR 40,754 k; p.y. EUR 15,625 k), of which EUR 40,731 k related to affiliated companies (p.y. EUR 15,602 k). Given the strong performance of the business, it is not currently considered likely that these contingent liabilities will be drawn upon.

ElringKlinger AG has undertaken to furnish an affiliated company with funds such that it will at all times be able to meet its payment obligations from a contract for work and services. There also exist obligations to pay the future receivables of suppliers of subsidiaries in the event that the subsidiaries fail to meet their payment obligations within a certain period. Given the strong performance of the subsidiaries, it is not currently considered likely that these contingent liabilities will be drawn upon.

Furthermore, ElringKlinger AG has undertaken to provide an affiliated company with financial support to the extent that it is in a position to continue operations for at least another 12 months. In view of the planning, it currently appears unlikely that this financial support will be claimed.

Other financial commitments

	Total EUR k	Remaining term < 1 year EUR k	Remaining term 1 to 5 years EUR k	Remaining term > 5 years EUR k
Contracts for the supply of gas and electricity	22,110	7,371	14,739	0
Rental and lease agreements	1,873	1,001	872	0
	23,983	8,372	15,611	0

In addition, there are financial commitments to subsidiaries in the amount of EUR 7,173 k (p.y. EUR 11,658 k). There are no other financial commitments to affiliated companies beyond this.

The purchase of a plot of land resulted in an obligation at the balance sheet date to pay the purchase price of EUR 1,500 k.

In addition, there are contractual obligations to acquire tangible and intangible fixed assets amounting to EUR 16,281 k.

At the balance sheet date, the purchase of the remaining 49% of shares in ElringKlinger South Africa (Pty) Ltd. resulted in an obligation to pay the purchase price of EUR 589 k.

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

Other disclosures

Number of employees

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

	2012	2011
Hourly	1,261	1,178
Salaried	700	642
	1,961	1,820
Trainees	74	68
	2,035	1,888

Related-party disclosures

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

The following transactions were entered into with companies which are not wholly-owned subsidiaries of ElringKlinger Group in financial year 2012:

	2012 EUR k	2011 EUR k
Sale of goods	8,741	6,269
License fees	2,414	1,747
Services performed	2,948	1,414
Disposals of machinery and tools, and other revenues	3,770	1,746
Services received and other expenses	4,513	4,474
Transfer of selling expenses	236	331
Interest income	114	100
Interest expense	389	319
Loans granted as of the balance sheet date	3,362	11,670
Other receivables as of the balance sheet date	10,876	9,390
Loans received as of the balance sheet date	17,341	10,220
Other liabilities as of the balance sheet date	72	550

Furthermore:

- Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. Mr. Walter H. Lechler is the Chairman of the Supervisory Board of ElringKlinger AG and holds a significant interest in Lechler GmbH. ElringKlinger AG earned EUR 94 k during the reporting year (p.y. EUR 117 k). As in the prior year, there was no outstanding balance at the balance sheet date.
- Master supply agreement between Rich. Klinger Dichtungstechnik GmbH & CO. KG, Gumpoldskirchen, Austria, and companies of the ElringKlinger Group concerning the procurement of materials. Mr. Klinger-Lohr is a shareholder in ElringKlinger AG and has a significant interest in Rich. Klinger Dichtungstechnik GmbH & Co. KG. ElringKlinger AG procured EUR 1,803 k worth of materials under this agreement in 2012 (p.y. EUR 2,025 k). The outstanding balance as of the balance sheet date amounted to EUR 107 k (p.y. EUR 218 k).
- Master supply agreement between ElringKlinger AG and Klinger AG Egliswil, Switzerland, regarding the procurement of materials. Mr. Klinger-Lohr is a shareholder in ElringKlinger AG and member of the administrative board of Klinger AG Egliswil. ElringKlinger AG procured EUR 63 k worth of materials under this agreement in 2012 (p.y. EUR 77 k). As in the previous year, this did not result in any liabilities as of the balance sheet date.
- Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG a loan in the amount of EUR 4,000 k. The loan carries an interest rate of 1.56% p.a. and has a term until August 15, 2013.

Derivative financial instruments

As of the balance sheet date on December 31, 2012, two financial derivatives (interest rate swaps) were in place which served to hedge interest rate risks.

Negative fair market values amounting to EUR 224 k (p.y. EUR 301 k) are classified as other provisions in the balance sheet.

Interest rate swaps serve to exchange the variable interest rate payments on obtained loans with fixed interest rate payments. The notional volume of both agreements is EUR 6,400 k. The interest rate swap agreements have maturities through May 30, 2013 and April 1, 2014.

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

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

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

	Notional value Dec. 31, 2012 EUR k	Fair value Dec. 31, 2012 EUR k	Carrying amount Dec. 31, 2012 EUR k	Balance sheet item
Electricity forward contract (supply years: 2013-2015)	17,591	-3,578	0	-
Gas forward contract (supply year: 2013-2014)	4,519	-116	116	other Provisions
	22,110	-3,694	116	-

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

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

Financial derivatives are used to reduce to risks stemming from nickel prices. As of the balance sheet date, there were four nickel hedging contracts for a total of 480 metric tons of nickel for the period from January to December 2013. Three of the contracts had an overall positive market value of EUR 25 k as of the balance sheet date, while another had a negative market value of EUR -3 k. A provision for expected losses was recognized in the amount of the negative market value. The market values were determined using recognized mathematical methods and the market data available as of the balance sheet date (mark-to-market method).

Corporate bodies

Supervisory Board

Walter Herwarth Lechler, Stuttgart, Chairman (since May 16, 2012)	Managing Partner of Lechler GmbH, Metzingen Governance roles: b) Lechler Inc., St. Charles, USA Lechler Ltd., Sheffield, United Kingdom Lechler India Pvt., Thane, India ELEX India Pvt. Ltd., Thane, India
Dr. Helmut Lerchner, Aichtal, Chairman (until May 16, 2012)	Corporate advisor Governance roles: a) DEUTZ AG, Cologne
Markus Siegers*, Altbach, Deputy chairman	Chairman of the Works Council of ElringKlinger AG
Gert Bauer*, Reutlingen	First General Representative and collector of IG Metall Reutlingen, Tübingen Governance roles: a) Hugo Boss AG, Metzingen b) BIKOM GmbH, Reutlingen
Armin Diez*, Lenningen	Divisional Director of the Cylinder-head Gaskets and E-Mobility at ElringKlinger AG
Pasquale Formisano*, Vaihingen an der Enz	Set-up engineer Employee representative of ElringKlinger Kunststofftechnik GmbH
Dr. Margarete Haase, Cologne	Member of the executive board of DEUTZ AG, Cologne Governance roles: a) Fraport AG, Frankfurt am Main ZF Friedrichshafen AG, Friedrichshafen b) DEUTZ (Dalian) Engine Co. Ltd., Dalian, China Deutz Engines (Shandong) Co. Ltd., Changlin, China (since February 2012)
Karl Uwe van Husen, Waiblingen	Managing director of the Lechler Gesellschaften

Dr. Thomas Klinger-Lohr, Egliswil, Switzerland	Chairman of the board of Betal Netherland Holding B. V., Rotterdam, Netherlands Governance roles: b) Klinger Ltd., Perth, Australia (until January 17, 2012), Klinger S.p.A., Mazzo di Rho (MI), Italy (until January 17, 2012) Saidi S.A., Madrid, Spain (until January 17, 2012) Klinger AG Egliswil, Egliswil, Switzerland Uni Klinger Ltd., Mumbai, India (until January 17, 2012)
Paula Monteiro-Munz*, Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG
Prof. Hans-Ulrich Sachs, Bremen, (since May 16, 2012)	Managing Partner of BeTec GmbH Umform- und Schweißtechnik, Adelmansfelden
Manfred Strauß, Stuttgart	Managing shareholder of M&S Messebau und Service GmbH, Neuhausen a. d. F. Governance roles: b) Pro Stuttgart Verwaltungs GmbH, Stuttgart, Pro Stuttgart Verkehrsverein, Stuttgart
Gerhard Wick*, Geislingen a. d. Steige	Union secretary for IG Metall, district administration, Baden-Württemberg district a) Stihl AG, Waiblingen (since July 31, 2012)

* Employee representative

a) membership in supervisory boards to be established by law within the meaning of § 125 AktG

b) membership in analogous domestic and foreign supervisory bodies within the meaning of § 125 AktG

Remuneration of the Supervisory Board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 579 k (p.y. EUR 619 k) in the reporting period. In addition, travel expenses in the amount of EUR 1 k (p.y. EUR 1 k) were reimbursed.

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

	Fixed remuneration		Variable remuneration		Total remuneration	
	2012 EUR	2011 EUR	2012 EUR	2011 EUR	2012 EUR	2011 EUR
Walter Herwarth Lechler	37,250	28,000	40,624	27,000	77,874	55,000
Dr. Helmut Lerchner	17,000	48,000	19,242	54,000	36,242	102,000
Markus Siegers	25,000	25,000	37,633	42,105	62,633	67,105
Gert Bauer	17,000	18,000	25,088	27,000	42,088	45,000
Armin Diez	18,000	18,000	25,088	27,000	43,088	45,000
Pasquale Formisano	14,000	14,000	25,088	27,000	39,088	41,000
Dr. Margarete Haase	14,000	8,833	25,034	15,750	39,034	24,583
Dr. Rainer Hahn	0	4,167	55	11,250	55	15,417
Karl Uwe van Husen	26,000	26,000	25,088	27,000	51,088	53,000
Dr. Thomas Klinger-Lohr	17,000	18,000	25,088	27,000	42,088	45,000
Paula Monteiro-Munz	18,000	18,000	25,088	27,000	43,088	45,000
Prof. Hans-Ulrich Sachs	9,250	0	15,536	0	24,786	0
Manfred Strauß	14,000	14,000	25,088	27,000	39,088	41,000
Gerhard Wick	14,000	13,000	25,088	27,000	39,088	40,000
Total amount	240,500	253,000	338,828	366,105	579,328	619,105

Variable remuneration shown reflects the expense for which provisions have been recognized, based on the provisional consolidated income before taxes prepared in accordance with IFRS for 2012. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 440 k in 2012 (p.y. EUR 417 k).

The difference between the provision for variable remuneration for the financial year 2011 and the actual amounts paid out was EUR 22,596. This amount was paid out to the members of the Supervisory Board on a pro rata basis and is included under variable remuneration.

Management Board

Dr. Stefan Wolf, Leinfelden-Echterdingen, Chairman responsible for all Group companies and the corporate functions of Finance, Controlling, Legal Affairs, Personnel, IT, Investor Relations, and Corporate Communications, as well as the Aftermarket and Industrial Parks divisions

Theo Becker, Metzingen responsible for the Cylinder-head Gaskets, Special Gaskets, Plastic Housing Modules/Elastomer Technology, Shielding Technology, E-Mobility, Tool Technology divisions and the corporate functions of Quality and Environment, Materials Management and the ElringKlinger AG plants

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

Governance roles in supervisory boards and other supervisory bodies

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

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

Remuneration of the Management Board

Total remuneration of the Management Board in financial year 2012 amounted to EUR 2.638 k (2011: EUR 2,263 k). This is composed of a fixed component of EUR 889 k (2011: EUR 865 k) and a variable component of EUR 1,749 k (2011: EUR 1,398 k). The variable component is made up of short-term performance-related remuneration amounting to EUR 1,600 k (2011: EUR 1,288 k) and EUR 149 k (2011: EUR 109 k) of performance-related remuneration with long-term incentive effects. The long-term performance-related remuneration relates to stock appreciation rights.

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

	Short-term fixed remuneration (prior year) EUR	Short-term performance-based remuneration (prior year) EUR	Long-term performance-based remuneration (prior year) EUR	Total amount (prior year) EUR
Dr. Stefan Wolf	354,009 (355,744)	651,266 (552,070)	62,066 (39,658)	1,067,341 (947,472)
Theo Becker	273,096 (251,535)	474,728 (368,046)	39,388 (39,483)	787,212 (659,064)
Karl Schmauder	261,963 (257,816)	474,728 (368,047)	47,125 (30,110)	783,816 (655,973)
Total	889,068 (865,095)	1,600,722 (1,288,163)	148,579 (109,251)	2,638,369 (2,262,509)

Short-term variable remuneration reflects expenses for which provisions have been recognized, calculated as a percentage of the average consolidated income before taxes over the last three years. In addition, the differences between provisions recognized as of December 31, 2011 and the amounts actually paid in 2012 are included. For the stock appreciation rights, the fair value as of the grant date is used.

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

Beginning in 2013, five tranches of 30,000 stock appreciation rights will be granted on February 1 of each year. The strike price is calculated using the arithmetic mean of the market price of ElringKlinger's shares on the last 60 trading days prior to the grant date. The grant is subject to an investment by the Management Board members of one-tenth of the number of granted stock appreciation rights in shares of ElringKlinger AG. The holding period of the stock appreciation rights is four

years. Within a period of two additional years after the holding period expires, a Management Board member may demand redemption of the stock appreciation rights. The redemption price is calculated using the average market price of ElringKlinger's shares of the last 60 trading days prior to redemption. Redemption of the stock appreciation rights may be demanded only if the redemption price exceeds the strike price by 25%. In total, the redemption price per tranche is limited to the fixed salary amount for two years.

Provisions are recognized in order to cover the estimated future obligation. The fair value of the obligation is determined based on the Cox-Ross-Rubinstein model using current market parameters. The risk-free interest rate used was 1.45%. The volatility of the share price (37.7%), the MDAX index (22.0%), and a correlation of 62.77% were determined over a three-year period. The expected dividend was EUR 0.45 per share.

The provision is accrued pro rata temporis over the vesting period and is assessed on every reporting date and again on the exercise date. Changes in the fair value are recognized in net income.

For financial year 2012, the following data arose:

Date tranches were issued	2009	2010	2011	2012
Number of stock appreciation rights exercised	108,754			
Value of stock appreciation rights exercised (EUR k)	824			
Number of outstanding stock appreciation rights (not yet exercisable)		49,090	32,501	42,406
Average strike price (EUR)	6,95	15,68	24,83	19,43
Average remaining time to maturity in years		1,04	2,04	3,04
Value of stock appreciation rights held by members of the Management Board				
December 31, 2012 (EUR k)	0	194	42	44
December 31, 2011 (EUR k)	771	103	21	0
December 31, 2010 (EUR k)	412	75	0	0
December 31, 2009 (EUR k)	74	0	0	0

Additions to pension provisions for members of the Management Board amounted to EUR 574 k (p.y. EUR 1,985 k) and are related to Dr. Stefan Wolf in the amount of EUR 215 k (p.y. EUR 578 k), Theo Becker in the amount of EUR 166 k (p.y. EUR 558 k) and Karl Schmauder in the amount of EUR 193 k (p.y. EUR 849 k).

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

Provisions of EUR 10,696 k (p.y. EUR 11,075 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 894 k (p.y. EUR 868 k) during the 2012 financial year.

Auditors' fees are not disclosed, as these disclosures are made in the notes to consolidated financial statements in which the Company is included.

Information pursuant to § 160 (1) no. 8 AktG

As of the balance sheet date 2012, the following long-term equity investments existed and were announced pursuant to § 21 (1) German Securities Trading Act (Wertpapierhandelsgesetz, "WpHG").

1. Voting rights notification

Voting rights notification pursuant to § 26 (1) WpHG

Lechler GmbH, Metzingen, Germany, notified us pursuant to § 21 (1) WpHG that the percentage of voting rights in our company exceeded the threshold of 10% on December 28, 2012 and amounted to 10.0127% (6,344,046 voting rights) on that day.

2. Voting rights notification

Voting rights notification pursuant to § 26 (1) WpHG

1. FIL Holdings Limited, Hildenborough, Kent, England, United Kingdom, notified us pursuant to § 21 (1) WpHG about the following:

On 9 October 2012 FIL Holdings Limited fell below the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Holdings Limited held 2.83% of the voting rights in ElringKlinger AG arising from 1,791,706 voting rights.

All voting rights in ElringKlinger AG were attributed to FIL Holdings Limited pursuant to section 22 (1) sent. 1 no. 6 WpHG in connection with sent. 2 WpHG.

2. FIL Limited, Hamilton HMCX, Bermuda, notified us pursuant to § 21 (1) WpHG about the following:

On 9 October 2012 FIL Limited fell below the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Limited held 2.83% of the voting rights in ElringKlinger AG arising from 1,791,706 voting rights.

All voting rights in ElringKlinger AG were attributed to FIL Limited pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG.

3. FIL Investments International Hildenborough, Kent, England, United Kingdom, notified us pursuant to § 21 (1) WpHG about the following:

On 9 October 2012 FIL Investments International fell below the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Investments International held 2.83% of the voting rights in ElringKlinger AG arising from 1,791,706 voting rights.

All voting rights in ElringKlinger AG were attributed to FIL Investments International pursuant to section 22 (1) sent. 1 no. 6 WpHG.

3. Voting rights notification

Voting rights notification pursuant to § 26 (1) WpHG

FMR LLC, Boston, Massachusetts 02109, U.S.A., notified us pursuant to § 21 (1) WpHG about the following:

On 08 June 2012 the voting rights held by FMR LLC crossed above the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FMR LLC held 3.17% of the voting rights in ElringKlinger AG arising from 2,008,733 voting rights.

All voting rights in ElringKlinger AG were attributed to FMR LLC pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG in connection with sent. 2 WpHG.

4. Voting rights notification

BlackRock, Inc., New York, U.S.A., notified us pursuant to § 21 (1) WpHG that the percentage of voting rights in our company fell below the threshold of 3% on September 7, 2011 and amounted to 2.97% (1,881,443 voting rights) on that day.

Of those voting rights, 2.97% (1,881,443 voting rights) are attributed to it pursuant to § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG.

BlackRock Financial Management, Inc., New York, U.S.A., notified us pursuant to § 21 (1) WpHG that the percentage of voting rights in our company fell below the threshold of 3% on September 7, 2011 and amounted to 2.97% (1,881,443 voting rights) on that day.

Of those voting rights, 2.97% (1,881,443 voting rights) are attributed to it pursuant to § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG.

BlackRock Holdco 2, Inc., Wilmington, Delaware, U.S.A., notified us pursuant to § 21 (1) WpHG that the percentage of voting rights in our company fell below the threshold of 3% on September 7, 2011 and amounted to 2.97% (1,881,443 voting rights) on that day.

Of those voting rights, 2.97% (1,881,443 voting rights) are attributed to it pursuant to § 22 (1) sentence 1 no. 6 WpHG in conjunction with § 22 (1) sentence 2 WpHG.

5. Voting rights notification

On 11/2/2010, ElringKlinger AG received the following notification

In the name of and on behalf of FIL Investment Management Limited, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21 (1) WpHG of the following:

On 25 October 2010 FIL Investment Management Limited fell below the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Investment Management Limited held 2.98% of the voting rights in ElringKlinger AG arising from 1,887,166 voting rights.

All voting rights in ElringKlinger AG were attributed to FIL Investment Management Limited pursuant to section 22 (1) sent. 1 no. 6 in connection with sent. 2 WpHG.

6. Voting rights notification

ElringKlinger received the following notification from Klaus Lechler Beteiligungs-GmbH on October 13, 2010:

Voting rights notifications pursuant to § 21 (1) WpHG

Notifying parties:

1. Eroca AG, Basel, Switzerland
2. Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany
3. KWL Beteiligungs-GmbH, Ludwigsburg, Germany
4. PAUL LECHLER STIFTUNG gGmbH, Ludwigsburg, Germany
5. Elrena GmbH, Basel, Switzerland
6. Stiftung Klaus Lechler, Basel, Switzerland

We, Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG in our own name and in the name and on behalf of the following companies as follows:

1. Eroca AG

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

2. Klaus Lechler Beteiligungs-GmbH

The percentage of voting rights of Klaus Lechler Beteiligungs-GmbH in ElringKlinger AG fell below the threshold of 10% on October 7, 2010 and amounted to 9.22% (5,838,736 voting rights) on this day.

Of these voting rights, 9.20% (5,832,136 voting rights) are attributed to Klaus Lechler Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 no. 1 of the WpHG.

The voting rights attributable to Klaus Lechler Beteiligungs-GmbH are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG:

- Eroca AG.

3. KWL Beteiligungs-GmbH

The percentage of voting rights of KWL Beteiligungs-GmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day.

Of these voting rights, 9.22% (5,838,736 voting rights) are attributed to KWL Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 9.18% (5,815,944 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

The voting rights attributable to KWL Beteiligungs-GmbH are held by the following companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG:

- Eroca AG,

- Klaus Lechler Beteiligungs-GmbH

The voting rights attributable to KWL Beteiligungs-GmbH are held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:

- Elrena GmbH.

4. PAUL LECHLER STIFTUNG GmbH

a) The percentage of voting rights of PAUL LECHLER STIFTUNG gGmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 19.58% (12,406,060 voting rights) on this day.

Of these voting rights, 9.22% (5,838,736 voting rights) were attributed to PAUL LECHLER STIFTUNG gGmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 9.18% (5,815,944 voting rights) were attributed in accordance with § 22 (2) sentence 1 WpHG.

The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH were held by the following companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG:

- Eroca AG,

- Klaus Lechler Beteiligungs-GmbH,

- KWL Beteiligungs-GmbH.

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

- Elrena GmbH.

b) The percentage of voting rights of PAUL LECHLER STIFTUNG gGmbH in ElringKlinger AG exceeded the threshold of 20% on October 11, 2010 and amounted to 20.72% (13,126,990 voting rights) on this day.

Of these voting rights, 9.77% (6,187,573 voting rights) are attributed to PAUL LECHLER STIFTUNG gGmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 9.77% (6,188,037 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH are held by the following companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG:

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

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

- Elrena GmbH.

5. Elrena GmbH

The percentage of voting rights of Elrena GmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day.

Of these voting rights, 0.02% (14,000 voting rights) are attributed to Elrena GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 9.22% (5,838,736 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

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

- Eroca AG.

6. Stiftung Klaus Lechler

The percentage of voting rights of Stiftung Klaus Lechler in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day.

Of these voting rights, 9.18% (5,815,944 voting rights) are attributed to Stiftung Klaus Lechler in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 9.22% (5,838,736 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

The voting rights attributable to Stiftung Klaus Lechler are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG:

- Elrena GmbH.

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

- Eroca AG.

7. Voting rights notification

ElringKlinger received the following notification from Lechler Beteiligungs-GmbH on October 13, 2010:

Voting rights notifications pursuant to § 21 (1) WpHG

Notifying parties:

1. Lechler Beteiligungs-GmbH, Stuttgart, Germany
2. INLOVO GmbH, Ludwigsburg, Germany

We, Lechler Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG in our own name and in the name of and on behalf of INLOVO GmbH as follows:

1. Lechler Beteiligungs-GmbH

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

2. INLOVO GmbH

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

Of these voting rights, 9.23% (5,848,644 voting rights) are attributable to INLOVO GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG.

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

- Lechler Beteiligungs-GmbH.

8. Voting rights notification

ElringKlinger received the following notification from Deutsche Bank AG on October 12, 2010:

Voting rights notification pursuant to § 21 (1) WpHG

Dear Sir or Madam:

We hereby notify you pursuant to § 21 (1) WpHG that the percentage of voting rights in ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms, Germany, exceeded the thresholds of 3%, 5% and 10% on October 7, 2010 and amounted to 11.11% on this day. This corresponds to 7,037,037 no-par value registered shares (bearer shares).

The notification requirement pursuant to § 21 (1) WpHG is attributed to our joint lead management within the scope of the ElringKlinger AG capital increase entered in the commercial register on October 7, 2010.

We hereby also notify you pursuant to § 21 (1) WpHG that our share of voting rights in ElringKlinger AG fell below the thresholds of 10%, 5% and 3% on October 11, 2010 and now represents a percentage of voting rights of 0.12%. This corresponds to 74,118 no-par value registered shares (bearer shares).

9. Voting rights notification

Voting rights notification pursuant to § 21 (1) WpHG

ElringKlinger received the following notification from Walter Herwarth Lechler on May 14, 2010:

"I hereby notify you pursuant to § 21 (1) WpHG that my percentage of voting rights in ElringKlinger AG fell below the threshold of 25% on May 11, 2010 and amounted to 23.697% (13,649,420 voting rights) on this day.

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

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

10. Voting rights notification

In the name of and on behalf of Fidelity Funds SICAV, Luxembourg, we hereby notify you pursuant to § 21 (1) WpHG of the following:

On 06 November 2009 Fidelity Funds SICAV fell below the threshold of 3% of voting rights in ElringKlinger AG, Max-Eyth-Strasse 2, 72581 Dettingen/Erms, Germany. On that date, Fidelity Funds SICAV held 2.96% of the voting rights in ElringKlinger AG arising from 1,704,729 voting rights.

11. Voting rights notification

On December 16, 2008, ElringKlinger AG received the following notification

"Notification of voting rights pursuant to sec. 21 para 1 WpHG

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

12. Voting rights notification

ElringKlinger AG has received the following notification:

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

1 October 2008

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

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

13. Voting rights notification

We received the following notification on March 27, 2008:

Voting rights notification pursuant to § 21 (1) WpHG

We, Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG on behalf of Ms. Lieselotte Lechler as follows:

The percentage of voting rights of Ms. Lieselotte Lechler in ElringKlinger AG fell below the thresholds of 10%, 5% and 3% on March 20, 2008 and amounted to 0% (0 voting rights) on this day.

14. Voting rights notification

We received the following notification from New Star Asset Management, Great Britain, on February 19, 2008:

Notification pursuant to sec. 21 para. 1 WpHG

We hereby give notice, pursuant to sec. 21 para 1 of the WpHG, that on 18th February 2008 our voting interest in ElringKlinger AG fell below the threshold of 3% and amounts to 2.97% (569,624 voting rights) on this day.

2.97% of the voting rights (569,624 voting rights) are attributable to us in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.

15. Voting rights notification

As executor of the estate of Mr. Klaus Lechler, Mr. Gottfried Wunsch, notified us pursuant to § 21 (1) WpHG on behalf of Ms. Lieselotte Lechler as follows:

Mr. Klaus Lechler died on April 1, 2007. As of this date, the voting interest of Mr. Klaus Lechler in ElringKlinger AG therefore fell below the thresholds of 20%, 15%, 10%, 5% and 3% and amounts to 0% on this day (0 voting rights).

16. Voting rights notification

ElringKlinger has received the following notification:

"Notification pursuant to § 21 para. 1 WpHG

The following notification is made in the names of Threadneedle Asset Management Limited and Threadneedle Asset Management Holdings Limited, both with registered seat in London, United Kingdom and in the name of Ameriprise Financial, Inc., USA.

Ameriprise Financial Inc. is the parent company of Threadneedle Asset Management Holdings Limited, which is the parent company of Threadneedle Asset Management Limited.

Please be advised that on 08 October 2007 the share of voting stocks of the above mentioned companies in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, went below the threshold of 3% of the total voting stocks of the company.

The percentage of voting rights of Threadneedle Asset Management Limited in ElringKlinger AG at 08 October 2007 amounted to 2.603% (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG.

The percentage of voting rights of Threadneedle Asset Management Holdings Limited in ElringKlinger AG at 08 October 2007 amounted to 2.603% (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Holdings Limited pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG.

The percentage of voting rights of Ameriprise Financial, Inc. in ElringKlinger AG at 08 October 2007 amounted to 2,718% (521,799 shares). These voting rights are in their entirety attributable to Ameriprise Financial, Inc. pursuant to § 22 para. 1 sent. 1 No. 6, sent. 2 and sent. 3 WpHG.

17. Voting rights notification

“Notification pursuant to § 21 para. 1 WpHG

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

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

The percentage of voting rights of Threadneedle Investment Services Limited in ElringKlinger AG at 02 October 2007 amounted to 2,992% (574,392 shares). These voting rights are in their entirety attributable to Threadneedle Investment Services Limited pursuant to § 22 para. 1 sent. 1 No. 6 WpHG. The following notification is made in the name of Threadneedle Investment Funds ICVC, registered in London, United Kingdom.

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

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

18. Voting rights notification

ElringKlinger received the following voting rights notification:

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

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

Notification of voting rights in our own name

Prudential plc. has fallen below the 3% threshold of § 21 para. 1 WpHG on 04 September 2007 and now holds 2,94% (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG. It was attributed these 2,94% (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG pursuant to § 22 para. 1 sent. 1 no. 6 in connection with § 22 para. 1 sent. 2 WpHG.

19. Voting rights notification

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

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

Karl Uwe van Husen, Germany:

- a) The percentage of voting rights of Mr. Karl Uwe van Husen in ElringKlinger AG (formerly ZWL Grundbesitz- und Beteiligungs-AG) fell below the thresholds of 10% and 5% on September 4, 1997 and amounted to 0.025% (900 voting rights).
- b) Today, at May 3, 2007, the percentage of voting rights of Mr. van Husen in ElringKlinger AG amounts to 0.016% (3,000 voting rights).

20. Voting rights notification

ElringKlinger AG, Dettingen/Erms, WKN 785602

Sale of shares

Reaching the 5% threshold

Dear Sir or Madam:

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

This notification is made pursuant to § 21 WpHG.

21. Voting rights notification

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

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

Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany:

- a) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG exceeded the thresholds of 5% and 10% on November 30, 2001 and amounts to 12.13% (582,012 voting rights) on this day. Of these voting rights, 12.13% (582,012 voting rights) were attributed to Paul Lechler Gesellschaft bürgerlichen Rechts in accordance with § 22 (1) sentence 1 no. 1 WpHG (essentially corresponding with § 22 (1) no. 2 WpHG as amended on November 30, 2001). The voting rights attributable to Paul Lechler Gesellschaft bürgerlichen Rechts were held by the following company that was controlled by it and holds 3% or more of the voting rights in ElringKlinger AG:
 - Lechler Beteiligungs-GmbH
- b) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG amounted to 12.13% (582,012 voting rights) on April 1, 2002. Of these voting rights, 12.13% (582,012 voting rights) were attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to § 22 (1) sentence 1 no. 1 WpHG.

The voting rights attributable to Paul Lechler Gesellschaft bürgerlichen Rechts were held by the following company that was controlled by it and holds at least 3% of voting rights in ElringKlinger AG:

- Lechler Beteiligungs-GmbH

- c) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG fell below the thresholds of 10% and 5% on December 4, 2003 and has amounted to 0.00% (0 voting rights) since then.”

Scope of consolidated financial statements

In its function as ultimate parent, ElringKlinger AG prepares consolidated financial statements for the largest and the smallest group of companies to be included in the consolidation.

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance on December 4, 2012 pursuant to § 161 AktG on the German Corporate Governance code and published it on the ElringKlinger AG website on December 4, 2012. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders.

Proposal for appropriation of profits

The Management Board and the Supervisory Board propose to the Annual General Meeting to appropriate the retained earnings as of December 31, 2012 amounting to EUR 28,512 k in order to distribute a dividend of EUR 0.45 per share.

Dettingen/Erms, March 13, 2013
Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder

ElringKlinger AG Management Report for the 2012 Financial Year

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Macroeconomic Conditions and Business Environment

Debt crisis weighs heavily on economic activity

The sovereign debt crisis remained the primary concern throughout 2012 – not only in the crisis-hit countries of the eurozone but also in the US. The markets were initially reassured at the beginning of 2012 by the European Central Bank's interventions to inject liquidity; however, the mood in Europe then became more pessimistic during the remainder of the year. Unemployment rose steadily, particularly in Southern Europe, as the eurozone slid into recession.

Despite the situation in Europe, strong growth from the emerging economies and the recovery in the US saw global output grow by a total of 3.2% in 2012. Having said that, the world economy had managed to expand by 3.9% a year earlier.

High unemployment, falling average incomes and restrictions on lending resulted in a significant fall in consumer spending across Europe. Countries such as Greece and Spain, in particular, saw their economies contract, as did Italy. As a result, European GDP fell by 0.4% in 2012. Even Germany's strong export base could not completely insulate it from Europe's disappointing economic performance, as its domestic economy weakened in the course of 2012. Across the whole year, Germany achieved growth of 0.9%.

Despite its own ongoing debt issues, the US economy continued to grow in 2012. GDP increased by 2.3%, thanks to, amongst other factors, the Federal Reserve's substantial easing of monetary policy. Brazil's economic upswing was pegged back during 2012, as the GDP of South America's most important economy increased by only 1.0%.

Momentum in the Chinese economy has slowed recently. Even so, China's growth was considerably stronger in 2012 than that of western industrialized nations. The largest economy in Asia saw GDP growth of 7.8% in the period under review.

India recorded a year-on-year increase in economic output of 4.5%.

The ASEAN bloc, where ElringKlinger has now established a presence with its first plant in Indonesia, also weighed in with solid economic growth of 5.7% among its members.

Japan spent 2012 recovering from the natural disaster in 2011 and therefore benefited to a large extent from a "catch-up effect." Against this backdrop, economic output in Japan rose by 2.0%.

Further rise in global vehicle demand in 2012

There were major differences in demand for vehicles across the individual markets around the globe in 2012. While economic conditions prompted a dramatic slump in passenger car sales in some areas, principally in the Southern European markets, demand rose sharply in Asia and the US. South America also saw an increase in new vehicle registrations in 2012. Overall, growth in these regions more than made up for the decline recorded in Europe. Aggregate worldwide car sales rose by 4.9% to 77.4 (73.8) million units. Similarly, global production of passenger cars and light trucks increased, rising by 5.3% to 78.8 (74.8) million vehicles. It should be noted that market activity in the second half of the year was less dynamic than in the first six months of 2012.

Car sales in Western Europe at a 20-year low

In a recessionary environment plagued by uncertainty, sales of automobiles in Western Europe collapsed still further, even on the back of 2011, which was itself an extremely weak year. Of the five largest European automotive markets, only the United Kingdom showed any signs of growth, whilst France, Italy and Spain all sustained double-digit losses in percentage terms.

The number of newly licensed vehicles in Western Europe fell by 8.1% to 11.8 (12.8) million units, representing the lowest level since 1995. December 2012 was the weakest month of the year, with a drop of 15.8% in new registrations.

This overall downturn in sales was also reflected in the production figures. European plants responded by manufacturing 8.5% fewer passenger cars and light commercial vehicles than in the previous year; as a result, vehicle production in Western Europe amounted to only 12.4 (13.6) million units.

German automotive market also shows signs of slowing

Compared to the rest of Europe, German consumers remained slightly more upbeat when it came to purchasing new cars. New passenger car registrations fell by a moderate 2.9% to 3.1 (3.2) million units. Domestic vehicle production continued to benefit from buoyant demand from the Asian and US export markets. Despite this, production failed to reach the record figures of the previous year, with output totaling 5.4 (5.6) million units. In 2012, German manufacturers produced 3.6% fewer cars than in the previous year, and more than 75% of those vehicles were destined for the export market.

Boom in Russia

In Eastern Europe (excluding Russia), the effects of the eurozone crisis were still noticeable, although less pronounced. In 2012, 0.8 (0.8) million new cars were registered in the region, representing a drop of 2.8%. Russia bucked this economic trend: with an increase of 10.6%, its car sales climbed to 2.9 (2.7) million units. These figures indicate that the Russian automotive market could soon be as large as that of Germany.

US automotive market shows dynamic growth

The US automotive sector performed surprisingly well in 2012, driven by a dynamic recovery in the market for passenger cars. The year began with predictions of single-digit percentage growth, but dealerships achieved an increase of 13.4% in sales of cars and light commercial vehicles. As a result, the overall number of vehicles sold in the United States rose to 14.5 (12.8) million units. Despite this,

the US remains a long way short of record sales figures, which reached close to 17 million units at their highest. The current average vehicle age of ten years is significantly higher than the long-term average. Car production figures also rose significantly, reaching 9.9 (8.5) million units.

In Brazil, government-led incentive programs boosted demand for vehicles in the second half of 2012. This helped sales to rise by 6.1% to 3.6 (3.4) million cars and light commercial vehicles. At the same time, the largest South American automotive market saw the production of 2.5% more vehicles, reaching 3.2 (3.1) million units.

Sustained growth in Asia

China extended its lead in 2012 as the world's most important country in terms of car sales. Building still further on the impressive growth seen in recent years, the Chinese vehicle market saw new registrations rise by another 6.8% to 17.3 (16.2) million passenger cars. Even so, individual car ownership in China remains significantly below the 5% mark in relation to the total population. Chinese vehicle production increased by 6.6% in 2012, broadly in line with the growth in sales.

In India, sales of passenger cars climbed to 2.8 (2.5) million units in 2012 – an increase of 10.3%. Vehicle production showed more modest growth, with a rise of 5.1%.

At 3.1 (2.6) million units, the increasingly important ASEAN states saw sales of cars and light trucks move beyond the figure recorded in India in 2012. New vehicle registrations in the ASEAN region rose by 15.7%.

In Japan, the "catch-up effect" after the devastating natural disaster in 2011 led to a jump in passenger car sales in 2012, which reached 4.6 (3.5) million units. This corresponds to growth of 29.7%. Japanese vehicle manufacturing also gained momentum. Compared with the previous year, 2012 saw a 20.1% increase in the number of passenger cars rolling off the production lines.

Commercial vehicle markets under severe pressure

General economic uncertainty led to reluctance on the part of delivery and fleet companies to make purchases in 2012. It was one of the weakest years in the past decades, seeing a severe plunge in worldwide sales figures of 17.0% to only 1.5 (1.8) million heavy goods vehicles.

With around 17% of sales within the Original Equipment segment coming from business within the truck industry, ElringKlinger AG was also affected by this market weakness. However, the dramatic market contraction seen in this segment was offset to some extent by several new product launches in the area of plastic housing modules.

In Western Europe, new registrations of mid-sized and heavy trucks totaled only 441,496 (486,209), a year-on-year drop of 9.2%. These figures represent a return to the dire situation seen at the height of the financial crisis in 2009 (370,389 vehicles). Apart from the United Kingdom, which saw slight growth of 1.9%, all major commercial vehicle markets in Europe showed signs of decline. Even Germany experienced difficulties in the face of the euro crisis, seeing a fall in new truck registrations of 9.7% to 141,381 (156,571) units.

The US truck market struck a more positive note, as the economic recovery prompted more buoyant demand for commercial vehicles. Sales figures for heavy trucks (Class 8) rose by 13.8% to 195,023 (171,425) units.

The Brazilian commercial vehicle market was in much poorer shape during 2012. Sales of heavy trucks fell by 20.0% to 87,355 (109,194) units. It should, however, be borne in mind that the introduction of the Euro 5 standard had prompted some advance purchases the previous year.

China, the largest truck market in the world, recorded an out-and-out collapse in truck sales in 2012. A mere 622,195 (882,253) vehicles were delivered to customers, a year-on-year drop of 29.5%. By contrast, the Japanese commercial vehicle market, which was adversely affected by the impact of the tsunami disaster in 2011, recorded impressive growth of 25% in 2012.

Significant Events

At the beginning of 2012, ElringKlinger AG acquired metal housing producer ThaWa GmbH Thaler Warenautomaten, based in Thale, Saxony-Anhalt, Germany, as well as its associated company AGD Group Entwicklungs- und Vertriebs GmbH, Gütersloh, Germany. The two entities were merged into ElringKlinger AG in 2012. Since then, the Thale site has been managed as a plant operated by ElringKlinger AG.

In making this acquisition, ElringKlinger AG has strengthened its activities in the field of exhaust gas purification technology. The former entity ThaWa GmbH primarily operated as a supplier and manufacturing partner to the ElringKlinger subsidiary Hug Engineering AG. The Thale site was expanded in 2012 for the automated production of larger volumes. In the future, the focus will be on the manufacture of housings as well as the so-called canning of diesel particulate filters and catalytic converters. Services previously outsourced to Swiss suppliers operating within this area are to be performed within the Group at the more cost-efficient site in Thale.

The transfer of production volumes from Switzerland to the eurozone facilitates more cost-effective production, thus resulting in a significant improvement in the operating margin of Hug Engineering AG. In addition, there is less dependency on changes in the EUR/CHF exchange rate.

Based in Elsau, Switzerland, Hug Engineering AG is being further developed into a center of excellence for system engineering and a production site for filter substrates, coating technology and systems within the ElringKlinger Group.

On the day of the acquisition, former ThaWa GmbH together with AGD Group Entwicklungs- und Vertriebs GmbH employed 53 people in total. In the financial year 2012, they contributed EUR 4.6 million to sales revenue at ElringKlinger AG. The purchase consideration was EUR 1.4 million (after financial liabilities).

Internal Control Criteria

For the purpose of governing ElringKlinger AG, the Management Board primarily refers to financial control criteria as a basis of its decision-making processes. These indicators are to be seen as an important foundation for the overall assessment of all issues and developments that need to be evaluated within the company. The Management Board also makes use of non-financial performance indicators and company-specific early indicators.

Financial control criteria

The financial control criteria are primarily based on the sales and earnings performance of ElringKlinger AG. Aside from revenue, the principal indicators used are earnings before interest and taxes (EBIT) as well as income from ordinary activities. All internal control criteria are planned, calculated and continually monitored for the Original Equipment, Aftermarket and Industrial Parks segments as well as for the individual divisions.

Additionally, the return on capital employed (ROCE) also serves as a key indicator; it measures and evaluates the success of ElringKlinger AG and the individual business divisions. At ElringKlinger AG, capital employed includes shareholders' equity, financial liabilities, provisions for pensions and non-current provisions such as anniversary and partial-retirement provisions.

All operational units are tasked with achieving a return on capital employed of at least 20% in the medium to long term. Variable remuneration for the managerial level directly below the Management Board is generally linked to the level of ROCE achieved.

Since the level of tied-up capital plays a critical role in investment decisions, a balanced and practical approach to long-term investment spending must be ensured at the divisional level. This is achieved by assuming just 50% of purchase values in internal computations of financial indicators and the degree of target attainment, regardless of the age of machines and systems.

The management information and control system at ElringKlinger also encompasses all significant financial management indicators. In particular, these include:

- Liquidity
- Capital structure (the target is an equity ratio of at least 40%)
- Potential market price risks from foreign exchange movements, interest rate changes and increases in material costs
- Credit risks

A detailed explanation of the various elements of the financial management system and the associated risks is contained in the "Report on Opportunities and Risks"* (cf. page 82).

Non-financial control criteria

ElringKlinger AG attaches great importance to the sustainable development of the company. To assist the Management Board in its decision-making, the following staff-related, environmental and quality indicators are regularly monitored:

- Number of employees and change in headcount
- Average number of staff on sick leave
- Staff turnover rate
- Industrial accidents
- Energy consumption levels and emissions (especially CO₂)
- Quality indicators/assessments and reject rates

More information on non-financial performance indicators can be found in the sections on “Sustainability,” “Research and Development” and “Employees” as well as the “Report on Opportunities and Risks.”

Company-specific early indicators

Order intake and order backlog are considered fundamental as early indicators specific to the company. These factors, which are regularly monitored, provide reliable indications of likely capacity utilization and revenue performance for the months ahead.

The management also tracks statistics and forecasts on global vehicle demand and production as well as the general economic outlook on a regular basis. The Group’s budget is based on planned quantities requested by customers as part of their scheduling and respective agreed product prices, less a safety margin. Nonetheless, the aforementioned early indicators serve as important points of reference on the feasibility of planning; in this way, any necessity for adjustments can be identified at an early stage and suitable measures can be implemented in good time.

Key objective: sustained profitable growth

ElringKlinger AG conducts benchmark analyses on a regular basis, whereby all key indicators are compared to other (mostly listed) companies in the automobile and automotive supply sectors and subsequently evaluated.

ElringKlinger AG’s use of off-balance-sheet financing arrangements is negligible and restricted to leasing (in connection with company cars and office equipment, for example).

Similarly, financial instruments are only used within the normal scope of business and are monitored both centrally and by the various specialist areas. The principles governing the use of derivative financial instruments are described in the Report on Opportunities and Risks under the heading “Use of derivative instruments*.” The nature and scope of derivative instruments held as of December 31, 2012, are set out in the notes to the financial statements under “Derivative financial instruments*.”

*  CF. PAGE 88
*  CF. PAGE 21

The key objectives of ElringKlinger AG are the profitable organic growth of the company over the long term, coupled with profitability above the average for the automotive supply industry, calculated on the basis of the EBIT margin.

Sales and Earnings Performance

Revenue growth again outstrips market

Sales at ElringKlinger AG showed a further increase in 2012 as global vehicle production gained momentum and a large number of new products were introduced to the market. The company was able to compensate for the extreme weakness of Western European markets thanks to its broad customer base and the high proportion of sales it derives from supplying German premium car makers, which have a strong record of exports. Sales for 2012 rose by 7.5% to EUR 471.1 (438.1) million.

Total sales also increased due to the takeover of the former ThaWa GmbH as of January 1, 2012, and its subsequent merger into ElringKlinger AG. This generated an additional EUR 4.6 million in revenue for ElringKlinger AG.

The figure for organic growth in sales at ElringKlinger AG stood at 6.5%. This contrasts with an 8.5% downturn in vehicle production in Western Europe, by far the company's biggest sales market.

Domestic business driven by strong export demand from overseas and the Far East

Global vehicle demand in 2012 was mainly driven by strong growth in North America and Asia. These markets are predominantly served by ElringKlinger AG's subsidiaries. Domestic vehicle production and thus also ElringKlinger AG itself also tend to benefit from this trend, albeit indirectly, on account of the high proportion of exports attributable to German premium car makers.

In Germany, ElringKlinger AG generated sales revenue of EUR 179.6 (162.8) million, up 10.3% on the previous year. As a result, the domestic share of total sales rose to 38.1% (37.2%).

Foreign sales hit by market weakness

With car production now at a twenty-year low in Western Europe, total foreign sales growth generated by ElringKlinger AG could not match the figure for Germany. It is worth noting that domestic vehicle and engine production among largely premium manufacturers benefited particularly from the rise in export demand from North America and Asia. This had an impact on the demand for parts from ElringKlinger.

Foreign sales rose by 5.9% to EUR 291.5 (275.3) million. As a result, the proportion of foreign sales to total revenue fell slightly to 61.9% (62.8%).

Original Equipment delivers strongest growth

The Original Equipment segment achieved a further increase in sales in the period under review after a record year in 2011. Revenue was up by 8.9% at EUR 362.3 (332.8) million.

It should be noted that the revenue generated by metal housing manufacturer ThaWa GmbH, which was acquired by ElringKlinger AG as of January 1, 2012, flowed entirely into the Original Equipment

segment. Nevertheless, even without this contribution from ThaWa GmbH, which was subsequently merged into ElringKlinger AG, revenue for the segment would still have risen by 7.5% to EUR 357.7 million.

In fact, Original Equipment accounts for over three-quarters of ElringKlinger AG's sales revenue. Accordingly, the segment's share of total revenue in 2012 rose to 76.9% (76.0%).

With the exception of Shielding Technology, all the divisions of ElringKlinger AG reported an increase in sales revenue.

ElringKlinger benefits considerably from the prevailing trend towards leaner, downsized engines. It develops, produces and sells metal flat gaskets and thermal shielding components engineered specifically to meet the extreme pressure and temperature requirements associated with these systems.

Although ElringKlinger AG is the market leader in cylinder-head gaskets, its sales in this area showed only a moderate rise in 2012. This was mainly due to extremely weak demand in Western Europe and the transfer of volumes previously produced for US customers at the site in Dettingen/Erms to the US subsidiary ElringKlinger USA, Inc., Buford. This decision was taken for the purpose of reducing logistical costs and limiting exchange rate risks.

The Specialty Gaskets division posted another above-average increase in sales in 2012. Reflecting the fact that the proportion and number of turbochargers fitted to vehicles have continued to increase, the division benefits from a high level of demand for turbocharger gaskets, in particular high-temperature V-rings for turbochargers. Demand was again up for the control plates used in automatic transmissions and for high-alloy gaskets in the exhaust system.

By contrast, ElringKlinger AG's Shielding Technology division reported a drop in sales revenue. This was attributable primarily to sluggish demand among customers in the Western European region.

In 2012, the biggest increase in sales came from the Plastic Housing Modules/Elastomer Technology division, which supplies a wide range of lightweight plastic components for engines and transmissions. The polyamide modules produced by the division help car makers to reduce overall vehicle weight quite considerably and thus scale back CO₂ emissions.

There was particularly strong customer demand for cam covers made of the ultra-light material MuCell. Despite the general malaise in the truck market, the division was able to boost its contribution to total sales following the commencement of production at the company's new plastic housing modules plant in Dettingen/Erms, which primarily makes cam covers and oil pan modules for trucks. During the year under review, ElringKlinger AG also developed several new applications (e.g. charge air ducts and oil suction pipe modules) to the series production level.

The new E-Mobility division was still gearing up for full-scale operation in 2012. With series production having commenced in the second half of 2011, in 2012 the division generated total sales revenue of EUR 6.7 (4.5) million from its cell contact systems for lithium-ion batteries.

Aftermarket business particularly buoyant in export markets

The average age of vehicles, especially in the small car segment, has fallen as a result of the scrapping allowances introduced by numerous European states in 2009. This means that fewer repairs are needed. At the same time, many car owners have put off servicing and maintenance work on account of the European debt crisis. In 2012, this led to a general weakening of the aftermarket in Western Europe.

In Germany, the Aftermarket business further expanded its market position and achieved a modest increase in revenue. In September 2012, ElringKlinger AG's booth at the Automechanika trade show in Frankfurt am Main met with a very positive response from customers. As the world's biggest aftermarket fair, Automechanika was an excellent opportunity for ElringKlinger to showcase its latest product portfolio and its enhanced "ElringPlus" service concept under the brand name "Elring – das Original."

The company's expanded portfolio, e.g. cylinder-head and specialty gaskets for French and Italian vehicles and new turbocharger gasket and assembly kits, also helped to grow sales.

Sales were again up in ElringKlinger AG's important export markets in Eastern Europe and the Middle East, although business was held back in some markets by the unstable political situation.

Overall, revenue generated by ElringKlinger AG in the Aftermarket segment was up 6.0% on the previous year at EUR 108.3 (102.2) million.

The Aftermarket segment's share of total sales at ElringKlinger AG for 2012 stood at 23.0% (23.3%). This slight decline in percentage terms was largely due to strong growth in the Original Equipment segment and the additional revenue generated by the former ThaWa GmbH, acquired in 2012.

Sales down in Industrial Parks segment following divestment in 2011

The Industrial Parks segment was established for the purpose of leasing and managing land and buildings. In 2012, rental income stood at EUR 0.5 (3.2) million. As a result, the segment's share of total revenue fell to 0.1% (0.7%). This sharp decline compared to the previous year was mainly due to the sale of the Ludwigsburg industrial park in 2011. ElringKlinger AG's revenue figures had included rental income from the Ludwigsburg site up until the end of July 2011.

Increased production volume drives up inventories

The volume of units produced by ElringKlinger AG in 2012 was significantly higher than in the preceding year. Inventories rose by EUR 9.2 (17.7) million, i.e. at a much less pronounced rate compared to 2011.

The previous year's figure had been dominated by the additions of tools to inventories. The increase in 2012 is also attributable to growth in the Aftermarket segment and the commissioning of the new logistics center in Dettingen/Erms. This necessitated a temporary rise in the volume of products in storage.

Reduction in work-in-progress

Compared to the previous year, work performed by the entity and capitalized fell sharply compared to the previous year, down EUR 9.8 million at EUR 3.2 (13.0) million. This was mainly due to the significantly lower proportion of tools.

Jump in personnel expenses following collective bargaining pay rise

The number of people employed by ElringKlinger AG as of December 31, 2012, rose by 4.4%. The merger of ThaWa GmbH and AGD Group Entwicklungs- und Vertriebs GmbH alone added a total of 54 employees to the headcount as of year-end 2012. Excluding this factor, the increase in personnel would have amounted to 1.7%. This was attributable to an increase in production volumes and the corresponding need to expand capacity. Another factor was the recruitment of additional personnel in the E-Mobility division. At the same time, ElringKlinger AG increased its staffing levels in administration and sales.

The wage increase of 4.3% for staff employed under the collective bargaining agreement took effect on May 1, 2012, and led to a significant increase in costs at ElringKlinger AG's sites. Accordingly, ElringKlinger AG's personnel expenses rose by a considerable margin from this point onward. The company endeavored to compensate for this increase through further process automation and streamlining measures in its production activities.

Another cost driver was the staff profit-sharing bonus agreed to in the spring of 2012 with regard to fiscal 2011; it was paid out in the second quarter of 2012. Each employee at ElringKlinger AG received EUR 1,150 (1,000). In total, this produced personnel expenses totaling EUR 2.5 (1.9) million.

Overall, the company's personnel expenses for 2012 rose by EUR 8.0 million to EUR 123.2 (115.2) million.

Moderate increase in cost of materials

In 2012, average prices for the key raw materials used by ElringKlinger AG (high-grade steel, C-steel and aluminum) remained almost stable or showed a moderate increase. By contrast, prices for the polymer granules used increasingly in lightweight construction tended to rise. From the middle of the year onwards, material prices began to edge upwards again with a particular impact on alloy surcharges for nickel, chromium and molybdenum. The renewed upward trend was caused by expectations of recovery in the United States and the continued growth of the global economy.

In 2012, the company was again able to reduce its consumption of materials through improvements in production and the optimization of manufacturing processes. ElringKlinger strives to develop alternatives and exploit new sources for commodities and materials that are particularly expensive or difficult to obtain.

The total cost of materials for 2012 was up by 1.1% at EUR 224.2 (221.7) million. In percentage terms, the rise in cost of materials was therefore less pronounced than the increase in total revenue.

The cost-of-materials ratio (materials expense as a proportion of sales) fell to 47.6% (50.6%).

Slight fall in depreciation and amortization

With investment in tangible and intangible fixed assets totaling EUR 49.4 (56.8) million in 2012, ElringKlinger AG once again underscored its commitment to further growth. The company invested 10.5% (13.0%) of its revenue in new production facilities and tangible fixed assets. This brought the level of investment back to its more usual level after the heavier spending of previous years, during which the company had launched a number of major projects and built up its manufacturing capacity in the area of battery technology.

As a result of this reduction in capital spending on tangible fixed assets and the tools accounted for in inventories since 2011, the company recorded an overall decline in the figure for depreciation/amortization. Furthermore, a substantial proportion of capital expenditure was directed toward land and buildings with a correspondingly long depreciation period. In part, the decline also reflected a high level of depreciation/amortization in the previous year. Additionally, depreciation and write-downs of tangible fixed assets in 2011 included impairment losses of EUR 2.4 million in respect of the surpluses resulting from the merger of ElringKlinger GmbH into the parent company ZWL Grundbesitz- und Beteiligungs-AG in 2000.

In total, amortization and depreciation of intangible fixed assets and tangible fixed assets fell by 8.1% to EUR 34.0 (37.0) million.

Year-on-year decline in other operating income due to 2011 divestment

In 2012, other operating income contributed EUR 20.4 (51.7) million to the company's income from ordinary activities, EUR 31.3 million down on the previous year's figure.

The main reason for this considerable fall was the sale of the Ludwigsburg industrial park, which generated non-recurring income of EUR 27.7 million in fiscal 2011.

Foreign exchange gains were EUR 2.1 million lower than in the previous year. They totaled EUR 1.3 (3.4) million and were attributable mainly to the loans between ElringKlinger AG and its subsidiaries.

Other operating income also included grants from government-funded programs for ongoing research and development projects within the E-Mobility division. In 2012, ElringKlinger AG received EUR 3.7 (3.7) million in grants from these public funds. In parallel with this inflow of funds, the company incurred expenses for research and development activities.

Other operating income from the reversal of provisions stood at EUR 0.6 million. In 2011, provisions totaling EUR 4.9 million were reversed and recognized in profit/loss.

Reduction in other operating expenses

Other operating expenses fell to EUR 63.6 (64.8) million.

The reduction in other operating expenses was largely due to costs incurred as a result of foreign exchange translation, which fell by EUR 2.2 million to EUR 1.3 (3.5) million. These exchange rate losses relate primarily to the valuation of loans granted by ElringKlinger AG to subsidiary companies.

Changes in the exchange rate between the euro and the Swiss franc (EUR/CHF) are of particular relevance to ElringKlinger AG. This is because the loan obtained to finance the acquisition of the SEVEX Group in 2008 was denominated in Swiss francs. If the Swiss franc appreciates relative to the euro, the liabilities associated with the existing loan have to be revalued upwards. In turn, this reduces the company's profit. In 2012, this exact situation resulted in foreign exchange losses of EUR 0.4 (1.4) million. The Swiss National Bank has now set a lower limit for the EUR/CHF exchange rate, which has in effect limited the company's risk exposure.

Operating result before non-recurring items up 8.7%

In the previous year, non-recurring income from the disposal of the Ludwigsburg industrial park contributed EUR 27.7 million to the total operating result of EUR 81.9 million.

Adjusted for this non-recurring item, in 2012 the disproportionately small increase in cost of materials and the decline in depreciation and amortization boosted ElringKlinger AG's operating result by 8.7% to EUR 58.9 (54.2) million.

Income from affiliated companies down on previous year

The total amount distributed from earnings generated by the subsidiaries in 2012 was EUR 21.6 (23.1) million, down EUR 1.5 million on the previous year.

Reflecting a tangible improvement in sales and earnings performance, ElringKlinger AG performed a write-up totaling EUR 5.5 million of the investment carrying amount of its subsidiary ElringKlinger (Great Britain) Ltd., U.K. By contrast, it became necessary to write down the investment carrying amounts of the former Freudenberg company ElringKlinger Meillor SAS, France (acquired in January 2011), Hug Engineering AG, Switzerland, and Hummel-Formen GmbH, Germany. This produced a net negative effect of EUR 2.5 million relating to the carrying amounts of long-term equity investments, compared to a net positive effect of EUR 1.9 million the previous year.

In total, income from affiliated companies was down 23.7% on the previous year at EUR 19.0 (24.9) million.

Net interest result shows improvement

Despite an increase in net debt to EUR 220.2 (188.4) million, the net interest result for 2012 improved due to a further reduction in interest rates and an increase of EUR 0.5 million in income from other securities and loans from affiliated companies. At EUR 9.9 (10.9) million, interest expense was down EUR 1.0 million on the previous year. In total, the net interest result stood at EUR -7.2 (-8.7) million.

Adjusted income from ordinary activities up by 0.6%

Income from ordinary activities in 2012 amounted to EUR 70.8 (98.1) million. As noted above, the previous year's increase was materially impacted by the sale of property. Without this non-recurring item, income from ordinary activities in 2012 rose by 0.6%.

The increased operating result and lower foreign exchange losses were unable to compensate entirely for the decline in income from affiliated companies. Accordingly, the percentage rise in income from ordinary activities was less pronounced than the increase in sales revenue.

Lower tax expense

In 2012, the company's tax expense fell by a significant margin from EUR 22.6 million to EUR 14.0 million.

The 2012 figure for income taxes includes deferred tax expenses of EUR 0.5 million. By contrast, the figure for 2011 contained a much higher level of deferred tax liabilities totaling EUR 7.8 million. Of this figure, EUR 7.6 million were due to the application of Section 6b of the German Income Tax Act (Einkommensteuergesetz – EStG) on disposal of the Ludwigsburg industrial park.

The tax rate for 2012 (income taxes in relation to income from ordinary activities) stood at 19.8% (23.0%).

Net income at EUR 56.5 million

ElringKlinger AG's net income for 2012 stood at EUR 56.5 (74.3) million. Adjusting for non-recurring income after taxes of EUR 20.1 million from the sale of the industrial park in 2011, this is equivalent to a rise of 4.2%. As such, the percentage increase in net income before non-recurring items was higher than the percentage increase in income from ordinary activities.

Earnings target for 2012 largely met

For 2012, ElringKlinger AG had set itself the target of increasing net sales by 5 to 7%. At 7.5%, the actual increase was at the top end of expectations.

However, it was not entirely possible to meet the target of increasing the company's income from ordinary activities (adjusted for non-recurring items) in line with the increase in sales. Income from ordinary activities rose by 0.6%. This was mainly due to weaker income from affiliated companies.

Regular dividend up 12.5%

After allocating EUR 28.0 (37.1) million to other revenue reserves, the net retained earnings (i.e. distributable profit) of ElringKlinger AG, from which dividend payments are distributed, amounted to EUR 28.5 (37.1) million.

Therefore, the Management Board and Supervisory Board will propose to the Annual General Meeting resolving on the 2012 financial year a total dividend of EUR 0.45 (0.58) per share. Compared to the regular dividend paid out for the previous year (EUR 0.40 per share), the proposal represents an increase of 12.5%. Last year, shareholders received an extra dividend of EUR 0.18 per share as a result of the non-recurring income generated by the disposal of the Ludwigsburg industrial park.

The number of non-par-value shares entitled to a dividend in respect of fiscal 2012 remained unchanged at 63,359,990.

Net Assets

With an equity ratio of 54.2% and positive net cash from operating activities, ElringKlinger AG remained solid in terms of its financial position and cash flows as of December 31, 2012.

Total assets expand to EUR 836 million

The level of growth generated by ElringKlinger AG is reflected in total assets. They totaled EUR 835.9 (800.0) million as of December 31, 2012. The year-on-year increase by EUR 35.9 million was attributable mainly to the rise in tangible fixed assets following investments in this area as well as more expansive working capital.

The merger of the former ThaWa GmbH as well as AGD Group Entwicklungs- und Vertriebs GmbH into ElringKlinger AG had no significant impact on the balance sheet.

The significant investments directed in particular at land and buildings (EUR 16.8 million) and technical equipment and machines (incl. advance payments and fixed assets under construction: EUR 27.7 million) were well in excess of depreciation and amortization of fixed assets. Correspondingly, tangible fixed assets rose by EUR 17.7 million to EUR 242.5 (224.8) million.

In 2012, capital increases were implemented at subsidiaries of ElringKlinger AG. In addition, further ownership interests were acquired. This resulted in higher financial assets. Net write-downs and write-ups of EUR 2.5 million attributable to the carrying amounts of the affiliated companies as well as the derecognition of ownership interests following the closure of the US company Elring of North America, Inc., Branchburg, USA, had a contrary effect. In total, financial assets rose by EUR 4.1 million to EUR 363.1 (359.0) million.

In total, fixed assets increased to EUR 609.5 (586.8) million as of December 31, 2012.

Increase in working capital

At the end of 2012, inventories held by ElringKlinger AG stood at EUR 93.3 (83.3) million. This was attributable primarily to the rise in tool-related stocks by EUR 9.1 million in inventories. As a result, the share of inventories in total assets rose to 11.2% (10.4%).

As of December 31, 2012, receivables and other assets totaled EUR 131.8 (129.2) million. Taken in isolation, trade receivables were actually slightly down year-on-year at the end of 2012. By contrast, however, receivables from affiliated companies were higher in the period under review. In total, the increase in receivables and other assets amounted to EUR 2.6 million or 2.0%. This was considerably less than the 7.5% increase in sales revenue.

Current assets amounted to EUR 225.9 (212.9) million as of December 31, 2012, which corresponds to 27.0% (26.6%) of total assets.

Strong equity ratio of 54%

Despite the dividend payout rising to EUR 36.7 (22.2) million in 2012, the company was in a position to increase its allocation to revenue reserves by EUR 28.5 million. Thus, revenue reserves totaled EUR 240.6 (212.1) million. By contrast, net retained earnings amounted to EUR 28.5 million in 2012, compared to EUR 37.1 million the previous year.

In total, shareholders' equity at ElringKlinger AG rose by EUR 19.8 million to EUR 453.3 (433.5) million. At 54.2% (54.2%), the equity ratio remained unchanged year-on-year.

Provisions remain largely unchanged

Compared to the previous financial year, provisions recognized by the company remained largely unchanged. After EUR 88.6 million in fiscal 2011, they totaled EUR 87.9 million as of December 31, 2012.

At EUR 56.6 (56.1) million, provisions for pensions edged up slightly on last year's figure. While tax provisions fell by EUR 3.4 million in 2012, other provisions rose by EUR 2.1 million. This was attributable primarily to higher provisions for supplier invoices still outstanding.

The share of provisions in the balance sheet total receded further to 10.5% (11.1%).

Rise in net debt

ElringKlinger AG expanded its bank borrowings to EUR 221.0 (188.8) million as of December 31, 2012. Among the key factors were investments made over the course of 2012 as well as the dividend payment.

In this context, the financing agreements were mainly short term in nature. The loans with a remaining term of up to one year were extended by EUR 55.6 million. By contrast, the company's medium-term financial liabilities (remaining term between one and five years) were scaled back by EUR 38.1 million. The loans with a remaining term of more than five years increased by EUR 14.8 million.

Net financial debt (financial liabilities less cash) thus rose to EUR 220.2 (188.4) million as of December 31, 2012.

Despite higher production output, trade payables decreased by EUR 6.4 million to EUR 16.5 (22.9) million.

Liabilities to investees rose to EUR 7.0 (0) million. This was attributable primarily to a loan granted by ElringKlinger Marusan Corporation, Japan, to ElringKlinger AG.

Other liabilities fell from EUR 46.6 million to EUR 29.4 million. This was attributable mainly to the reduction of deferrals associated with tooling revenue, which contributed to a drop in other liabilities by EUR 12.0 million. The extinguishment of a customer claim of EUR 6.0 million against ElringKlinger AG in connection with a warranty incident also contributed to the year-on-year decline (Notes*, page 12). A loan of EUR 4.0 million taken out with Lechler GmbH had a contrary effect.



Overall, liabilities amounted to EUR 285.6 (269.1) million, which corresponds to 34.2% (33.6%) of total equity and liabilities.

Cash Flows

The information presented with regard to cash flows is based on a Statement of Cash Flows prepared in accordance with German Accounting Standards (GAS) 2.

Slight year-on-year drop in cash flow from operating activities

Cash flow from operating activities was slightly down on the figure reported a year ago, despite optimizations made in the area of working capital management.

At EUR 56.5 million, net income was EUR 17.8 million lower than in 2011 (EUR 74.3 million). The previous year's figure, however, was influenced to a large extent by the one-time gain from the disposal of the Ludwigsburg industrial park.

Cash flow from operating activities is adjusted for gains and losses from the disposal of fixed assets. In 2011, cash flow from operating activities was reduced by EUR 26.5 million primarily as a result of the sale of the aforementioned industrial park.

The slight rise in depreciation/amortization and write-downs of intangible fixed assets, tangible fixed assets, tools and financial assets (less reversals of write-downs) amounting to EUR 36.5 (35.1) million also had a positive effect on cash flow from operating activities. Additionally, the change in trade receivables, down by EUR 2.3 million despite revenue growth of 7.5%, had a favorable impact on cash flow. In the previous year, by contrast, trade receivables had grown by EUR 4.4 million.

Thanks to improved stock management, inventories (without tools) rose only slightly in 2012, up by EUR 0.4 (9.1) million. By contrast, tool inventories had a significant impact on the overall figure. As a result, inventories rose by an additional EUR 9.1 (14.8) million. In aggregate, the increase in inventories had a dilutive effect of EUR 9.5 (23.9) million on cash flow.

Other assets not attributable to investing or financing activities rose by EUR 2.2 (17.4) million. The substantial increase recorded in fiscal 2011 was attributable primarily to a claim of EUR 14.4 million against an insurer in connection with a warranty incident* (Notes, page 12).

*  CF. PAGE 12

Despite more expansive production volumes, trade payables fell by EUR 6.4 million in the period under review. Additionally, other liabilities fell by EUR 12.0 (3.8) million due to the reduction in deferrals associated with tooling revenue.

Correspondingly, trade payables and other liabilities not attributable to investing or financing activities fell by EUR 23.3 million. In the previous year, by contrast, they had risen by EUR 8.2 million. This was attributable primarily to amounts owed by ElringKlinger AG to a customer in connection with a warranty incident, of which EUR 7.0 million had been outstanding at the year-end 2011. In addition, fiscal 2011 had also seen a rise in trade payables.

In 2012, income taxes paid were up EUR 6.2 million on the figure reported in 2011, primarily as a result of higher tax prepayments.

Overall, net cash from operating activities amounted to EUR 61.1 (64.8) million, which was down EUR 3.7 million on the previous year's figure. The cash return (cash flow from operating activities in relation to sales) stood at 13.0% (14.8%).

Cash flow from investing activities returns to normal level

Having been influenced to a large extent by three acquisitions and the sale of the Ludwigsburg industrial park in 2011, cash flow from investing activities returned to a normal level again in 2012.

The cash inflow from disposals of tangible fixed assets and intangible fixed assets amounted to EUR 0.8 (38.4) million. Within this context, the prior-year figure included a cash inflow of EUR 34.0 million from the sale of the industrial park.

Payments associated with investments in financial assets and the purchase of the now amalgamated companies (less cash) were also considerably lower in 2012, amounting to EUR 8.9 (84.3) million in total. This figure includes first and foremost the acquisition of the former ThaWa GmbH and AGD Group Entwicklungs- und Vertriebs GmbH as well as capital increases relating to subsidiaries of ElringKlinger AG.

Investments in land and buildings as well as machinery, equipment and tools were scaled back as planned and amounted to EUR 49.0 (64.8) million in total.

Among the principal investments made in 2012 was the extension of the new plant for plastic housing modules at the site in Dettingen/Erms. The facility was equipped with state-of-the-art manufacturing systems. Since 2012, the range of items rolling off the production line at this plant has included light-weight cam covers, oil pans and charge air ducts.

In parallel, investments were directed at the expansion of the Thale site. From spring 2013 on, this plant will be responsible for performing the precision-welding and canning of particulate filters and complete exhaust gas purification systems.

In preparation for further serial production orders and for the purpose of raising the overall level of automation, the E-Mobility division received new machinery for the production of cell contact systems used in lithium-ion batteries.

The investment ratio (capital expenditure on tangible fixed assets, tools as well as intangible fixed assets as a proportion of sales) fell to 10.7% (15.4%).

In total, net cash used in investing activities amounted to EUR 56.8 (113.1) million.

On this basis, operating free cash flow (cash flow from operating activities less cash flow from investing activities adjusted for net investments in financial assets as well as merged entities) was EUR 13.2 (36.0) million.

Reduction in cash flow from financing activities

In 2012, the dividend payout to shareholders of ElringKlinger AG was increased by EUR 14.5 million to EUR 36.7 (22.2) million. The dividend payment of EUR 0.58 per share included a one-time bonus of EUR 0.18 per share in respect of the sale of the Ludwigsburg industrial park in 2011.

Against the backdrop of favorable credit terms, ElringKlinger AG extended its short-term bank borrowings by EUR 28.3 (58.8) million in 2012. Long-term loans taken out by the company amounted to EUR 27.0 (0.0) million. In parallel, however, loan repayments totaled EUR 24.1 (26.3) million, as a result of which the change in non-current financial liabilities was EUR 2.9 (-26.3) million.

In total, net cash used in financing activities amounted to EUR 3.9 (7.0) million.

As of December 31, 2012, cash available to ElringKlinger AG totaled EUR 0.8 (0.4) million.

Procurement

Material costs are one of the three main expense items for ElringKlinger AG. Therefore, procurement plays a key role regarding the company's earnings performance.

Purchasing is primarily responsible for procuring the raw materials and other commodities needed for the manufacturing process with due regard for production deadlines and cost considerations. These mainly include alloyed high-grade steels (primarily nickel alloys), aluminum, C-steel, polymer granules and rubber. In 2012, the central purchasing department at the headquarters in Dettingen/Erms again performed most of the procurement activities on behalf of the plants operated by ElringKlinger AG.

The previous year had been marked by a series of shortages as a result of temporary demand spikes and disruptions to supplies following the earthquake and tsunami in Japan. By contrast, in 2012 there were no problems in obtaining the key commodities that the company needed.

For the most part, the price of raw materials was relatively stable over the course of 2012. For some categories of material such as polyamide granules and elastomers, however, prices did rise over the year. ElringKlinger AG's actual procurement requirements in 2012 were largely in line with the quantities originally planned. Any additional requirements were procured at short notice.

Purchasing volume up 2.6%

The renewed strong growth in sales generated by ElringKlinger AG in 2012 was reflected in an increase in purchasing volume. Compared to the previous year, it rose to EUR 297.9 (290.3) million. The figure relating to the total purchasing volume encompasses externally sourced raw materials, consumables and supplies as well as merchandise for the company's independent aftermarket business and investments in land, tangible fixed assets and real estate. The pure cost of materials in 2012 stood at EUR 224.2 (221.7) million. The year-on-year increase in the total cost of materials is largely due to a rise in procurement volumes.

Commodity prices in 2012: stable to rising

Fiscal 2012 began with significant price increases for most of the input materials that are of relevance to ElringKlinger AG. Nickel, for instance, which is used in high-grade steel alloys, rose by over 15% to nearly USD 22,000 per ton in the first weeks of 2012.

As the year progressed, the global economy was held back by the recessionary impact of the crisis affecting the southern eurozone states and concern over levels of sovereign debt. This triggered a decline in many commodity prices, which remained fairly subdued compared to the peaks of 2011. Overall, material prices and alloy surcharges were also much less volatile than in the previous year.

However, it generally takes three to four months before the downward price adjustments relating to alloy surcharges have an effect on ElringKlinger AG's purchasing costs. By contrast, the company's proceeds from the sale of scrap dropped immediately in response to the lower market prices.

ElringKlinger AG took advantage of this pricing trend by employing derivative instruments on a rolling basis to hedge some of its demand for alloyed high-grade steels.

Market prices for the polymer granules used increasingly by the company to make lightweight components moved in the opposite direction. They remained relatively high throughout the year and in some cases even moved further upwards.

ElringKlinger AG normally concludes supplier agreements covering a period of one year or longer in order to limit the risk presented by rising commodity prices and to guarantee the volumes required for production. In the case of plastics, there is a trend towards shorter contracts in response to more pronounced price fluctuations. The company also aims to reduce its material-specific costs by identifying new sources and approving new suppliers. Its efforts in this area include regular testing of alternative, less expensive materials.

ElringKlinger secures energy supply through long-term contracts and its own CHP units

The increase in production output in 2012 led to higher energy consumption for ElringKlinger AG. Energy consumption rose to 93,601 (86,930) MWh (absolute energy consumption: electricity, gas and other energy sources). The 7.7% year-on-year increase in consumption was largely in line with the rate of growth in sales, which rose by 7.5%. Eliminating the contribution of the former ThaWa GmbH, which had not been included in the previous year, the increase was merely 6.9%.

In 2012, ElringKlinger AG was able to procure electricity and gas at more favorable prices than in the previous year, therefore energy costs increased at a less pronounced rate relative to consumption. In total, energy costs rose by 4.1% to EUR 7.6 (7.3) million. Energy costs incurred by ElringKlinger AG accounted for 1.6% (1.7%) of sales in 2012, largely unchanged compared to last year's figure.

In order to protect its energy supply and guard itself to some extent against rising prices, ElringKlinger AG has concluded long-term supply contracts for a large part of its electricity and gas requirements. In 2012, the company already negotiated a new electricity supply contract for the period up to and including 2015.

Two own combined heat and power (CHP) plants at the headquarters in Dettingen/Erms also contribute to an overall reduction in energy costs and provide a better basis for long-term planning. An additional CHP plant is scheduled for installation in 2013. During the summer months, an absorption cooling unit will help to generate cool air for the air conditioning systems from the CHP plant's residual heat. This will replace the previous energy-intensive cooling units in use at these sites (Sustainability*, page 64).

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Globalization of supplier structure

At ElringKlinger AG, supplier management involves an ongoing process of supplier development and the identification and approval of new supply-side partners. In 2012, the focus was on reviewing and qualifying international suppliers. By way of example, part of the company's aluminum requirements were sourced in China in 2012. Out of the total purchasing volume, the proportion obtained from Asia is gradually increasing. By sourcing a larger volume of materials from local markets, the company is able to reduce its logistics costs and limit its exposure to currency risks.

As a rule, all new suppliers are evaluated and certified on the basis of international ISO standards. They are also expected to comply with the exacting quality and environmental guidelines defined by the company. ElringKlinger AG makes every effort to achieve a balanced supplier structure and to minimize its dependency on individual suppliers. In 2012, ElringKlinger AG's top 30 suppliers accounted for approximately 44% (50%) of its total volume of purchases.

Already in 2011, ElringKlinger AG launched a project to optimize supplier management across all the divisions. The main objective of this project is to establish even closer links between the purchasing and quality management teams. When selecting new suppliers, the quality management department is now involved in the assessment and decision-making process at a much earlier stage. The new concept was successfully implemented throughout the Group in 2012. This has made it possible to improve the quality of the Group's supplier base even further on the basis of objective measurements. The result has been a significant drop in the number of complaints made by ElringKlinger.

Every year, ElringKlinger AG presents an award to one of its suppliers. The aim is to promote long-standing supplier relationships and recognize excellent performance. The criteria on which the award is based cover product quality, reliability and quality management systems, along with customer-oriented service and communication. ElringKlinger's 2012 award went to Hydro Aluminium Rolled Products GmbH.

The main task facing ElringKlinger's purchasing department in 2013 is that of further expanding the Group's global procurement network. In China, there are plans to strengthen the local supplier base by setting up a strategic purchasing team to operate alongside the local subsidiaries' existing purchasing structures. The objective of this process is to achieve a further reduction in purchasing costs.

Sustainability

Sustainability has always been a key factor in the commercial success of ElringKlinger AG. Environmental efficiency is at the heart of all the business activities, from product development through to production processes. ElringKlinger AG is also very aware of its responsibilities to its staff and society as a whole.

In 2012, ElringKlinger AG published its first separate Sustainability Report under the heading "Sustainably mobile." The report explains how ElringKlinger implements its sustainability policy and emphasizes how important this is to the company. For details, please refer to

www.ElringKlinger.de/sustainability.*

Greater attention is now paid to sustainable business models and non-financial indicators, even on the capital markets. Since 2010, ElringKlinger AG has been one of only a small number of automotive suppliers to be listed in the "DAXglobal® Sarasin Sustainability Germany Index." In 2007, it was the first automotive supplier to sign up to the Carbon Disclosure Project, which is supported by 772 investors with total assets of around USD 87 trillion. ElringKlinger AG is regularly assessed by the sustainability rating agencies Oekom, EIRIS and Sustainalytics; it has also been awarded the quality mark for sustainability by DZ Bank.

Product portfolio for green mobility

ElringKlinger AG believes its main focus should be on reducing emissions by developing a wide range of product solutions for the engine, transmission and exhaust tract and in the field of electromobility. Almost the entire ElringKlinger product range has been designed with this goal in mind and as such helps to protect the environment both directly and indirectly. At the same time, the company's products respond to the key issues facing the automotive industry in the areas of engine downsizing, light-weight construction, exhaust gas purification systems and alternative drive technologies.

The 2012 Raw Materials Efficiency Award bestowed on ElringKlinger by the German Federal Ministry of Economics and Technology for its CleanCoat™ technology underlines just how environmentally friendly ElringKlinger's products are. The awards went to a research institute and four companies (including ElringKlinger AG as consortium partner to NANO-X GmbH) for the jointly developed CleanCoat™ soot catalyst, which is free of heavy and precious metals. Not only is the technology environmentally friendly, it also reduces fuel consumption and therefore makes a significant contribution in the area of CO₂ reduction. At present, the catalyst is already in use in commercial vehicles, buses, construction machines and locomotives. Other possible applications include ships, stationary engines and power plants.

Detailed information on ElringKlinger's products and their contribution to sustainable mobility can be found in the section "Research and Development"* and on the corporate website at www.ElringKlinger.com* under the heading "Products."

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*  INTERNETLINK

In order to optimize the use of resources in its production processes, ElringKlinger's central Environmental Management unit compiles a series of key indicators that track the use of materials, energy consumption, emissions and waste at all the company's sites worldwide on a regular basis. Following analysis of these indicators, appropriate optimization measures are implemented as necessary. In many cases, these measures also help to reduce costs in the long term.

Strict quality standards also help to ensure that business operations are as sustainable as possible. All ElringKlinger AG's sites are certified in accordance with the automotive industry standard TS 16949 as well as ISO 9001. Furthermore, with the exception of the new plant in Thale, they operate an environmental management system according to ISO 14001. The Thale site is scheduled for ISO 14001 certification in 2013.

Indirect CO₂ emissions rise following change in method of calculation

As of 2012, ElringKlinger AG will be disclosing its CO₂ emissions separately according to direct and indirect CO₂ emissions. The direct CO₂ emissions include those emissions that are attributable primarily to the procurement or consumption of gas and heating oil as well as – since 2012 – the company's own vehicle fleet. The indirect CO₂ emissions encompass those emissions produced by electricity consumption as well as air travel.

ElringKlinger AG's direct CO₂ emissions for 2012 amounted to 11,880 (11,300) metric tons. This represents a year-on-year increase of 5.1%.

By contrast, the company's indirect CO₂ emissions rose at a much more pronounced rate in 2012, taking the figure to 23,400 (14,800) metric tons. One of the key criteria used in calculating ElringKlinger's CO₂ emissions is the underlying emissions factor of the electricity mix. In 2012, ElringKlinger AG created a more stable basis for calculating its global CO₂ emissions by using the mix of each country. This led to a net increase in the emissions factor.

Total direct and indirect CO₂ emissions amounted to 35,280 (26,100) metric tons. As a result, 2012 marked the first time that ElringKlinger AG was unable to meet its self-imposed target of reducing its relative CO₂ output by 3% per year. However, it should be possible to achieve this target again from 2013 onwards.

Whenever ElringKlinger AG purchases a new company car, the company sees to it that the vehicle's CO₂ emissions are as low as possible. In 2012, for example, the fleet in Dettingen/Erms was equipped with its first-ever hybrid. The company's average vehicle fleet emissions of CO₂ fell to 157 (159) g/km in the year under review.

ElringKlinger AG also places great emphasis on energy-saving solutions when it acquires new machinery or builds new premises. In 2012, for instance, a photovoltaic system with an output of around 450 kW was installed on approximately 3,000 m² of roof space at the newly completed factory for plastic housing modules in Dettingen/Erms. Between September and December 2012, the system generated around 83,000 kWh of green electricity.

Other measures taken in 2012 included improvements to the roof insulation (e.g. using double insulated skylights) as part of a refurbishment program at the production facility in Runkel. Following the installation of a new thermostat to optimize the temperature balance in the building, energy consumption at the new factory has improved considerably.

To save even more energy, ElringKlinger AG is planning to build another combined heat and power (CHP) unit in Dettingen/Erms. The two company-owned CHP units have already helped to reduce the energy required at the site by a considerable margin in the previous year. The waste heat from electricity generation is used for production processes and in the winter to heat the offices. In order to make greater use of this waste heat in the summer months, too, a complementary absorption cooling system will be installed in 2013. This will make it possible to recycle the waste heat generated by the CHP plant for the cooling processes involved in production and to provide air conditioning. At the same time, the site's old cooling systems can be decommissioned, thus saving a considerable amount of energy.

Whereas the rise in water consumption was largely in line with revenue growth in 2012, the overall increase in the volume of solvents used by the company was less pronounced relative to revenue growth. In total, the amount of waste was actually scaled back. This was mainly due to lower production output in the area of cylinder-head gaskets in response to sluggish demand in Western Europe as well as the transfer of volumes previously produced at the site in Dettingen/Erms to a subsidiary located in the United States.

Metal residues, mainly from stamping processes during production, account for over 86% of the total waste. ElringKlinger AG collects and sells this metal waste, which can then be reused for other purposes. The overall recycling rate for all waste produced at the German sites is 96%. All waste is removed by accredited companies for recycling or disposal.

In order to provide even greater transparency, for the first time ElringKlinger AG will be reporting its nitrogen oxide (NO_x) emissions effective from 2012. The main sources of NO_x at ElringKlinger AG are gas and oil heating and the company's engine testing stations. At present, the figures compiled by ElringKlinger only cover the site in Dettingen/Erms. In the medium term, data on NO_x emissions shall be published for the company as a whole.

ELRINGKLINGER AG – KEY ENVIRONMENTAL INDICATORS

	2012*	2011**
Total direct and indirect CO ₂ emissions in metric tons	35,280	26,100
CO ₂ emissions in metric tons per EUR 1 million in sales	74.9	59.6
Total direct CO ₂ emissions in metric tons	11,880	11,300
Of which direct CO ₂ emissions from gas, oil, engine test stands, etc. in metric tons	11,300	10,700
Of which CO ₂ emissions for vehicle fleet in metric tons	580	600
Total indirect CO ₂ emissions in metric tons	23,400	14,800
Of which indirect CO ₂ emissions from electricity in metric tons	21,800	13,500
Of which indirect CO ₂ emissions from air travel in metric tons	1,600	1,300
NO _x emissions*** in metric tons	26	22
Absolute energy consumption (electricity, gas and other energy sources) in MWh	93,600	86,900
Absolute energy consumption in MWh per EUR 1 million in sales	198.7	198.4
Of which electricity consumption in MWh	44,100	41,300
Electricity consumption in MWh per EUR 1 million in sales	93.6	94.3
Water consumption in m ³	51,100	47,700
Solvents in metric tons	630	610
Total waste in metric tons	16,400	17,100
Of which metal waste in metric tons	14,100	15,700

* Including the former ThaWa GmbH acquired in 2012

** Due to the retrospective inclusion of CO₂ emissions attributable to the vehicle fleet and air travel, data relating to total and relative CO₂ emissions has changed

*** Only covers Dettingen/Erms

Employee satisfaction delivers long-term business success

Reflecting its commitment to sustainable business, ElringKlinger AG provides its staff with a highly motivating and socially balanced working environment in order to facilitate top performance. A Group-wide Code of Conduct lays down binding rules regarding diversity in the workplace, staff development, remuneration and working hours, along with health and safety regulations. The Code of Conduct can be accessed online at www.ElringKlinger.com *.

Seasoned employees are an important source of expertise. ElringKlinger AG makes every effort to generate long-term loyalty to the company. In 2012, the company's sickness and turnover rates remained at the same level as the previous year.

ElringKlinger AG strives to promote measures that reconcile the demands of family and career and that allow its employees to strike the right balance between their private and working lives. In 2012, the company established a new partnership with a local nursery in Dettingen/Erms, which is not only the company's headquarters but also the single largest site in terms of employee numbers. ElringKlinger AG has an allocated number of childcare places for children above and below the age of three. These places are supported financially by ElringKlinger and are available for the children of employees. There are further plans for childcare provision during the 2013 summer holidays.

In 2012, as a means of addressing the much debated issue of "Reconciling Care with Career," ElringKlinger AG paid the fees of employees wishing to attend a seminar on the subject.

A major element of ElringKlinger AG's HR work involves recruiting talented young people and providing employee training. For several decades, the company has offered vocational training programs for both commercial and technical professions, and complements these with degree courses at cooperative state universities. It also provides opportunities for pupils and students to undertake internships and complete diploma, bachelor's and master's theses with the company. In 2012, it supported more than 30 (35) students in this way.

At ElringKlinger, all employees are offered individual training opportunities to help them develop personal and job-specific skills. In addition to training in fields relating to specific functions, the courses available include every aspect of areas such as project management, team seminars, wide-ranging software skills and foreign languages. During the year under review, the company spent EUR 0.2 (0.3) million on training and professional development.

Since 2008, ElringKlinger AG has run a special program to help prepare young employees with the potential to take on leadership roles in technical and managerial areas. In 2012, seventeen young professionals completed the two-year course. The program has now been refined and condensed to a one-year course as from 2013.

ElringKlinger AG ensures that its people are given an appropriate share of the company's success. In 2012, employees received a bonus of EUR 1,150 each for the previous financial year.

The figures published below reflect the long-term approach pursued by ElringKlinger AG with regard to its HR policies.

ELRINGKLINGER AG – KEY HR INDICATORS

	as of Dec. 31, 2012	as of Dec. 31, 2011
Absolute number of employees	2,059	1,972
Of which men	73.3%	73.2%
Of which women	26.7%	26.8%
Average number of employees	2,035	1,888
Breakdown by age group		
Less than 30 years old	20.0%	20.4%
30 to 50 years old	55.6%	53.7%
Over 50 years old	24.4%	25.9%
Percentage of vocational trainees/apprentices	3.4%	3.6%
Interns and thesis students	31	35
Staff turnover rate	1.3%	1.1%
Average number of sick days per employee	13.2	12.7
Employees covered by collective agreements	1,954	1,875
Number of qualification interviews conducted	1,954	1,875
Percentage of part-time employees	8.0%	7.9%
Employees on permanent contracts	1,843	1,737
Number of employees with severe disabilities	115	115
Number of employees in management positions*	150	53
Of which women	10	2
Of which local nationals	150	53
Work-related accidents leading to more than 3 days off work	98	67
Work-related fatalities	0	0
Absolute number of employees		
In partial retirement	59	59
On maternity leave	3	13
On parental leave	21	31
Number of improvement suggestions submitted	154	137
Improvement suggestions successfully implemented	66	55
Improvement suggestions rejected	106	82

* Comparability with previous year limited, as additional hierarchy level included (team leaders) since 2012

ElringKlinger expands its social commitment

ElringKlinger has been working with the Bruderhaus Diakonie foundation and the associated disabled persons' workshops in Dettingen/Erms for over ten years. The workshops independently handle complete processes for ElringKlinger's Aftermarket division, including tasks such as the finishing and packing of gasket sets. 2012 saw a further significant expansion of the volume and range of jobs performed by the workshops. By way of example, they have now taken on the sorting of returns. ElringKlinger also launched a digital archiving project in collaboration with Bruderhaus Diakonie.

As another expression of its social commitment, ElringKlinger AG donated around EUR 70,000 (45,000) to charitable organizations, including the Dettingen/Erms local community foundation, in 2012. This non-profit organization promotes social, cultural and other charitable causes. Its aim is to act as a platform allowing local people to share responsibility for the future development of the community.

Renewed cuts in CO₂ emissions planned for 2013

ElringKlinger AG remains committed to a sustainable future. As in previous years, in 2013 it again intends to meet its self-imposed target of cutting relative CO₂ emissions by 3%. The company will also continue to support the wider effort to protect our environment through its green product solutions.

Research and Development

Embracing innovation in traditional fields while developing new business areas

In 2012, ElringKlinger AG continued its focus on developing new products and applications in traditional product groups – metal gaskets, heat shields and plastic housing modules – while also pursuing entirely new product concepts, ready for full market rollout, in the new field of e-mobility.

The foundation for all new product developments is the company's existing know-how in metal stamping and embossing technology, coating methods and plastics engineering. Its specialized expertise in materials for high-temperature applications and in the area of lightweight construction is virtually unique in the sector in which it operates.

With this combination, ElringKlinger AG boasts a repertoire that very few automotive suppliers in the world can match at this level. The techniques developed here and in the field of process engineering have allowed ElringKlinger AG to hone key competitive advantages.

One of the most important core competences is centered around the development of tools for stamping and embossing as well as tools that are manufactured for the growing number of parts produced using plastic injection-molding techniques. The company gained important know-how in this area by acquiring the Hummel-Formen Group. In 2012, almost all tools that were required by the company were developed and built in-house.

ElringKlinger AG has focused its research and development activities entirely on optimizing combustion engines and developing new products in the field of e-mobility.

The company pursues the basic philosophy of classifying new developments as established products as soon as they are launched on the market. At this point, work already begins on the next generation of these concepts. In taking this route, ElringKlinger AG once again succeeded in increasing its competitive edge over its competitors in 2012 with regard to innovation.

In the past years, substantial up-front investments were made in the new business areas and E-Mobility divisions. This means that ElringKlinger AG is already in a position to manufacture and supply products aimed at optimizing conventional combustion engines as well as components for electromobility.

Ever-greater demands made on development expertise

Particularly when it comes to drive technology, the automotive sector is currently undergoing radical change. There is significant pressure to drive innovation forward in order to make vehicles more fuel-efficient and meet the demanding requirements of CO₂ legislation in Europe, the USA and numerous Asian markets. The main focus is on developing sustainable solutions that car buyers can still afford.

Besides optimizing combustion engines by downsizing, one of the top priorities for automotive customers is hybridization, i.e. combining a combustion engine with an electric drive. At the same time, work is continuing on refining battery-based all-electric drives and on improving fuel-cell technology.

For the suppliers of technology to original equipment manufacturers (OEMs) in the automotive industry, this means assuming more and more responsibility for research and development. This is only possible for companies that have the necessary development and manufacturing expertise, in addition to the extensive financial resources needed to back this up. Indeed, over 75% of automotive value creation can now be attributed to suppliers. OEMs are in great need of suppliers whose expertise spans all categories of drive technology and who are capable of providing car makers with the specialized solutions and components that they require.

ElringKlinger AG was quick to position itself in response to these market requirements. In 2012, the company expanded its development and production capacity extensively in the field of battery technology. At the same time, the predominantly long-term fuel cell technology projects are drawing closer to market maturity.

In the case of many customers, there is currently a strong orientation towards hybrid solutions. The number of hybrid models available on the market – at least as an option – is set to increase significantly in 2013, a trend from which ElringKlinger AG will benefit. Having previously provided its customers with components for combustion engines, the company is now also in a position to supply them with new products from the field of battery technology. The level of sales revenue per vehicle that ElringKlinger can generate increases substantially with hybrid models.

High R&D ratio secures long-term competitive advantages

ElringKlinger AG's research and development expenditure increased once again in 2012. This figure grew by EUR 3.4 million to EUR 45.8 (42.4) million. In 2012, as in previous years, much of this can be attributed to R&D activities in its traditional core business areas. The company stepped up its capital expenditure relating to the new E-Mobility division. As of December 31, 2012, ElringKlinger AG employed a total of 318 (306) people in R&D-related departments.

At 9.7% (9.7%), R&D expenditure as a percentage of sales remained at a high level in 2012. This reflects the trend for suppliers to assume more and more development work on behalf of their vehicle manufacturer customers.

Strong patent pool guards technology know-how

ElringKlinger AG has its own patent department that specializes in all issues relating to the protection of the company's technological expertise and intellectual property rights. A total of 64 (35) patents and industrial property rights were registered over the course of 2012.

In order to defend its competitive edge and key process-related advantages, ElringKlinger AG has concentrated the bulk of the Group's research and development capacities in technology centers of excellence at ElringKlinger AG's locations in Germany as well as at ElringKlinger Abschirmtechnik (Schweiz) AG and at Hug Engineering AG.

In 2012, these technology-specific centers of excellence were responsible for the vast majority of the Group's development activities.

Focus on optimizing combustion engines

Even though alternative drive technologies will continue to grow in importance in the future, the traditional combustion engine will still remain the dominant type of drive unit for the next twenty years. In this context, rising fuel prices and increasingly stringent global emissions regulations are both factors that will drive the further development of engine technology.

Almost all automotive manufacturers are gearing their development activities towards reducing fuel consumption levels – and, in turn, greenhouse gas emissions – by means of engine downsizing concepts. The new generation of compact downsized engines with turbocharging are capable of further reducing fuel consumption by between 20% and 25%. The superior efficiency of this engine technology coincides with considerably higher injection pressures. At the same time, peak temperatures

in the combustion chamber and ultimately in the entire engine compartment are significantly higher. This means that the performance expected of the new generation of cylinder-head and specialty gaskets is increasing noticeably.

Furthermore, increasingly complex exhaust-cleaning technology is being deployed to reduce the harmful nitrogen oxides, hydrocarbons and soot particles produced by vehicle engines. The Euro 6 standard, which will come into force in 2014, will raise the bar even further in this regard. Particulate filters could also become an issue for petrol engines in future.

ElringKlinger AG had precisely these issues in mind when it developed its product range within its core business areas. Today, the company is benefiting greatly from the demanding technological specifications required for engine and exhaust components and from the rising proportion of vehicles being fitted with turbochargers and thermal heat shields. Tasks relating to optimizing combustion engines accounted for a sizeable part of the development contracts received from customers in 2012.

New and increasingly demanding applications for metal gaskets

The clear trend towards engine downsizing calls for more sophisticated cylinder-head gasket designs for the purpose of sealing units with higher power density.

Development activities in 2012 included a greater number of projects for compact turbocharged petrol engines with direct injection. Higher combustion pressures and temperatures are also playing an increasingly important role for petrol engines. ElringKlinger AG's track record of excellence in the area of cylinder-head gaskets for diesel engines spans many years.

In the period under review, R&D activities were centered around new tool and material concepts designed to increase durability, particularly in the case of engines with high combustion pressures and low bolt forces. ElringKlinger AG is currently working on new embossed topographical structures for pre-stressing components with a view to improving durability and prolonging service life.

In 2012, the number of serial development projects in the Cylinder-head Gaskets division increased to 274 (221). While the volume of development projects commissioned by European automotive manufacturers remained at a high level, the number of new product developments, primarily for Asian manufacturers, increased significantly. The company also succeeded in gaining a stronger foothold among Japanese manufacturers in 2012.

In North America, the technical requirements placed on engines have also increased noticeably. As a result, ElringKlinger AG also recorded further growth in development projects among US manufacturers. The development pipeline currently also includes several cylinder-head gaskets for diesel engines.

The main focus of development activities in the Specialty Gaskets division in 2012 was on issues relating to higher turbocharging requirements, increasingly complex exhaust technology and the growing popularity of multi-stage automatic transmissions.

The fitting rates and number of turbochargers per vehicle continued to increase in 2012, especially in European markets and in North America. Temperatures are extremely high in the turbocharger compartment. With its expertise in “super alloys” – exceptionally temperature-resistant alloy materials – ElringKlinger AG has assumed a promising position in the market and supplies complete gasket systems for turbochargers. The company’s customer base now includes all major turbocharger manufacturers around the globe. In 2012, the Specialty Gaskets division developed numerous applications for sophisticated V-ring gaskets, which are key components for turbochargers. Demand for these products was driven in no small part by the introduction of the Euro 6 emissions standard. At the same time, manufacturing methods were optimized and further automated over the course of 2012. A number of patents were registered in this area.

The growing complexity of the exhaust system and the increasingly widespread usage of turbocharging and exhaust recirculation in new engine concepts are placing ever-higher demands on sealing technology in the exhaust tract as a whole. Additional points need to be sealed under high-temperature conditions. In 2012, the Specialty Gaskets division developed a variety of new seals and gaskets for this area of application, with new, extra-tough elastomer coatings also playing a key role.

Another focal point of the Specialty Gaskets division’s development work in the period under review was new, high-performance control plates for automatic and dual-clutch transmissions. The patented ElringKlinger gasket design contributes to higher efficiency levels in that it brings about a noticeable reduction in leakage currents in the transmission. A substantial number of new development orders were placed in 2012, above all by US and Asian customers.

Trend towards thermal management and acoustic shielding

For the Shielding Technology division, too, 2012 brought new development work in response to engine downsizing and increasingly complex exhaust aftertreatment systems. Ambient temperatures are particularly high as a result of limited installation space in the new generation of compact engines, together with the use of turbochargers and catalytic converters. Sensors, electrical elements and hose lines need to be protected from these influences with the aid of thermal shielding technology. This increases the number of heat shields required in the vehicle.

ElringKlinger AG is one of the few manufacturers in the world that has the all-round expertise required to develop complete shielding packages for vehicles – from the engine and the underbody to the exhaust system.

Fundamentally, shielding parts are increasingly being refined to take on the role of insulation components in thermal management applications. One of the focal points in the year under review was that of direct shielding, aimed either at preventing radiation losses or at achieving faster heat-up times and higher operating temperatures in catalytic converters.

Many new applications developed in 2012 involved heat shields for turbochargers and exhaust systems. In this area, the company also expanded its cooperation with Tier 1 suppliers, for instance with manufacturers of complete exhaust systems.

Several premium manufacturers based in Germany placed major projects for the development of underbody heat shields in 2012.

Combining thermal and acoustic protection is becoming increasingly important in the development of new solution concepts. With this in mind, ElringKlinger AG developed special thermal/acoustic multilayer composite materials.

Lightweight construction was an important factor in manufacturing thermal and acoustic shielding components, particularly for vehicle underbodies. To reduce weight – and, in turn, fuel consumption – the parts used must be as light as possible. To this end, ElringKlinger AG developed a new kind of organo-sheet that contains special heat-resistant fibers – not only glass and silicate fibers but also natural fibers. The lightweight components also take on acoustic shielding functions and minimize noise generation in the vehicle interior. The required production processes and technologies have already been finalized and new machinery acquired for manufacturing these parts.

The number of projects relating to trucks increased noticeably in 2012. The company's shielding technology engineers worked primarily on tube housings and combined thermal/acoustic shielding components.

The Shielding Technology division conceived thermal management concepts and developed associated product designs for e-mobility applications. In this context, solutions developed especially for hybrid vehicles were brought onto the market, with a complete package shielding the combined drivetrains both thermally and acoustically.

What is more, demand for heat shielding extends well beyond motor vehicles. For instance, the first applications that ElringKlinger developed outside the automotive sector were housing parts made of recycled aluminum for coffee machines as well as microwave shielding components.

Applying expertise in lightweight design to trucks

Lightweight construction was the main focus of development work performed by the Plastic Housing Modules/Elastomer Technology division in the period under review. With the aid of state-of-the-art plastic injection-molding technology, heavy and expensive metal parts are replaced by lightweight parts made of polyamide and new fiber-reinforced organo-materials. This results in a considerable weight reduction and, in turn, a noticeable decrease in fuel consumption.

With the acquisition of the Hummel-Formen Group in October 2011, ElringKlinger AG is now home to one of the leading manufacturers of plastic injection-molding tools, complemented by many years of expertise in product development as well.

The main focus of development activities in the field of plastic housing modules was on new applications for trucks. In addition to designing further applications for highly resistant oil pan modules and cam covers, the engineers working in this area came up with new weight-reduced applications for oil circuits and charge air ducts.

For instance, charge air ducts for high-temperature applications relating to truck intake systems – capable of operating at charge air pressures of up to 3 bar – were developed to serial production readiness. Other innovations included intake modules made of polyamide plastic for both petrol and diesel engines.

The product portfolio was also expanded by adding high-strength polyamide components for oil circuit applications. In 2012, newly developed parts included oil suction pipe modules and complete oil tank modules.

New cam cover applications for passenger cars – with fully integrated functions such as an oil separation system, pressure control valve, vacuum accumulator, thermal shielding, gasket and decoupling elements – were designed and launched onto the market.

In 2012, ElringKlinger's plastic specialists launched an extremely interesting development project with great market potential. Applying an involute design, the aim is to develop a significantly more effective oil separator for truck engines. As part of the innovative disk-shaped design, the oil particles are moved outwards by the centrifugal forces; the oil is separated along walls with a channel-like structure. The project qualified for a grant from the German Environment Ministry's energy efficiency program.

Exhaust gas purification technology with high potential

In acquiring the Hug Group in May 2011, ElringKlinger extended its product portfolio to include components and end-to-end systems dedicated to exhaust gas purification. The Swiss company is one of the leading engineering specialists in the field of exhaust aftertreatment systems for stationary and off-road applications. Hug Engineering develops and produces all key components in-house, such as the ceramic substrates for catalytic converters and diesel particulate filters, catalytic coatings, SCR systems and housings. As part of the ElringKlinger Group, Hug is now gearing its business more towards larger serial applications for commercial vehicles.

Hug's particulate filter substrate is already used in many applications in conjunction with ElringKlinger AG's CleanCoat™ material, which is free of precious and heavy metals and thus much more eco-friendly than other coatings. Based on silicate technology, this coating helps to burn off soot particles catalytically. CleanCoat™ yielded impressive results in field tests conducted in trucks and buses and in subsequent long-term testing. The catalytic regeneration of the filter is capable of taking place at low temperatures. The post-injection of fuel – and, in turn, the level of CO₂ emissions – is significantly reduced as a result of the shortened regeneration cycles. ElringKlinger AG developed and licensed the coating material for applications in diesel particulate filters in close cooperation with a partner

company. The environmentally friendly soot catalyst received the German Raw Materials Efficiency Award from the Federal Ministry of Economics and Technology in 2012. ElringKlinger has already secured its first major serial production order for a system coated with CleanCoat™, placed by an international construction machine manufacturer.

E-Mobility: battery technology for hybrids and pure electric vehicles

Over the course of 2012, ElringKlinger AG further expanded its E-Mobility division, which was set up in 2010. There are now 65 people employed in the area of battery technology, chiefly in research and development and in prototype production. In entering the field of battery technology, the company has tapped into additional growth potential with regard to hybrids and pure electric vehicles.

Within a very short period of time, ElringKlinger AG has succeeded in developing and launching a stable, high-performance solution for connecting lithium-ion cells and modules for high-energy batteries. The new cell contact systems are used above all in full and plug-in hybrids, but also in pure electric vehicles. The embossed cell connection elements are mechanically and thermally resilient to a high degree. With the aid of a patented design, they are capable of equalizing relative movements between the lithium-ion cells caused by temperature fluctuations in the battery. When developing this entirely new product line, ElringKlinger's battery technology specialists were able to build on the existing material know-how and process technology for producing high-grade metal and plastic components.

By mid-2011, the systems had been developed to serial production readiness and launched on the market. In 2012, ElringKlinger AG expanded its customer base and received further serial production orders. Capacity in development and prototype construction was utilized in full thanks to a variety of development and prototyping orders.

The overall success of production start-up was also heavily dependent on equipment technology and manufacturing processes. ElringKlinger AG put its first serial production line for cell contact systems into operation as early as mid-2011. In the course of 2012, the production processes were further automated and the production line also modified to accommodate the manufacture of prismatic systems.

Further development projects for battery cell connectors

In over a dozen projects, ElringKlinger's development teams worked on particularly durable, high-performance concepts for cell contact systems during 2012. This involved not only launching solutions for cylindrical cell structures in high-voltage energy storage units, but also for exceptionally compact prismatic cell structures. The sensor system for gaging and monitoring voltage and temperature has already been fully integrated into a control interface.

At present, work is already being carried out on second-generation systems. The main objectives are to further improve the performance of connection technologies and to reduce costs. In this regard, the use of new materials and cell connector geometries is growing in importance. In 2012, pioneering new concepts were tested with regard to signaling in the contact system and the integration of sensors.

On board the SafeBatt research consortium

ElringKlinger AG is also one of the development partners in the SafeBatt research consortium that was initiated in 2012. SafeBatt is committed to implementing active and passive measures to further improve the safety of lithium-ion batteries. The main concern of the joint initiative – which consists of 15 partners from the car manufacturing industry, the automotive supply sector and the field of science and research – is to bring about a significant improvement in the reliability and intrinsic safety of lithium-ion batteries used in hybrid and pure electric vehicles.

Scheduled to run until mid-2015, the SafeBatt research program has been selected by the German government as one of the National Electric Mobility Platform's nine "lighthouse projects." The German Ministry of Education and Research supports this research project. First and foremost, ElringKlinger AG will be contributing its expertise in the field of cell contact systems, with a particular focus on evaluating and integrating sensor technology. The partners contributing to the project are BASF SE, BMW AG, Daimler AG, Deutsche ACCUmotive GmbH & Co. KG, ElringKlinger AG, Evonik Litarion GmbH, Infineon Technologies AG, Li-Tec Battery GmbH, SGS Germany GmbH, Volkswagen AG, Wacker Chemie AG, the Fraunhofer Institute for Chemical Technology, the Technical University of Braunschweig (iPAT – Institute for Particle Technology), the Technical University of Munich (Department for Electrical Energy Storage Technology) and the University of Münster (MEET battery research center).

Besides working on new, high-performance cell and module connectors, the focus of development was on cell housings and covers, battery housing seals and pressure equalization elements. The technology for this is based on ElringKlinger Kunststofftechnik GmbH's expertise in the field of membranes.

Over the course of 2012, the successfully completed development projects and the start-up of serial production helped ElringKlinger's Battery Technology division to establish a leading position in the market for lithium-ion battery components and other high-performance energy storage concepts. In the coming years, the company will benefit from advances in hybridization and electrification, while launching further production innovations in this area.

Fuel cell technology: commercialization imminent

In the field of fuel cell technology, meanwhile, ElringKlinger AG has been mainly engaged in continuing work on long-term projects. In recent years, the company has registered a number of important patents relating to fuel cell technology. Development work in 2012 focused on using the technological know-how that the company has accumulated over more than ten years together with its process engineering knowledge to develop existing laboratory solutions and prototypes into marketable product solutions.

In 2012, ElringKlinger AG once again made substantial investments in this promising line of business. ElringKlinger's fuel cell technology work qualified for several key projects that are backed by public-sector funding and geared towards alternative drive technologies and energy efficiency. The company was able to use these funds to cover some of the cost of these R&D-intensive activities.

Bipolar plates for fuel cell stacks

Among the most important product developments are stamped metal bipolar plates for PEM (Proton Exchange Membrane) fuel cells. Significant unit volumes of these are required as key components in fuel cell stacks. Combined with an electric motor, these fuel cell stacks are expected to replace traditional combustion engines as the preferred type of drive used in vehicles.

In this area, ElringKlinger AG works in very close cooperation with its customers. At this stage, the company is using near-series production equipment to produce bipolar plates for the demonstration fleet of an international car manufacturer. In 2012, ElringKlinger developers optimized the plate design, pushing down costs through the use of new materials. To do so, the company used ultra-precise stamping and punching procedures, laser-welding techniques and progressive tooling technology.

SOFC stacks for mobile use in trucks

In 2012, ElringKlinger AG, together with two cooperation partners, pressed ahead with a project involving fuel cell units for mobile use in commercial vehicles.

With the recent introduction of the anti-idling law, US legislation has created an interesting market within this area. In most US states, it is now illegal to leave a truck's engine running in order to provide on-board electrical power and stationary air conditioning. This calls for alternative auxiliary systems that can perform these functions when the engine is turned off.

ElringKlinger's solution involves using an SOFC high-temperature fuel cell combined with a reformer and heat exchanger to convert energy carriers such as diesel or natural gas into electrical energy. This is achieved with a high level of energy conversion efficiency. The efficient and environmentally friendly fuel cells are to replace the diesel retrofit units which are frequently installed at present and whose comparatively high noise and emissions levels can be seen as a disadvantage.

In 2012, sustainable output values were achieved in the required range of between 3 and 4 kW thanks to a new stack design. The overall system is shielded against heat emission with the aid of a complete thermal encapsulation designed by the Shielding Technology division. Once produced, the prototypes were subjected to extensive testing to simulate the high service life required. For 2013, one of the key items on the agenda will be to produce demonstration systems for the purpose of customer presentations.

2012 not only saw important advances in product development but also in the development of process technology that is suitable for serial production. ElringKlinger AG further optimized the pilot production facility for SOFC (Solid Oxide Fuel Cell) stacks that had already gone into operation in 2011. This means that the production facility can now be used to produce units with an output of 3 to 4 kW by means of an extremely stable process.

Fuel cells for decentralized energy supply

A concept involving the stationary use of lightweight SOFC stacks in family homes and residential apartment blocks is currently in an advanced stage of development. The stack is designed for decentralized applications in energy supply using a number of different energy carriers, preferably gas. In accordance with the principle of combined power/heat generation, the unit then supplies the households with electricity and heat. The sharp rise in the price of electricity will render this technology more and more competitive in the future.

Progress in fleet applications

In 2012, ElringKlinger AG made significant technical advances in the development of a complete PEM low-temperature fuel cell stack. The stack now has an output of around 5 kW and, in combination with a lithium-ion battery, forms a powerful energy cell. The system was designed for use in forklifts and similar vehicles and is ideal for logistics centers with a suitable hydrogen infrastructure. As part of this fleet project, ElringKlinger is working in close cooperation with a company specializing in power electronics and system integration as well as with a leading manufacturer of forklift trucks and a global logistics group.

The extensive testing processes have been completed; several prototypes were successfully tested and passed on to the cooperation partners. From a technological perspective, the systems are almost ready to be launched on the market. Further improvements are geared chiefly towards producing more cost-effective solutions.

Strong product pipeline ensures above-average sales growth

Thanks to its high level of investment in new products in the field of electromobility and to its ongoing development of additional applications for existing product concepts and processes, ElringKlinger AG is well positioned to continue outpacing market growth in the coming years.

Employees

Headcount up 4.4%

Production volumes continued to expand over the course of 2012. Due to the significant number of newly initiated projects, the company had to extend its capacity levels during the reporting period. Thus, the headcount in areas associated with manufacturing operations was higher in the period under review, despite improvements in the company's productivity. The E-Mobility division also saw a further expansion in staffing levels. In response to the company's strong growth, additional members of staff were also recruited in Sales and in the central functions of Finance and Marketing.

As of December 31, 2012, ElringKlinger AG employed 2,059 (1,972) people at its sites in Dettingen/Erms, Gelting, Langenzenn, Runkel and Thale. The overall increase in the Group's headcount by 87 people or 4.4% was less pronounced than the level of revenue growth generated by the Group (7.5%).

It should be taken into account that the higher headcount includes employees taken on from former ThaWa GmbH, an enterprise acquired at the beginning of 2012. At the end of 2012, 54 people were employed at the Thale site. Excluding this acquisition, the overall number of personnel would have been up by just 1.7% year-on-year.

In 2012, the annual average number of employees at ElringKlinger AG was 2,035 (1,888).

For further information on staff development and HR policies at ElringKlinger AG, as well as associated indicators, please refer to the chapter entitled "Sustainability"* (page 66).



Compensation Report

Compensation structure for members of the Management Board

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

Management Board compensation is made up of fixed and variable, i.e. performance-based 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 is measured on the basis of share performance.

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

As a component of long-term variable compensation, members of the Management Board are granted stock appreciation rights. Holders of stock appreciation rights are entitled to a cash-settled payment. Stock appreciation rights are not furnished with any entitlements to shares in ElringKlinger AG. For two members of the Management Board, allocation occurs in five tranches, commencing as of February 1, 2008, up to February 1, 2012. For one member of the Management Board, allocation also occurs in five tranches but beginning as of January 1, 2009, up to January 1, 2013. The grant price is the average share price of the last sixty stock exchange trading days prior to the grant date. The number of stock appreciation rights is determined on the basis of fixed remuneration payable to the individual Management Board member as well as the level of the grant price (fixed compensation in relation to grant price = number of shares allocated). The amount to be remunerated is calculated on the basis of the difference between the redemption price, which is also calculated as an average of the last sixty stock exchange trading days, and the grant price. A payment is made only when the share price of ElringKlinger AG has increased more than the index in which ElringKlinger is listed, but at least by

25%. A provision is recognized in consideration of expected future obligations. Remuneration per tranche is limited to the amount of annual fixed salary payable. The vesting period for the tranches allocated on February 1, 2008, and February 1, 2009, as well as January 1, 2009, was three years; for all other tranches it was four years.

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

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

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

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

Compensation structure for members of the Supervisory Board

The compensation structure for Supervisory Board members remained unchanged compared with last year. The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on May 31, 2011.

Compensation is comprised of a fixed component and a variable component, the latter being calculated on the basis of Group earnings before taxes in the financial year ended.

The role of the Supervisory Board Chairman and that of his Deputy are taken into consideration when determining the level of compensation. The Chairman of the Supervisory Board receives two times and the Deputy Chairman one-and-a-half times the compensation paid to other Supervisory Board members. Expenses incurred by the Supervisory Board members are reimbursed to an appropriate extent.

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

As of December 31, 2012, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

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

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2012, are as follows:

Walter H. Lechler, Stuttgart	Total of 22.0273% (of which 9.93% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
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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 German Stock Corporation Act in conjunction with Section 20 of the Articles of Association, all amendments to the Articles of Association require a resolution of the Annual General Meeting with a three-quarter majority.

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

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

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

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

Report on Opportunities and Risks

Risk management system

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

The risk management system is made up of various tools and control systems. Among the key components are strategic corporate planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and far-reaching decisions. All key areas within the company are involved in strategic planning. Within this context, information is retrieved, collated and evaluated in a standardized process. The Management Board bears full responsibility. Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the respective divisions, which is performed on a quarterly basis. It covers developments in all fields relevant to the company that can affect business activity and, in particular, the continuation of ElringKlinger AG as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, commodities markets and internal risks. This reporting system involves identifying and evaluating all risks and subsequently drafting recommendations on how to prepare for and protect against them. The head of the legal department oversees coordination.

The Management Board assesses the aggregate risk and submits regular and comprehensive reports on its findings to the Supervisory Board. Another important aspect of the centralized risk and quality management system deployed at ElringKlinger AG is that of tracking the implementation of measures defined by the company. The company considers risk management to be an all-embracing activity that encompasses not only the identification and assessment of risk, as outlined above, but also a system of preventive measures and contingency planning that has proven to be very effective.

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and service divisions of ElringKlinger AG. These audits are conducted by accountancy firms and/or suitably qualified companies commissioned by ElringKlinger AG. The rationale behind the appointment of external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. Execution of these measures is controlled by the Management Board member whose remit covers this area. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weaknesses. In the 2012 financial year, audits were performed in the areas of Quality Management, Corporate Investment Management and Technical Service. All internal audits showed that both statutory regulations and internal requirements had been consistently met. The recommendations submitted with regard to potential for optimization were put in place or are currently being implemented.

Additionally, a specialized auditing and consulting firm was commissioned to prepare a compliance risk profile for ElringKlinger AG and the Group, on the basis of which suitable measures were to be defined with regard to the compliance system. The analysis revealed in particular that ElringKlinger presents no specific risk potential. The conclusions and recommendations derived from the analysis are to be implemented through appropriate measures over the course of the financial year 2013.

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

Control and risk management system with regard to accounting

With regard to accounting and external financial reporting, the internal control and risk management system may be described with reference to the following basic characteristics. The system is geared toward the identification, analysis, valuation, risk control and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board and Supervisory Board. In accordance with the distribution of responsibilities within the company, the Finance department, which is in charge of accounting, comes under the remit of the Chairman of the Management Board. This department, which also includes Corporate Investment Management, controls accounting within ElringKlinger AG and throughout the Group and

compiles the information required for the preparation of the separate and consolidated financial statements. Corporate Investment Management is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. The Group companies report to the Head of Finance, who in turn reports to the Chairman of the Management Board.

The principal risks associated with the accounting process derive from the need to provide accurate and complete information within the specified time frame. This presupposes that the requirements have been clearly communicated and the departments responsible are placed in a position where they can meet those requirements.

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

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

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

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

Risks

General economic risks

The forecasts issued by major banks and economic research institutes point to significant regional variations among the individual economic blocs in 2013. Compared to the previous year, however, the individual forecasts show far less divergence when it comes to the range of projections.

The continued spike in sovereign debt in conjunction with high unemployment and uncertainty among consumers harbors quite considerable risk potential as regards the future economic direction taken by the eurozone as a whole. With national budgets in desperate need of consolidation, the eurozone may again find itself stuck in a quagmire of recession during 2013.

In the more severely affected Southern European states, in particular, this poses the risk of a progressive downturn in car sales beyond the twenty-year low already recorded within this area. Demand patterns in the truck sector, above all, are heavily dependent on the prevailing economic climate.

The consequence may be a decline in demand for ElringKlinger components among the vehicle manufacturers most directly affected.

The current view is that recovery in the United States and forward momentum generated in the emerging markets will more than offset the malaise of the European and Japanese economies in 2013. The global economy as a whole is expected to grow by 3.5% in 2013.

There could be a direct impact on global vehicle demand if the pace of growth in these emerging markets were to slacken unexpectedly. This, in turn, would have a noticeably adverse effect on the sales and earnings performance of ElringKlinger AG.

On the other hand, ElringKlinger AG would stand to benefit indirectly if the global economy were to grow at a faster rate than originally anticipated. Experience has shown that more dynamic economic growth tends to trigger an upturn in demand for new cars and an improvement within the truck markets, which are currently languishing in the doldrums. In turn, this would translate into more buoyant demand for ElringKlinger products.

ElringKlinger AG makes every effort to factor in economic risks at the forward planning stage. The company's forecasting processes are based on a prudent assessment of the likely macroeconomic situation (*Report on Expected Developments**, page 96 et seqq.).

 * CF. PAGE 96 ET SEQQ.

The company also has the flexibility to respond promptly and adjust its cost structures in accordance with market conditions if more widespread economic turbulence were to affect the automotive industry.

Industry risks

Any sudden and substantial downturn in vehicle and engine production within one or more of the sales regions that are of importance to the company could trigger a significant reduction in the volume of parts requested by customers under just-in-time supply agreements or result in cancellations of orders. In the short term, this would lead to a significant decline in the utilization of production capacity, with a consequent reduction in contribution margins and downward pressure on the company's operating margin. The company would require a certain time to prepare itself before it could make the necessary adjustments to cost structures and capacity levels in response to an unexpectedly severe downturn in the industry; this may have a noticeable impact on profitability, particularly in the short term.

Based on the current assessment of market conditions, risk will emanate in particular from the protracted weakness in car sales in the countries of Southern and Western Europe in 2013.

Any further deterioration in the sovereign debt crisis would have a detrimental impact on consumer behavior. One of the dangers would be another significant downturn in car sales in the countries on the periphery of Europe, in particular, where unemployment is rampant.

A further decline in vehicle demand in the mid-single percentage range cannot be ruled out in Western Europe. However, this should be offset at a global level by growth in Asia and North America.

Overall, a comprehensive slump in global vehicle production seems unlikely in 2013, despite the extremely weak state of the European automotive market. At present, there is no evidence to suggest the emergence of a crisis scenario similar to that seen in 2008/2009.

Customer risks

As a result of the pronounced upturn in global vehicle production in 2010 and 2011, the majority of customers served by ElringKlinger AG saw a considerable improvement in sales volumes and earnings at the time. This applied in particular to manufacturers operating in the premium segment of the market.

In the wake of the debt crisis – as discussed earlier – customers with a strong focus on the Southern and Western European vehicle markets were faced with a severe downturn in sales volumes in 2012 and a concomitant deterioration in their earnings performance. Despite this situation, the risk of customers defaulting on payments remains manageable and can be considered relatively low.

In the unlikely event of the insolvency of one of the ten biggest customers, the default risk in respect of accounts receivable by ElringKlinger AG would have amounted to between EUR 1.0 and 5.6 million as of the end of the reporting period.

ElringKlinger AG has made targeted efforts in recent years to minimize the risks potentially associated with dependency on a single customer. In this context, the customer base has gradually been extended. In 2012, the company's top three customers together accounted for around 24% of total sales revenue.

Price risks

ElringKlinger AG is also exposed to the risk of higher prices for its input materials. Ranking even higher than staff costs, the cost of materials constitutes the largest expense item for the company.

The materials used comprise in particular alloyed high-grade steels, C-steel, aluminum and, to an increasing extent, polymer granules. Volatility is particularly high in the case of alloy surcharges (nickel, chromium, molybdenum), which are added to the price of high-grade steel.

From 2009 onwards up until the middle of 2011, there was a continuous rise in the alloy surcharges that form an essential part of material prices. From mid-2011, these surcharges fell by more than a third. However, alloy surcharges have again been increasing markedly since the middle of 2012. Irrespective of this situation, supply-side availability remains solid and global stock levels are high, as a result of which the likelihood of extreme price hikes such as those recorded in 2007 is currently considered remote.

Contracts with suppliers for consignments of aluminum and C-steel required in 2013 were agreed primarily on the basis of prices applicable in 2012.

With regard to raw material costs, the overall risk of extreme price increases will thus remain manageable in 2013. Additionally, ElringKlinger AG is making strong efforts to counter the above-mentioned price trends with the help of continuous improvements to manufacturing processes, optimized product designs and a wider pool of approved suppliers.

In some cases, the company is able to negotiate cost escalation clauses with its customers. Where this is not feasible, price increases have to be passed on to customers as and when they exceed the levels estimated as part of original costings. This creates a risk that the company may not be able to pass on the full increase in procurement-related costs or that it may only be able to do so after a certain period of time has elapsed.

Thanks to the income it generates from the sale of scrap metal associated with stamping processes, ElringKlinger AG is able to offset, at least in part, the above-mentioned cost increases.

On balance, it is not possible to exclude the risk of more pronounced price rises for raw materials over the course of 2013. This may have an adverse effect on gross profit margins. Having said that, there are currently no signs of a return to the extremely dynamic commodity price trends faced in 2010 and 2011.

As part of its risk assessment, ElringKlinger AG monitors not only price movements but also the availability of the commodity groups it requires for production.

ElringKlinger AG makes a point of planning its requirements well in advance. The associated risks are mitigated among other things by the company's well-established links to suppliers, most of which go back many years. In this context, the company follows a strategy of diversified procurement. Alternatives are developed for commodities and materials that are either in short supply or are subject to significant price-related risks.

Use of derivative instruments

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

In the course of 2012, the decline in nickel prices was used to hedge some of the company's high-grade steel alloy requirements. As of December 31, 2012, the volume actually hedged was close to 10% of the total estimated purchase quantities. Hedging was performed by means of nickel hedging transactions. The hedging contracts run for a period of between three and six months.

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

Currency risks

The repercussions of the sovereign debt crisis and the looser monetary policy adopted by some states have led to greater exchange rate volatility. This applies above all to the euro's relationship to other currencies.

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

With regard to the translation of other currencies in the financial statements, the main exchange rate risks concern fluctuations in the euro with respect to the Swiss franc, the US dollar, the Canadian dollar, the Mexican peso and the Brazilian real.

The transactional risks to which ElringKlinger AG is exposed in connection with exchange rate movements are limited. In almost all the company's sales regions, both costs on the one hand and revenues on the other are denominated in the same currency.

The euro/Swiss franc exchange rate also has a significant impact on the company's earnings. In 2008, ElringKlinger AG financed its acquisition of the Swiss SEVEX Group by means of a loan in Swiss francs.

As of December 31, 2012, the company's accounts still contained EUR 36.9 (47.7) million in financial liabilities denominated in Swiss francs. Any appreciation in the Swiss franc with respect to the euro increases the size of these liabilities and has a negative impact on ElringKlinger AG's other operating expenses. Looking ahead, this risk potential has been restricted following the decision of Switzerland's National Bank to keep a lower exchange rate limit of EUR 1.20/CHF.

Financing risks

The industry as a whole faces financing risks attributable to the more restrictive lending practices adopted by banks in some areas.

There is also a risk that rating agencies may make changes to their assessment of the industry's credit risk profile. This could increase the risk premiums payable on new borrowings and subject the industry as a whole to less favorable credit terms, which may ultimately also affect ElringKlinger as a company.

Given the present situation within the credit markets, the overall financing risk for the automotive supplies industry is still quite considerable. In view of the fact that financing requirements, e.g. for the development of new drive technologies, are increasing, the risk of insolvencies within the automotive industry has far from subsided.

The overall volume of capital required has risen in response to the substantial increase in production output in recent years. Having said that, the company will be able to cover most of its financing requirements for investments and for its more expansive working capital through internal financing.

Thanks to a level of debt that is significantly lower than that of other market players in this industry, the financing situation of ElringKlinger AG is very stable. The company generates substantial cash flow from operating activities. Agreed but currently unused credit lines available to the company amount to approx. EUR 90 million.

There are currently no identifiable risks that might jeopardize the financing of major projects or prevent the company from meeting its payment deadlines. Equally, there are no identifiable financing risks that might jeopardize the company's existence as a going concern.

In summary, it can be said that ElringKlinger AG has ample scope when it comes to financing its planned expansion. Additionally, adequate financial resources are available for early investment in new technologies.

Wage cost risks

Alongside materials, wages represent the largest expense item at ElringKlinger AG. On the back of relatively substantial collective agreements negotiated in 2012, an upward wage spiral would have a burdening effect on the company's earnings situation. This would also severely undermine ElringKlinger AG's position relative to its international competitors.

IG Metall is demanding a 5.5% increase in wages for metal industry workers covered by collective pay agreements. Given these demands, there is a risk that wage cost increases in Germany will move well above the average level of previous years, as seen in 2012. This would be detrimental to Germany as a business location, and have an impact on the overall earnings performance of ElringKlinger AG.

There is also a fundamental risk that substantial wage increases or any sudden collapse in demand and production volume could cause a significant jump in the staff cost ratio. This, in turn, would have a negative impact on the company's earnings performance and financial situation. The company has established a range of labor flexibility measures that would allow it to respond quickly to any unexpected and severe fall in demand. These measures include working time accounts, shift models and adjustments to temporary staffing capacity. The proportion of employees with temporary contracts is around 11% at ElringKlinger AG, the rationale being to provide ample flexibility in terms of capacity.

All in all, wage cost inflation constitutes one of the most significant risks to the company's earnings and financial situation. In order to remain competitive at an international level while also retaining jobs in the domestic market, higher wage costs have to be offset by improved efficiency and streamlining in production.

Technology risks

ElringKlinger AG's business model is based predominantly on its ability to develop technologically cutting-edge products and achieve above-average long-term growth through superior innovation and productivity. Profit margins are safeguarded through technology-driven unique selling propositions.

Depending on the direction taken with regard to innovation leadership, there is a risk that major technological developments are not identified and applied accordingly. If ElringKlinger were to lose its position as a pacesetter, this would jeopardize the company's standing as a preferred development partner in the medium term at the very latest. This, in turn, would lead to a decline in sales and earnings over the medium to long term. Any failure to maintain a portfolio of market-leading products would put considerable downward pressure on prices.

Alongside the continued improvement of the combustion engine, R&D efforts within the wider automotive industry are currently dominated by considerable expansion within the field of alternative drive technologies.

Looking beyond its solutions centered around optimized combustion engines, ElringKlinger AG was quick to pursue a future-proof position by also embracing new product technology tailored to the requirements of electromobility. It is currently making a committed effort to further cement its position within this area. Its R&D ratio, which is above the industry average, bears testimony to the company's ardent support of this line of business. What is more, from 2005 to 2012, the company spent between 9 and 16.0% of sales per annum on investments that have been instrumental in extending its technology portfolio.

In this context, ElringKlinger AG's main focus lies on the application of existing material and process know-how. In taking this route, it avoids the risk of straying from its core competencies and wasting efforts on areas of technology with fewer market prospects. Trends in the market are kept under constant review by each of the company's divisions. They analyze the latest technological developments at the product group level and work at pace to identify viable solutions for the customers in question.

Overall, it can be inferred that the opportunities presented by new technology trends in the area of vehicle drive systems outweigh the risks for ElringKlinger AG.

External growth/Acquisitions

Ongoing consolidation in the automotive supply industry is being driven by the current situation in the car industry as a whole, as outlined above. In the case of acquisitions, there is always a risk, despite careful planning and analysis, that the newly acquired companies will not achieve the expected targets or not do so within the expected time frame.

External circumstances may cause delays with regard to measures implemented for the purpose of corporate integration. It is impossible to rule out entirely the necessity for restructuring measures that may initially have an adverse effect on the company's earnings. Additionally, larger investments may be required, leading to more extensive financing requirements than originally planned.

In the case of technologies purchased by the company, there is a possibility that their performance will fail to meet the company's expectations in full. There is also a risk that a new technology may not find acceptance among customers.

To limit the above-mentioned risks, ElringKlinger AG's internal team of experts always subjects projects to an extensive due diligence review before the acquisition of a company or new technology. Each review examines and analyzes in detail the plausibility of all financial plans and technological data.

Acquisitions are only transacted if there is a good prospect that the acquired entities can achieve the Group profit margin in the medium term. At the same time, the company follows a strict policy of ensuring that the overall potential risk in financial terms – even in the worst-case scenario – will not impair ElringKlinger AG's long-term ability to pay a dividend.

Legal risks/Warranty risks

As a manufacturer and supplier to the automotive industry, ElringKlinger AG may be exposed to warranty and liability risks, in relation to revenue and earnings. The supply of non-compliant components may necessitate an exchange or recall of such parts. The associated cost and claims for damages may be significant. Appropriate quality assurance systems are in place to prevent and mitigate such risks. Furthermore, risks in this area are covered to a large extent by insurance policies, which are an element of the risk management system. Finally, ElringKlinger AG addresses its exposure to legal risks by recognizing appropriate provisions in its annual accounts. Compared with the previous year, there were no other significant risks in the period under review.

IT risks

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

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

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

Staff access to sensitive data is controlled by means of a graded system of authorization. Up-to-date security software is used to provide the greatest possible protection against unauthorized access from outside the company.

Opportunities

Market prospects: potential in emerging markets

Global vehicle production is likely to stagnate in 2013 or, at the very best, see percentage growth in the low single figures. In the coming years, demand for cars and commercial vehicles will increasingly shift from the established markets of Europe, the US and Japan towards the BRIC (Brazil, Russia, India, China) and SMIT regions (South Korea, Mexico, Indonesia, Turkey).

In view of the protracted economic and financial crisis in Europe, many companies have prioritized the need to unlock new growth opportunities beyond their established core markets. Against the backdrop of continued contraction in the Western European markets, the focus has turned to Eastern Europe and South America as well as, in particular, the emerging economies of Asia. Alongside China, the ASEAN states are playing an increasingly important role for the automotive industry. With a growing desire for mobility and greater importance attached to cars as a status symbol, the demand for vehicles in these regions has increased noticeably.

ElringKlinger AG and its subsidiaries are benefiting greatly from the fact that the majority of the BRIC states and the ASEAN 10 region are adopting far-reaching emissions legislation – similar to the Euro 4 or Euro 5 standards in Europe. As a result, these markets will see growing demand for engine and exhaust components that help manufacturers to comply with the above-mentioned performance standards.

Benefiting from a suitably structured product portfolio and the necessary local production capacities at its subsidiaries, ElringKlinger is well positioned to take advantage of the substantial growth rates in car sales within the emerging markets. The company has thus established a solid base from which to seize the opportunities for sales and earnings in these regions.

Growth drivers: climate change and new emissions rules

With public debate over the impact of climate change becoming increasingly heated around the globe and legislation taking a tough stance on emission levels, CO₂ reduction has emerged as one of the top priorities for the automotive industry.

ElringKlinger AG's portfolio and development work are strategically focused on addressing the issues of reducing fuel consumption, scaling back emissions and introducing alternative drive technologies.

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

At the same time, emission standards covering carbon monoxide, hydrocarbon compounds, nitrogen oxide and particulates are being tightened up considerably. A case in point: the demanding Euro emission standards. Regulations similar to these are also being adopted by many emerging countries.

For ElringKlinger AG, the trend among the majority of manufacturers towards downsizing of combustion engines (Research and Development*, page 68) creates new fields of application for highly heat-resistant specialty gaskets and shielding components, e.g. in the turbocharger area. At the same time, exhaust systems are becoming increasingly complex. This has resulted in stronger demand for high-quality specialty gaskets and thermal shielding components for catalytic converters and particulate filters.

*  CF. PAGE 68

Many vehicle manufacturers are opting for hybrid powertrains as the best way to reduce CO₂ emissions. In the future, vehicle platforms will in many cases come with a choice between an optimized combustion engine or, alternatively, a hybrid version combined with an electric drive. Industry analysts predict that by 2025 around 20% of new vehicles will be sold as rechargeable plug-in hybrids.

Plug-in hybrids in particular offer an opportunity for ElringKlinger AG to supply not only components tailored to the requirements of combustion engines but also cell contact systems and pressure equalization modules for lithium-ion batteries. This will open up the opportunity to increase its average per-vehicle revenue considerably.

Opportunities arising from industry consolidation

Many companies in the automotive supply industry are still feeling the aftermath of the crisis that buffeted the sector in 2008/9, as well as having to contend with substantial financing requirements. The number of insolvencies remained high in 2012. In many cases, equity ratios are low and companies are unable to tap the capital markets for additional funds, a situation that poses considerable risk

in the event of a more pronounced downturn in the market. As a result of new rules stipulating that the banks themselves have to meet higher capitalization requirements, there is also a risk that it will become more difficult to obtain external financing and that the cost of capital may rise.

Suppliers depending primarily on the ailing car markets of Western Europe are under particular pressure with plants operating below capacity.

Given the need to expand production capacity in response to rapid growth in the emerging countries, companies have to find additional financial resources. They also need to invest heavily in the development of new products. At the same time, the situation regarding competition and price will remain challenging in the foreseeable future.

Against this backdrop, industry experts such as the Center of Automotive at the Bergisch-Gladbach University of Applied Sciences predict more intense consolidation within the sector in the coming years. This will primarily affect small- and medium-sized suppliers whose operations are not global in scope. Today, car and truck makers alike mainly develop so-called global engines, which are used worldwide in various vehicle series. This approach means that suppliers must operate an international production network, complemented by the capacity to supply at a global level.

Benefiting from a strong financial base, ElringKlinger AG can use this situation to its advantage by reinforcing its own technology portfolio with the help of targeted acquisitions or profiting from the market exit of competitors. ElringKlinger monitors the market on a continual basis, with the express purpose of identifying and assessing key opportunities for takeovers.

Overall assessment of risks and opportunities

Over recent years, the systems established by ElringKlinger AG to identify and manage risks and opportunities have proven to be very effective.

This is clear from the company's successful management of the severe crisis that engulfed the automotive market in 2008/9 and the speed with which ElringKlinger moved into new areas such as electromobility/hybrid technology.

Benefiting from a solid balance sheet underpinned by an equity ratio of 54.2%, in conjunction with considerable financial strength, ElringKlinger AG has the ability to weather even more protracted crises.

This stability is also an advantage when it comes to securing customer contracts. After the experience of the crisis years of 2008 and 2009, customers now often consider the financial stability of suppliers as a selection criterion when negotiating long-term contracts and choosing development partners.

After weighing up all the opportunities and risks, it can be said that the overall macroeconomic uncertainties have hardly diminished when compared to the previous year. The risk factors affecting the company are predominantly exogenous in nature. On account of its early warning systems and flexible organizational structure, ElringKlinger AG is well equipped to respond promptly and comprehensively as events require.

There are currently no identifiable risks or combinations of risk that might jeopardize the future existence of the company as a going concern.

ElringKlinger AG has made considerable up-front investments in recent years, the focus being on product development and the expansion of its technology pipeline. The company has established a strategic position that allows it to exploit opportunities for growth in the new areas of alternative drives and in the market for conventional products. It is also well positioned to seize opportunities for acquisitions that may arise as a result of the trend towards industry consolidation. Overall, the company is in a good position to outpace the automotive market as a whole in the years ahead in terms of percentage growth, while maintaining a manageable risk profile.

Corporate Governance Statement

The declaration on corporate governance required by Section 289a of the German Commercial Code (HGB) is openly available for inspection on the company's website at www.ElringKlinger.de/2012-euf-en*

*  INTERNETLINK

Report on Expected Developments

Outlook – Market and Sector

Sovereign debt crisis continues to loom over global economy in 2013

The international debt crisis is likely to remain a dominant theme overshadowing global economic performance in 2013. Against this backdrop, the world economy will continue to walk the line between hope and fear in the months ahead. Despite this uncertainty, the International Monetary Fund (IMF) has forecast growth of 3.5% for the global economy, although the risk of a downward slide cannot be ruled out entirely. By contrast, the world economy as a whole is expected to gain forward momentum in the following year, with global growth projected to reach 4.1% in 2014.

The eurozone continues to grapple with problems. It is due to the decisive action of the European Central Bank, however, that the monetary union remains intact. While economic output in the eurozone as a whole is again expected to decline slightly in 2013, the downward spiral is likely to come to a halt over the course of the year. Looking further ahead, the European economy should be able to return to more tangible growth in 2014.

The German economy is again expected to fare better than its European counterparts. On the back of an unexpected rise in the Ifo Business Climate Index towards the end of 2012, the ZEW Barometer (Center for European Economic Research), too, surged ahead in January 2013 by an impressive 24.6 points to 31.5 points in total. The German economy is expected to grow by 0.6% in 2013. With a projected growth rate of 1.4%, it is likely to move forward again at a slightly faster pace in 2014.

In the United States, for the time being, the government managed to circumvent the impending fiscal cliff, thereby avoiding the dramatic tax increases and spending cuts that would have automatically followed. The US economy will benefit, among other factors, from low interest rates, lower levels of unemployment and an upturn in real estate prices. The IMF has forecast GDP growth of 2.0% for 2013 and 3.0% for the following year. Brazil, the largest economy in South America, is expected to see GDP grow by a respectable 3.5%, followed by 4.0% in 2014.

In stark contrast to a shrinking eurozone, Asia can look forward to growth stabilizing at a high level in the near future. The newly appointed Chinese government has already signaled its commitment to annual growth of 7% per annum in the coming years. This, it is said, would be sufficient for the purpose of creating a “prosperous society” by 2020. The Chinese economy is forecast to grow by 8.2% in 2013, while 2014 is expected to see economic growth of 8.5%. Elsewhere, India’s GDP growth has been estimated at 5.9% in 2013 and 6.4% in the following year. The ASEAN region can also look forward to significant growth in both economic output and demand in 2013 and 2014.

Japan’s new government is looking to boost the local economy with the help of far-reaching stimulus packages and an expansive monetary policy. Despite these efforts, economists have forecast modest GDP growth of 1.2% for 2013. In 2014, Japan is likely to see its economy expand by 0.7%.

Wide divergence across global car markets

With numerous factors contributing to uncertainty at present, the global demand for vehicles is likely to grow at a moderate rate in 2013. Significant regional differences in the development of automotive markets, which were already visible in 2012, are largely expected to continue.

Once again, the Asian countries are likely to be the key growth drivers in 2013 and 2014. Alongside China, rapidly growing ASEAN nations such as Indonesia, Malaysia, Thailand and Vietnam are playing an increasingly significant role. Meanwhile, sales figures in Western Europe have reached their lowest level in almost 20 years. What is more, the region as a whole may plunge even deeper into the mire. Due to ongoing macroeconomic risks, forecasts for the automotive markets in 2013 are on the whole clouded by quite significant levels of uncertainty.

The road map set out by ElringKlinger AG for 2013 is guided by the notion that car production figures will stagnate or, at the very best, expand slightly at a global level. This is based on the assumption that more expansive output in North America, Asia and Russia will offset the further contraction seen throughout the car markets of Western Europe.

The ongoing debt crisis and high levels of unemployment are dampening consumer spirits in Western Europe. Almost all forecasts predict a further decrease in passenger vehicle sales in 2013. At minus 2% to minus 4%, market deterioration is expected to be less pronounced than in 2012. However, 2013 will probably represent a new low in the number of cars sold.

According to forecasts, the first six months will be weaker than the second half of the year. Given the extremely low level of sales recorded in this sector and an average vehicle age of more than eight years, the vehicle markets should pick up pace in the second half of 2013.

Vehicle production in Western Europe in 2013 will remain either largely unchanged or recede to a level slightly below that of 2012. The reduction in stock levels seen by many manufacturers throughout the industry may even prompt a slight rise in unit production figures in the second half of the year.

Having enjoyed a sustained period of stability, the German automotive market will also have to contend with a more severe headwind. Germany's automotive industry association VDA is expecting approximately 3 million newly registered cars within the domestic market in 2013. This figure is comparable to that recorded in the previous year. By contrast, domestic car production, which benefits considerably from demand in Asia and North America, will drop slightly – down to approximately 5.4 million units. Exports account for more than three-quarters of this figure.

Although the US automotive market is set to grow in 2013, partly thanks to an elevated average vehicle age of more than ten years, it will do so at a reduced speed. The percentage increase in unit sales relating to cars and light trucks is expected to be in the medium single-digit range. The number of newly registered vehicles may therefore move beyond the 15 million mark once again in 2013. Having said that, the US market still has a long way to go before reaching previous highs, when unit sales were well in excess of 17 million vehicles per year. An increase in the medium single-digit percentage range is also expected for US car production in 2013.

In 2012, South America's largest vehicle market, Brazil, reaped the rewards of government incentive schemes such as tax reductions for car buyers. Given the number of purchases brought forward as a result of these incentives, it seems unlikely that great strides will be made in 2013. Vehicle sales forecasts are inconsistent and vary between a slight contraction and moderate growth.

China, with its low vehicle density of only 37 passenger cars per 1,000 inhabitants, continues to offer considerable potential for long-term growth. This will again be reflected in a substantial increase in car sales over the course of 2013. Sales in what is now the world's largest vehicle market are set to increase by a further 7% to 20.7 million passenger and light commercial vehicles, according to Chinese industry association CAAM. China is also expected to overtake Europe in terms of car production for the first time in 2013, with year-on-year growth estimated at 8.9%. The sale of cars and light trucks in India will also increase by approximately 7%, thus touching the 3.5 million mark.

Japan, however, is expected to see vehicle sales decline by a percentage rate towards the lower end of the double-digit range in 2013. In 2012, the Japanese market was still benefiting from catch-up effects as it emerged from the natural disaster in 2011.

Commercial vehicle market set for slight recovery

ElringKlinger AG currently generates around 17% of its revenue from Original Equipment sales to the commercial vehicle industry. Due to the significant number of product innovations within this area, the commercial vehicle business is expected to become increasingly important for ElringKlinger.

The commercial vehicle market tends to directly reflect the situation in the wider economy and is generally considered more cyclical than the passenger vehicle sector. With the European economy languishing in the doldrums, demand for heavy goods vehicles has also taken a nosedive. On the back of a sharp decline in 2012, the best that can be expected for 2013 is a moderate recovery in sales volumes.

The Euro-VI standard may have a positive impact on truck sales in Europe in the second half of the year. It will come into force at the beginning of 2014. Low-emission engines are more expensive, which may prompt advance purchases in 2013. In spite of these factors, forecasts for the commercial vehicle market in Europe vary significantly between minus 5% and plus 5%.

Following buoyant demand for trucks in North America in 2012, Class 8 truck sales are expected to edge up slightly in 2013 as the economy continues to recover. The number of heavy trucks purchased in the US over the course of 2013 is expected to be 2% up on the figure recorded in 2012.

Truck sales are also likely to increase in Brazil. Given the low sales figures in 2012, increases of up to 10% would appear to be possible in 2013. The government had announced in December 2012 that it would extend its sales incentives until the end of 2013.

Having seen its truck market slump by almost a third in 2012, China – the world's largest heavy goods vehicle market in terms of numbers – is expected to witness a surge in demand by around 10% in 2013.

On the whole, global demand for trucks will pick up again slightly over the course of 2013 after considerable decreases in 2012. According to most forecasts, the global market for heavy goods vehicles will grow by 5% calculated on the basis of new registrations.

Outlook – Company

Competitive climate remains demanding

The market environment for many of the product groups supplied by ElringKlinger AG continues to be governed by intense competition. With customers in the vehicle industry demanding lower prices, automotive suppliers are having to focus increasingly on improving their efficiency levels in production, particularly in view of rising costs.

ElringKlinger AG remains fully committed to honing its unique selling propositions with regard to processes and product development.

Given the significant technological barriers and highly specialized process engineering expertise associated with this line of business, the likelihood of new competitors entering this market is relatively low. Many of the processes, machinery and materials used in this area are based on proprietary development work as well as protected methods. The majority of the tooling technology deployed by ElringKlinger AG in this field remains in-house.

The as yet unresolved risks associated with the international debt crisis continue to be a source of uncertainty – particularly in Europe – as to the future performance of the vehicle market as a whole and, in turn, the volumes requested by customers as part of their production scheduling.

Against the backdrop of this challenging environment, it is imperative that the company assumes a highly flexible position with regard to expense items and organizational structures in 2013.

Rising investments

The past years have been dominated by significant investments in new production plants as well as the funding of large-scale projects such as the new logistics center in Dettingen/Erms, Germany. By contrast, expenditure on investments attributable to tangible fixed assets will return to more normal levels again in 2013 and 2014.

Following moderate investments of around EUR 49 million in 2012, ElringKlinger AG has earmarked around EUR 60 million in 2013 for investments in tangible fixed assets. These investments will be

directed primarily at new machines and operating systems for scheduled production ramp-ups, e.g. additional plastic injection-molding machinery for the new plant in Dettingen/Erms as well as production lines for shielding parts at the site in Langenzenn. In addition, all divisions will be purchasing technical equipment and machinery as part of streamlining projects, the aim being to make production processes more cost-effective.

Approximately EUR 6 million will be invested in the newly constructed production premises at the site in Thale, Germany. State-of-the-art machinery for precision welding and canning of particulate filters as well as complete exhaust gas purification systems, in conjunction with the transfer of production volumes into the eurozone, will lead to tangible cost reduction in the field of exhaust technology. Operating as an "extended workbench" for Hug Engineering AG, the plant is being primed for the production of larger series. A significant proportion of expenditure associated with this investment will take place in 2013.

The 2013 budget also includes investments of around EUR 8 million to be spent by ElringKlinger AG for the construction of a new center for the assembly and packing of spare part sets at the subsidiary ElringKlinger Logistic Service GmbH located in Rottenburg/Neckar, Germany.

Order intake in positive territory

Order intake at ElringKlinger AG rose to EUR 484.5 (464.5) million as of December 31, 2012. This corresponds to an increase of 4.3% compared to the previous year.

ElringKlinger AG is supported by a solid order backlog when it comes to achieving sales growth targeted for 2013. Rising by 6.5% year-on-year, order backlog totaled EUR 218.6 (205.2) million as of December 31, 2012.

To a large extent, the company's revenue and earnings targets for 2013 have already been safeguarded by order backlog recorded at the end of fiscal 2012.

Forecast: sales and earnings performance 2013 and 2014

ElringKlinger AG's financial performance is expected to continue to improve over the course of 2013 and 2014. The company intends to save costs by introducing more extensive automation and implementing intelligent process technologies. The aim is to improve efficiency by at least 3%.

Based on the supply agreements concluded by the company, ElringKlinger AG anticipates that the price situation will remain relatively stable in 2013 – depending on the respective types of material required. By contrast, the market prices of specific raw materials are expected to rise, e.g. in the case of polymer granules. Requiring more extensive volumes of this raw material, the company is likely to be faced with higher unit prices in this area. Having said that, there is currently no evidence to suggest that commodity prices will advance at a rate similar to that seen in 2010 and 2011.

ElringKlinger AG took advantage of the temporarily more favorable price climate and entered into hedging agreements for alloy surcharges (nickel) relating to part of the overall volume of high-grade steel required by the company.

Depending on the future direction taken by the global economy and the associated levels of demand for commodities, a more pronounced increase in material prices cannot be ruled out entirely in 2013.

The future direction of personnel expenses at ElringKlinger AG will depend to a large extent on the collective wage agreement concluded within the metal-working industry. It is likely to prompt a further increase in salaries and wages in 2013. The collective pay increase is currently being negotiated between the IG Metall trade union and employer federations. Given the sustained pressure exerted on prices by customers, wage rises will have to be offset by appropriate streamlining measures and cost reductions.

Growth planned for revenue and income from ordinary activities

Against the backdrop of the economic projections outlined above, ElringKlinger AG is targeting organic revenue growth of 5 to 7% in 2013. Should global car production merely stagnate in 2013, revenue growth is more likely to be positioned at the lower end of this range. Income from ordinary activities is to grow in line with sales.

With a portfolio centered around emissions reduction and new products targeted at e-mobility, ElringKlinger AG considers itself well placed to generate further organic growth in revenues and earnings over the course of 2013 and 2014.

Given the structural growth seen within the majority of its product groups, ElringKlinger AG is confident that it can continue to outpace the vehicle market as a whole when it comes to growth.

Sufficient scope for financing organic growth and acquisitions

The cash flow expected from operating activities in 2013 and 2014 respectively is likely to exceed payments currently planned for investments in tangible fixed assets. Thus, future funding of organic growth by ElringKlinger AG as well as continued expansion in the areas of electromobility have been safeguarded. The company's financing requirements for its operating business in 2013 and 2014, as anticipated at present, will be covered to a large extent by the existing inflow of funds attributable to internal financing.

In addition, ElringKlinger AG has the option of accessing outside capital in the form of lines of credit provided by several banks, amounting to approx. EUR 90 million in total.

If favorable opportunities for external growth were to arise in the short term as a result of ongoing consolidation within the industry, ElringKlinger would have sufficient room to maneuver when it comes to financing viable acquisitions.

Reduction of net debt

Having risen to EUR 277.7 (244.8) million as a result of the acquisitions transacted in 2011 and 2012, the construction of new plants and financing implemented in support of buoyant growth, debt (financial liabilities including pension obligations) is to be scaled back gradually from the second half of 2013 onwards with the help of cash flows from operating activities. The first half of the year is generally dominated by disproportionately large payments as a result of the distribution of dividends.

Therefore, ElringKlinger AG's net financial liabilities (financial liabilities less cash) are likely to be lower at the end of 2013 than they were on December 31, 2012. ElringKlinger AG will also be looking to further reduce its net financial liabilities in the subsequent financial year 2014.

Based on its current financial performance, financial position and cash flows, ElringKlinger AG can consider itself well positioned to achieve the corporate targets it has set for itself.

Events after the Reporting Period

After the reporting period, ElringKlinger AG transacted the full acquisition of the South Korean joint venture ElringKlinger Korea Co., Ltd. in Changwon.

In 2012, the Korean company generated sales revenue of EUR 12.2 million. ElringKlinger AG acquired the remaining 50% interest in ElringKlinger Korea Co., Ltd. from the co-owner family, thereby becoming the sole owner of the enterprise. The purchase consideration for the 50% interest amounted to EUR 4.3 million. Having previously been included in the Group's accounts on a proportionate basis, the enterprise is to be fully consolidated as of February 1, 2013.

The joint venture produces cylinder-head and specialty gaskets, heat shields and plastic housing modules. The acquisition will allow ElringKlinger to cement its position in the Asian market and further expand its business relations with Korean vehicle manufacturers.

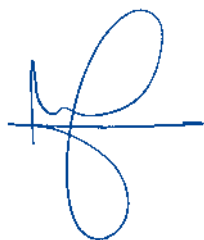
Furthermore, ElringKlinger AG acquired the remaining 49% ownership interest in the South African company Elring Gaskets (Pty) Ltd. effective from January 1, 2013. In this context, the name of the company was changed to ElringKlinger South Africa (Pty) Ltd.

ElringKlinger South Africa (Pty) Ltd. generated sales of approx. EUR 0.8 million in 2012. The purchase consideration for the remaining ownership interests amounted to approx. EUR 0.6 million.

Having previously focused on the aftermarket business, the company is to be expanded in 2013 for the purpose of manufacturing shielding components within the context of projects already acquired in this area. Among others, this includes a major serial production contract from one of Germany's premium car makers, the focus being on supplying engine and underbody shielding packages for an entire series.

Beyond this, no other significant events requiring disclosure took place after the reporting period.

Dettingen/Erms, March 13, 2013
The Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the ElringKlinger AG, Dettingen/Erms, for the business year from January 1 to December 31, 2012. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's Board of Managing Directors. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, March 13, 2013

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

Marcus Nickel
Wirtschaftsprüfer
(German Public Auditor)

ppa. Renate Berghoff
Wirtschaftsprüferin
(German Public Auditor)

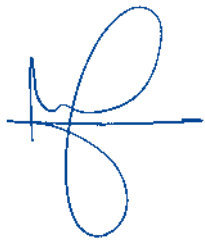
Responsibility Statement

Signature of the annual financial statements and responsibility statement

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

Dettingen/Erms, March 13, 2013

Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder



ElringKlinger AG
Max-Eyth-Straße 2
72581 Dettingen/Erms
(Germany)