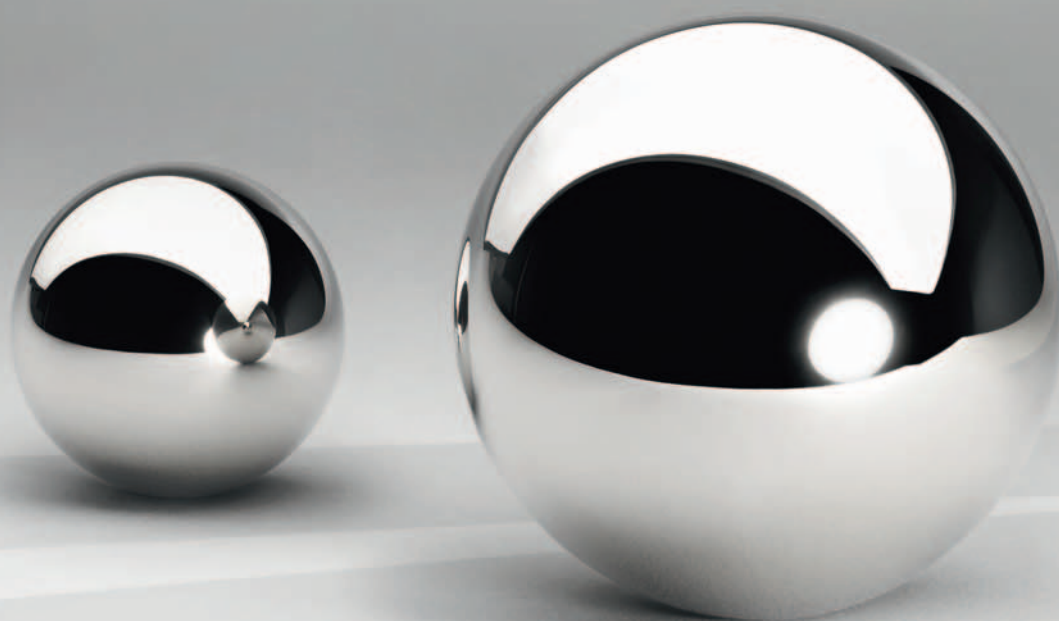


FINANCIAL STATEMENTS OF ELRINGKLINGER AG 2010

EMBRACING BOTH WORLDS



**elring**klinger

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## EMBRACING BOTH WORLDS

Whether we are talking about efforts to enhance the conventional combustion engine through downsizing or about developments in electromobility (i.e. solutions using batteries and fuel cells), ElringKlinger is one of just a small group of suppliers throughout the world with the expertise to manufacture high-end components for all drive technologies.

As a global development partner and original equipment manufacturer for cylinder-head and specialty gaskets, plastic housing modules, battery components and shielding components for engines, gearboxes and exhaust systems, ElringKlinger supplies the majority of vehicle and engine makers operating around the globe. We make direct use of this capacity for innovation to promote eco-friendly mobility coupled with sustainable and profitable growth. It is a challenge that the ElringKlinger Group, with its team of around 4,700 employees at 29 sites around the world, is dedicated to meeting.

# ElringKlinger AG Balance Sheet

as at December 31, 2010

	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
<b>ASSETS</b>		
<b>Fixed assets</b>		
Intangible fixed assets	987	1,076
Tangible fixed assets	200,968	179,398
Financial assets	256,640	239,331
	<b>458,595</b>	<b>419,805</b>
<b>Current Assets</b>		
Inventories	58,047	48,972
Receivables and other assets	102,064	84,605
Cash in hand and bank balances	55,653	267
	<b>215,764</b>	<b>133,844</b>
<b>Prepaid and deferred expenses</b>	<b>298</b>	<b>256</b>
	<b>674,657</b>	<b>553,905</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Shareholders' Equity</b>		
Share capital	63,360	57,600
Capital reserve	120,827	2,747
Revenue reserves	174,991	161,458
Retained earnings	22,176	11,520
	<b>381,354</b>	<b>233,325</b>
<b>Provisions</b>		
Provisions for pensions	53,347	38,668
Provisions for taxes	1,136	3,769
Other provisions	24,159	21,358
	<b>78,642</b>	<b>63,795</b>
<b>Liabilities</b>	<b>213,484</b>	<b>256,477</b>
<b>Deferred income</b>	<b>247</b>	<b>308</b>
<b>Deferred tax liabilities</b>	<b>930</b>	<b>0</b>
	<b>674,657</b>	<b>553,905</b>

# ElringKlinger AG Income Statement

for the period from January 1 to December 31, 2010

	2010 EUR k	2009 EUR k
Sales	382,583	307,055
Change in inventories of finished goods and work in progress	3,535	-8,190
Other own work capitalized	9,515	12,443
Other operating income	26,239	30,722
Cost of materials	-171,967	-139,659
Personnel expenses	-103,410	-84,343
Amortization and depreciation on intangible fixed and tangible fixed assets	-34,999	-37,475
Other operating expenses	-67,963	-47,371
Income from affiliated companies	25,284	-927
Net interest result	-8,592	-7,023
<b>Income from ordinary activities</b>	<b>60,225</b>	<b>25,232</b>
Extraordinary expense	-13,420	0
Taxes on income	-10,160	-4,099
Other taxes	-164	-44
<b>Net income</b>	<b>36,481</b>	<b>21,089</b>
Transfer to other revenue reserves	-14,305	-9,569
<b>Retained earnings</b>	<b>22,176</b>	<b>11,520</b>

# ElringKlinger AG Notes to the Financial Statements for the year 2010

## General information

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

For presentation of the income statement, the total cost method of accounting was applied.

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.

## Adoption of the provisions of the Accounting Law Modernization Act

ElringKlinger AG financial statements for the 2010 financial year are subject to initial adoption of the Accounting Law Modernization Act (hereinafter referred to as "BilMoG") which went into force on May 29, 2009, with regard to recognition and measurement regulations. The option to apply these standards early was not used.

Material effects of the adoption of BilMoG provisions are shown in the following reconciliation. In accordance with the BilMoG transitional regulation, effects of first-time adoption as of January 1, 2010 – depending upon the item – shall be recognized either under extraordinary profit or loss or offset against revenue reserves.

Effects	Extraordinary profit or loss	Revenue reserves
Pension provisions	- 12,724	
Other provisions	- 253	
Deferred taxes		- 906
Discounting provisions		134
Tax accruals	- 443	
	<b>- 13,420</b>	<b>- 772</b>

No use was made of the option to restate previous year figures as per § 67 of the Introductory Law to German Commercial code, or EGHGB.

## Accounting and valuation principles

### Fixed assets

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

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

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

Movable property acquired or manufactured through December 31, 2009, was initially depreciated using the declining method and then later using the straight-line method. Additions subsequent to January 1, 2010 are depreciated over the expected useful lives according to the straight-line method. Restatement of the useful lives for additions subsequent to the 2010 financial year resulted in a general trend toward longer useful lives. The restatement was undertaken to improve the presentation of assets, liabilities, financial position and profit or loss. This results in lower depreciation amounts.

Since January 1, 2008, the tax provisions under § 6 (2) and (2a) of the German Income Tax Act ("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 less any input tax exceeding EUR 150 but less than EUR 1,000. Each annual collective item is depreciated over a period of five years with an effect on profit. The disposal of assets from this collective item does not reduce the carrying amount.

Shares in affiliated companies and long-term equity investments are recognized at their acquisition cost or the lower fair value. Loans are recognized at their nominal value. If necessary or permissible, impairments are made. 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 value 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.

Non-current securities are recognized at their acquisition cost or the lower fair 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 at the balance sheet date. Raw materials, supplies and consumables, as well as merchandise, are measured at their average acquisition cost. In part, agreed values are used.

Measurement of work in progress and finished goods is 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.

Discounts for obsolescence were reduced for the 2010 financial statements based on extensive analysis of inventory levels and transactions in previous years. As a result of this, inventory value was higher. The effect of changing this valuation allowance amounts to EUR 2,054 k for ElringKlinger AG.

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.

The procedure for determining valuation allowances was modified as the result of an analysis of the loss of receivables in previous years, leading to the reduction of valuation allowances. The effect of this modification amounts to EUR 1,332 k for ElringKlinger AG.

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.

### Shareholders' equity

Subscribed capital is recognized at its par value.

### Provisions and liabilities

Provisions for pensions are measured as of December 31, 2010, according to actuarial principles by means of the projected unit credit method. The 2005 G Heubeck mortality tables are used as the biometrical basis for calculation. The average market interest rate of the past seven years is applied as the calculatory 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. Pension provisions were measured in the previous year on the basis of actuarial methods using the entry age normal method in accordance with § 6 a EStG, using an interest rate of 6.0% and applying the 2005 G Heubeck mortality tables. The difference on January 1, 2010, due to changes in the measurement of pension obligations, amounted to a total of EUR 12,724 k; this amount was allocated completely and recognized as an extraordinary expense.

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 calculatory interest rate of 5.15% and the 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 company 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.

The lump-sum portion of the provision for warranties was reduced from 0.5% to 0.3% of sales in 2010 on the basis of an analysis of past warranty expenses. This led to the reduction of the warranty provision by EUR 769 k.

In past years, the order backlog was used as the basis for determining provisions for expected losses from executory contracts. Beginning with the 2010 financial year, this provision is determined on the basis of the three year plan, driving the need for increased provision. The effect of this change amounts to EUR 1,097 k.

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.

To the extent that existing plan assets are shielded from creditors and serve exclusively to satisfy pension obligations or similar long-term obligations, these assets are offset against the corresponding liabilities. Accordingly, related expenses and income are offset. Existing plan assets are recognized at fair value.

Liabilities are recognized at their settlement amount (until December 31, 2009: repayment amount).

#### Foreign currency items and currency translation

Receivables and payables in foreign currency are measured at the 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. Through December 31, 2009, foreign currency receivables and payables were measured with the rates at the date of entry or origination, or at the lower/higher fair value.

#### Deferred taxes

Since 2010, deferred taxes are recognized at a tax rate of 27.2% 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. If an overall excess of deferred tax assets results, this is not recognized in accordance with the option under § 274 (1) sentence 3 HGB.

Expenses or income arising from the first-time recognition of deferred taxes on January 1, 2010 will be directly offset against revenue reserves in accordance with the provisions governing adoption of BilMoG (§ 67 (6) sentence 1 EGHGB). Expenses and income arising from the change of deferred tax carrying amounts since January 1, 2010 are reported separately in the income statement under the heading "Taxes on income" and amount to EUR 24 k at the balance sheet date.

Deferred taxes are calculated on the basis of an effective tax rate of 27.2% (15.825% for the corporate tax rate including solidarity surcharge and 11.375% trade tax) which is expected to arise when the differences are reduced. The tax rate for trade tax is determined on the basis of the average trade tax rate of 325%.

## 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.

## Changes in fixed assets

in the financial year 2010

Acquisition or manufacturing cost

	Jan. 1, 2010 EUR k	Additions EUR k	Reclassifi- cations EUR k	Disposals EUR k	Dec. 31, 2010 EUR k
<b>Intangible fixed assets</b>					
Patents, licences	19,794	320	29	1,141	19,002
Advance payments on intangible fixed assets	34	206	-34	0	206
	<b>19,828</b>	<b>526</b>	<b>-5</b>	<b>1,141</b>	<b>19,208</b>
<b>Tangible fixed assets</b>					
Property and buildings	126,134	6,276	4,618	425	136,603
Technical equipment and machines	270,556	16,156	12,413	18,076	281,049
Other equipment, operating and office equipment	98,106	2,558	107	10,610	90,161
Advance payments and fixed assets under construction	20,061	35,915	-17,133	0	38,843
	<b>514,857</b>	<b>60,905</b>	<b>5</b>	<b>29,111</b>	<b>546,656</b>
<b>Financial assets</b>					
Shares in affiliated companies	238,062	5,619	0	0	243,681
Loans to affiliated companies	22,516	9,302	0	5,448	26,370
Participations	11,466	0	0	0	11,466
Non-current securities	625	200	0	200	625
Other financial investments	30	0	0	2	28
	<b>272,699</b>	<b>15,121</b>	<b>0</b>	<b>5,650</b>	<b>282,170</b>
	<b>807,384</b>	<b>76,552</b>	<b>0</b>	<b>35,902</b>	<b>848,034</b>

Additions to shares in affiliated companies are primarily the result of capital increases and the acquisition of minority interests in affiliated companies. Write-downs for expected permanent impairment were made to the carrying amount of affiliated companies in the amount of EUR 3,026 k. Write-downs were reversed in the amount of EUR 9,352 k for the shares in affiliated companies and participations.

Accumulated amortisation and depreciation						Net carrying amount	
Jan. 1, 2010 EUR k	Depreciation, Amortization and write-downs of the year EUR k	Reversals of write-downs EUR k	Reclassifi- cations EUR k	Disposals EUR k	Dec. 31, 2010 EUR k	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
18,752	610	0	0	1,141	18,221	781	1,042
0	0	0	0	0	0	206	34
<b>18,752</b>	<b>610</b>	<b>0</b>	<b>0</b>	<b>1,141</b>	<b>18,221</b>	<b>987</b>	<b>1,076</b>
61,608	2,850	0	0	337	64,121	72,482	64,526
184,287	29,620	0	0	13,277	200,630	80,419	86,269
89,564	1,919	0	0	10,546	80,937	9,224	8,542
0	0	0	0	0	0	38,843	20,061
<b>335,459</b>	<b>34,389</b>	<b>0</b>	<b>0</b>	<b>24,160</b>	<b>345,688</b>	<b>200,968</b>	<b>179,398</b>
29,495	3,026	8,876	0	0	23,645	220,036	208,567
1,569	57	219	0	1,350	57	26,313	20,947
2,304	0	476	0	0	1,828	9,638	9,162
0	0	0	0	0	0	625	625
0	0	0	0	0	0	28	30
<b>33,368</b>	<b>3,083</b>	<b>9,571</b>	<b>0</b>	<b>1,350</b>	<b>25,530</b>	<b>256,640</b>	<b>239,331</b>
<b>387,579</b>	<b>38,082</b>	<b>9,571</b>	<b>0</b>	<b>26,651</b>	<b>389,439</b>	<b>458,595</b>	<b>419,805</b>

# Schedule of Shareholdings and Scope of Consolidation

as at December 31, 2010

Name of company	Domicile	Capital share in %
<b>Parent company</b>		
ElringKlinger AG	Dettingen/Erms	
<b>Shares in affiliated companies (fully consolidated in the consolidated financial statements)</b>		
<b>Domestic</b>		
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
<b>Foreign</b>		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (United Kingdom)	100.00
Elring Klinger S.p.A.	Mazzo di Rho (Italy)	100.00
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (United Kingdom)	90.00
Elring Klinger, S. A. U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A. Ş.	Bursa (Turkey)	90.00
KITEK Kalip ve Ileri Teknoloji Makina Sanayi ve Ticaret Ltd. Şirketi	Bursa (Turkey)	90.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger North America, Inc.	Plymouth/Michigan (USA)	100.00
Elring Klinger México, S. A. de C. V.	Toluca (Mexico)	100.00
EKASER, S. A. de C. V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
Elring of North America, Inc.	Branchburg/New Jersey (USA)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
Elring Gaskets (Pty) Ltd.	Johannesburg (South Africa)	51.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.	Qingdao (China)	74.50
<b>Shares in joint ventures (included in the consolidated financial statements using proportionate consolidation)</b>		
<b>Foreign</b>		
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	50.00
ElringKlinger Marusan Corporation	Tokio (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd.	Tokio (Japan)	50.00
Marusan Kogyo Co., Ltd	Tokio (Japan)	23.45

<sup>1)</sup> 100 units local currency (LC) as at balance sheet date

Statutory accounts Shareholders' equity in LC k	Statutory accounts Profit/Loss in LC k	Local currency (LC)	Exchange rate <sup>1)</sup> on closing date	Statutory accounts Shareholders' equity in EUR k	Statutory accounts Profit/Loss in EUR k	Most recent financial statements
44	-7	EUR	100.0000	44	-7	Dec. 31, 2010
3,417	26	EUR	100.0000	3,417	26	Dec. 31, 2010
1,272	692	EUR	100.0000	1,272	692	Dec. 31, 2010
33,135	5,411	EUR	100.0000	33,135	5,411	Dec. 31, 2010
39,284	9,864	CHF	79.8403	31,365	7,876	Dec. 31, 2010
6,387	1,527	GBP	115.9420	7,405	1,770	Dec. 31, 2010
1,715	201	EUR	100.0000	1,715	201	Dec. 31, 2010
1,862,189	88,903	HUF	0.3599	6,702	320	Dec. 31, 2010
2,121	526	GBP	115.9420	2,460	610	Dec. 31, 2010
8,575	464	EUR	100.0000	8,575	464	Dec. 31, 2010
1,429	-1,151	TRY	48.4004	692	-557	Dec. 31, 2010
-212	-199	TRY	48.4004	-103	-96	Dec. 31, 2010
32,661	11,094	CAD	74.7943	24,429	8,298	Dec. 31, 2010
2,667	415	USD	74.7384	1,993	310	Dec. 31, 2010
269,903	25,806	MXN	6.0268	16,266	1,555	Dec. 31, 2010
29,833	9,059	MXN	6.0268	1,798	546	Dec. 31, 2010
65,641	12,705	BRL	45.0227	29,554	5,720	Dec. 31, 2010
2,289	516	USD	74.7384	1,710	385	Dec. 31, 2010
-1,427	1,313	USD	74.7384	-1,066	981	Dec. 31, 2010
8,762	2,036	ZAR	11.2551	986	229	Dec. 31, 2010
186,837	-48,150	INR	1.6715	3,123	-805	Dec. 31, 2010
111,231	22,385	CNY	11.3372	12,611	2,538	Dec. 31, 2010
229,241	52,764	CNY	11.3372	25,990	5,982	Dec. 31, 2010
10,515	7,782	CNY	11.3372	1,192	882	Dec. 31, 2010
4,716,783	924,828	KRW	0.0666	3,143	616	Dec. 31, 2010
4,495,430	136,857	JPY	0.9191	41,318	1,258	Dec. 31, 2010
370,863	1,772	JPY	0.9191	3,409	16	Dec. 31, 2010
631,176	17,635	JPY	0.9191	5,801	162	Dec. 31, 2010

## Current assets

Inventories	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
Raw materials, consumables and supplies	14,544	13,312
Work in progress	5,409	4,317
Finished goods and merchandise	38,094	31,246
Advance payments	0	97
	<b>58,047</b>	<b>48,972</b>

Receivables and other assets	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
Trade receivables	57,054	45,226
Receivables from affiliated companies	32,406	26,050
Receivables from other long-term investees and investors	4,911	4,206
Other assets	7,693	9,123
	<b>102,064</b>	<b>84,605</b>

Of the receivables from affiliated companies, EUR 14,846 k (p.y. EUR 8,263 k) concern financial transactions, while the remainder are trade receivables. As in the previous year, receivables from long-term investees and investors exclusively relate to transactions arising from the exchange of goods and services.

Of the other assets, EUR 3,409 k (p.y. EUR 4,323 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.

## Shareholders' equity

During the 2010 financial year, shareholders' equity developed as follows:

EUR k	Dec. 31, 2009	First adopt. BiMoG	Capital increase	Dividend	Net income	Dec. 31, 2010
Subscribed capital	57,600		5,760			63,360
Capital reserves	2,747		118,080			120,827
Revenue reserves	161,458	-772			14,305	174,991
Retained earnings	11,520			-11,520	22,176	22,176
	<b>233,325</b>	<b>-772</b>	<b>123,840</b>	<b>-11,520</b>	<b>36,481</b>	<b>381,354</b>

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2010 and is divided into 63,359,990 registered shares, each entitled to a single vote. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit shall be distributed in accordance with § 60 AktG in connection with § 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by issuing new shares for cash contributions on one or more occasions by up to a total of EUR 23,040,010.00 (EUR 28,800,000.00 before the capital increase carried out in 2010) by May 25, 2015. As a rule, the shareholders are entitled to subscription rights. However, the Management Board is authorized, subject to approval by the Supervisory Board, to exclude shareholder subscription rights in order to remove fractional amounts from the subscription right or if new shares are issued at a price not significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to § 186 (3) sentence 4 AktG, do not represent more than 10% of the 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) AktG. The conditions of the capital increase are determined by the Management Board with the approval of the Supervisory Board (§ 4 no. 3 of the Articles of Association).

The Management Board used the option to authorize a capital increase by issuing new shares for cash contributions without subscription rights with the approval of the Supervisory Board according to the conditions outlined above. Share capital was increased by EUR 5,759,990 (5,759,990 registered shares) to EUR 63,359,990 by means of the accelerated bookbuilding process. The issue price per share was EUR 21.50. The capital increase was entered in the commercial register on October 7, 2010.

The amount of EUR 14,305 k was transferred from net income for 2010 to other revenue reserves.

As of December 31, 2010, 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 171,978 k (p.y. EUR 158,445 k).

**Retained earnings** developed as follows:

	EUR k
Retained earnings as of December 31, 2009	11,520
Profit distribution for 2009	-11,520
Profit brought forward	0
Net income for 2010	36,481
Transfer to other revenue reserves	-14,305
<b>Retained earnings as of December 31, 2010</b>	<b>22,176</b>

Measurement of plan assets related to partial retirement in accordance with § 268 (8) HGB results in a restriction on distribution in the amount of EUR 25 k (plan assets of EUR 811 k less acquisition cost of the plan assets amounting to EUR 776 k, reduced by the amount of deferred tax liabilities of EUR 10 k recognized for these amounts).

## Provisions

### Provisions for pensions

As of the balance sheet date, pension obligations which must be covered by provisions exist in the amount of EUR 53,347 k (p.y. EUR 38,668). Pension provisions are measured according to the defined benefit obligation (DBO) method (prior year: entry age normal method in accordance with § 6a EStG) by applying an interest rate of 5.15% in accordance with the 2005 G mortality tables established by Dr. Klaus Heubeck. In addition, the calculation is based on assumptions of a 2.0% income trend, a 0.5% career trend, a pension trend of 1.5% for benefit entitlements and 2.0% for current pensions and an average fluctuation of 1.0%.

Reclassification of the pension provisions within the scope of adoption of BilMoG as of January 1, 2010 resulted in an increase of EUR 12,724 k in comparison to the amount previously recognized as of December 31, 2009. This was reported under extraordinary profit or loss.

Other provisions relate to:

	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
Relating to employees	13,741	8,226
Potential losses from pending transactions	4,015	3,008
Warranty obligations	1,272	3,856
Litigation costs	655	793
Derivative risks	370	1,180
Other risks	4,106	4,295
<b>Total</b>	<b>24,159</b>	<b>21,358</b>

Provisions relating to employees include partial retirement obligations which must be covered by provisions in the amount of EUR 2,931 k. In accordance with § 246 (2) HGB, this provision was offset against plan assets in the amount of EUR 811 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 (ElringKlinger Trust) and ElringKlinger Mitarbeitertreuhänder e.V. (ElringKlinger Employee Trust) dated March 3, 2005. The fair value of plan assets amounts to EUR 811 k at the balance sheet date with acquisition costs of EUR 776 k. Fair value of the plan assets is based on the measurement of the investment at its price at the balance sheet date. Income from plan assets (EUR 35 k) is offset against expenses from the provision for partial retirement.

Remaining risks mainly comprise outstanding purchase invoices of EUR 1,572 k (p.y. EUR 1,698 k) and credit notes amounting to EUR 1,200 k (p.y. EUR 1,000 k).



## Liabilities

	Total amount as of Dec. 31, 2010 EUR k	thereof with a remaining term			of which secured EUR k	Total amount as of Dec. 31, 2009 EUR k
		up to one year EUR k	from one up to five years EUR k	more than five years EUR k		
Bank debts	154,762	41,734	100,019	13,009	16,021	195,885
Prepayments received	88	88	0	0	0	158
Trade payables	19,680	19,680	0	0	0	15,321
Payables to affiliated companies	370	331	39	0	0	6,930
Other liabilities	38,584	20,713	17,871	0	0	38,183
	<b>213,484</b>	<b>82,546</b>	<b>117,929</b>	<b>13,009</b>	<b>16,021</b>	<b>256,477</b>

	Total amount as of Dec. 31, 2009 EUR k	thereof with a remaining term			of which secured EUR k	Total amount as of Dec. 31, 2008 EUR k
		up to one year EUR k	from one up to five years EUR k	more than five years EUR k		
Bank debts	195,885	50,460	101,938	43,487	16,741	234,961
Prepayments received	158	158	0	0	0	119
Trade payables	15,321	15,321	0	0	0	14,427
Payables to affiliated companies	6,930	6,881	49	0	0	791
Other liabilities	38,183	19,399	18,784	0	0	31,245
	<b>256,477</b>	<b>92,219</b>	<b>120,771</b>	<b>43,487</b>	<b>16,741</b>	<b>281,543</b>

Bank debts include EUR 16,021 k (p.y. EUR 16,741 k) secured by mortgage on own property. Except for the customary reservation of title until the purchase price payment with respect to trade payables, the other liabilities are unsecured.

As in the prior year, liabilities to affiliated companies relate only to financial transactions.

Other liabilities consist of EUR 1,259 k (p.y. 1,055 k) related to tax and EUR 353 k (p.y. EUR 410 k) related to social security charges.

### Deferred tax liabilities

Deferred tax liabilities in the amount of EUR 930 k result from an overall view of the differences arising between the carrying amounts of fixed and current assets compared with their tax base and the current assets, also including prepaid expenses or deferred income. A tax rate of 27.2% is applied for the measurement of deferred taxes. Differences between the carrying amount and the tax base which result in the deferred tax liability are due mainly to:

- Land and buildings
- Long-term financial assets

Differences which result in deferred tax assets are due mainly to pension provisions and other provisions. A net deferred tax liability remains after offsetting the deferred tax assets and liabilities.

## Income statement disclosures

### Sales

Breakdown by geographical market

	2010 EUR k	2009 EUR k
Germany	135,994	111,368
Europe	167,113	135,763
Asia	33,953	27,340
NAFTA	30,678	21,758
Rest of the world	14,845	10,826
<b>Total sales</b>	<b>382,583</b>	<b>307,055</b>

In terms of divisions, sales of EUR 282,261 k (p.y. EUR 219,235 k) relate to OEM deliveries, EUR 95,760 k (p.y. EUR 83,356 k) to Aftermarket and EUR 4,562 k (p.y. EUR 4,464 k) to Industrial Parks.

### Other operating income

Other operating income includes out-of-period income in the amount of EUR 3,853 k (p.y. EUR 6,009 k). This is comprised mainly of income from the reversal of provisions EUR 873 k (p.y. EUR 4,721 k), income from the reduction of valuation allowances amounting to EUR 1,652 k (p.y. EUR 541 k) and income from the disposal of fixed assets amounting to EUR 1,328 k (p.y. EUR 748 k).

In addition, other operating income primarily consists of income from the fair value changes of raw material related derivative contracts and interest rate swaps in the amount of EUR 669 k (p.y. EUR 9,494 k), foreign currency gains of EUR 8,231 k (p.y. EUR 2,690 k), government grants of EUR 3,115 k (p.y. EUR 2,685 k), license income of EUR 4,232 k (p.y. EUR 2,246 k) and income from the disposal of machinery of EUR 731 k (p.y. EUR 397 k).

### Cost of materials

	2010 EUR k	2009 EUR k
Expenses for raw materials, supplies and for merchandise	154,604	127,055
Expenses for purchased services	17,363	12,604
	<b>171,967</b>	<b>139,659</b>

### Personnel expenses

	2010 EUR k	2009 EUR k
Wages and salaries	86,022	67,721
Social security charges and expenses for retirement pensions	17,388	16,622
– of which, for retirement pensions –	(2,432)	(3,842)
	<b>103,410</b>	<b>84,343</b>

### Amortisation and depreciation

Amortization and depreciation of EUR 34,999 k (p.y. EUR 37,475 k) includes ordinary amortization and depreciation. No impairment charges for fixed assets (p.y. EUR 1,747 k) are included in the amortization and depreciation for the 2010 financial year.

### Other operating expenses

The other operating expenses include out-of-period items of EUR 1,091 k (p.y. EUR 1,077 k), from the disposal of fixed assets EUR 900 k (p.y. EUR 502 k) and from the loss of receivables EUR 191 k (p.y. EUR 575 k). Expenses from foreign currency translation amount to EUR 14,882 k (p.y. EUR 3,167 k).

### Income from long-term equity investments

	2010 EUR k	2009 EUR k
Income from long-term equity investments	18,958	5,811
Reversal of write-downs on long-term financial assets	9,352	2,066
Write-downs of long-term financial assets	-3,026	- 8,804
	<b>25,284</b>	<b>- 927</b>

Of the income from long-term equity investments, EUR 18,958 k (p.y. EUR 5,811 k) is derived from affiliated companies. The reversal of write-downs on long-term financial assets are related to affiliated companies in the amount of EUR 8.876 k (p.y. EUR 2,066 k) and long-term investees or investors in the amount of EUR 476 k (p.y. EUR 0 k). Write-downs of long-term financial assets are exclusively related to affiliated companies (p.y. EUR 6,500 k from shares in affiliated companies and EUR 2,304 k from long-term equity investments).

### Net interest result

	2010 EUR k	2009 EUR k
Income from other securities and long-term loans	1,110	1,393
Other interest and similar income	1,060	830
Reversal of write-downs on loans	219	532
Write-downs of loans	-57	-244
Interest and similar expenses	-10,924	-9,534
	<b>-8,592</b>	<b>-7,023</b>

The net interest result includes income from loans to affiliated companies in the amount of EUR 1,008 k (p.y. EUR 1,372 k), interest income from affiliated companies in the amount of EUR 756 k (p.y. EUR 557 k) and interest expense to affiliated companies in the amount of EUR 301 k (p.y. EUR 253 k). Expenses from unwinding discounts on provisions amounts to EUR 2,816 k.

### Extraordinary expense

Extraordinary expenses amounting to EUR 13,420 k arose from the adoption of BilMoG. The expenses are related to the restatement of pension provisions in the amount of EUR 12,724 k, the restatement of the anniversary provision by EUR 253 k and restatement of the corporate tax credit by EUR 443 k. No transactions were reported under extraordinary expenses in the prior year.

### Taxes on income

Taxes on income include an out-of-period net expense of EUR 98 k. In the prior year, taxes on income included an out-of-period net gain of EUR 202 k. Taxes on income include deferred tax expenses of EUR 24 k.

### Other taxes

Other taxes include tax income related to other periods in the amount of EUR 15 k (p.y. EUR 151 k).

### Contingent liabilities

There are contingent liabilities from the issue and transfer of bills of exchange in the amount of EUR 0 k (p.y. EUR 227 k), from guarantees and performance bonds in the amount of EUR 9,622 k (p.y. EUR 8,809 k), of which on behalf of affiliated companies in the amount of EUR 9,622 k (p.y. EUR 8,809 k). Utilization is not currently considered likely due to favorable performance.

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 are even obligations on behalf of suppliers of subsidiaries to stand in for future receivables of the suppliers of subsidiaries in the event that the subsidiaries fail to meet their payment obligations within a certain period. Utilization is not currently considered likely due to good performance of the subsidiaries.

### Other financial commitment

Remaining term	Total	< 1 year	1 to 5 years	> 5 years
Energy supply contracts	14,840	6,744	8,096	0
Rental and lease agreements	1,488	834	654	0
Maintenance contracts	70	35	35	0
	<b>16,398</b>	<b>7,613</b>	<b>8,785</b>	<b>0</b>

Furthermore, financial commitments to subsidiaries exist due to loan agreements in the amount of EUR 1,350 k. Furthermore, there are no other financial commitments to affiliated companies.

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

## Other disclosures

### Number of employees

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

	2010	2009
Hourly	1,042	1,019
Salaried	583	567
	<b>1,625</b>	<b>1,586</b>
Trainees	68	67
	<b>1,693</b>	<b>1,653</b>

### Related party transactions

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

In financial year 2010, the following transactions took place with companies which are not wholly-owned subsidiaries of ElringKlinger Group:

	2010 EUR k	2009 EUR k
Sale of goods	7,763	4,613
License fees	1,418	698
Services performed	1,325	1,422
Disposals of machinery and implements, and other revenues	3,456	2,308
Services received and other expenses	4,277	3,524
Interest income	133	73
Interest expense	298	211
Loans granted as of the balance sheet date	4,607	3,829
Other receivables as of the balance sheet date	11,467	8,241
Loans received as of the balance sheet date	341	6,614
Other liabilities as of the balance sheet date	0	251

Furthermore there are

- a cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships and an agreement regarding the supply of cafeteria food. ElringKlinger earned EUR 164 k during the reporting year (2009: EUR 225 k). The outstanding balance at the end of the reporting period was EUR 0 k (2009: EUR 4 k).
- a master supply agreement between Rich. Klinger Dichtungstechnik GmbH & Co. KG, Gumpoldskirchen, Austria, and companies of the ElringKlinger Group concerning the procurement of materials. Within the scope of this agreement, ElringKlinger AG purchased material in the amount of EUR 2,088 k (2009: EUR 1,014 k). As of the balance sheet date, the open balance amounted to EUR 191 k (2009: EUR 250 k).
- a master supply agreement between Klinger AG Egliswil, Switzerland, and ElringKlinger AG concerning the procurement of material. Within the scope of this agreement, ElringKlinger AG purchased material in the amount of EUR 106 k (2009: EUR 58 k) in 2010. At the balance sheet date, there are liabilities in the amount of EUR 15 k (2009: EUR 0 k).

#### Derivative financial instruments

As of the balance sheet date on December 31, 2010, two financial derivatives (interest rate swaps) serve to hedge risks arising from changes in interest rates.

Negative fair market values amounting to EUR 370 k (p.y EUR 392 k) are classified as other provisions in the balance sheet.

Interest rate swaps serve to exchange payments from loans obtained at a variable interest rate with fixed interest rates. The nominal volume of both agreements is EUR 9,200 k. The interest rate swap agreements have maturities through May 30, 2013 and April 1, 2014.

All forward contracts are contracted with domestic financial institutions rated at least with "A" (according to Standard & Poor's rating).

Market values of the financial derivatives confirmed by the bank are determined using generally accepted mathematical methods and the market data available as of the balance sheet (mark-to-market method).

## Corporate bodies

### Supervisory board

Dr. Helmut Lerchner, Aichtal,  
Chairman

Corporate advisor

Governance roles:

Member of the supervisory board of Deutz AG, Cologne,  
Member of the south-west regional advisory board of  
Commerzbank AG

Markus Siegers, Altbach,  
Deputy chairman and  
Employee Representative

Chairman of the Works Council of ElringKlinger AG

Gert Bauer, Reutlingen,  
Employee Representative

First General Representative and collector of IG Metall  
Reutlingen/Tübingen

Governance roles:

Member of the supervisory board of Hugo Boss AG,  
Metzingen,  
Member of the advisory board of BIKOM GmbH,  
Reutlingen

Armin Diez, Lenningen,  
Employee representative  
(from May 21, 2010)

Divisional Director of Cylinder-head Gaskets  
of ElringKlinger AG

Pasquale Formisano,  
Vaihingen an der Enz,  
Employee representative  
(from May 21, 2010)

Set-up engineer, employee representative  
of ElringKlinger Kunststofftechnik GmbH

Dr. Rainer Hahn, Stuttgart

Former member of the management board of  
Robert Bosch GmbH, Stuttgart

Governance roles:

Member of the supervisory board of Robert Bosch GmbH,  
Stuttgart  
Member of the supervisory board of Bosch Rexroth AG,  
Stuttgart  
Member of TÜV SÜD Gesellschafterausschuss GbR,  
Munich and of the administrative board  
of TÜV SÜD e. V., Mannheim

Karl-Uwe van Husen, Waiblingen

Managing director

Governance roles:

Member of the supervisory board of  
Schaltbau Holding AG, Munich



Dr. Thomas Klinger-Lohr, Egliswil, Switzerland	<p>Chairman of the board of the Betal Netherland Holding B. V., Rotterdam, Netherlands</p> <p>Governance roles:</p> <p>Member of the advisory or administrative boards of:</p> <p>Klinger Ltd., Perth, Australia</p> <p>Klinger S.p.A., Mazzo di Rho (MI), Italy</p> <p>Saidi S.A., Madrid, Spain</p> <p>Klinger AG Egliswil, Egliswil, Switzerland</p> <p>Uni Klinger Ltd., Mumbai, India</p>
Walter Herwarth Lechler, Stuttgart	<p>Managing Partner of Lechler GmbH</p> <p>Governance roles:</p> <p>Member of advisory or administrative boards of:</p> <p>Lechler Inc., St. Charles, USA</p> <p>Lechler Ltd., Sheffield, United Kingdom</p> <p>Lechler India Pvt. Ltd., Thane, India</p> <p>Lechler Kft, Kecskemét, Hungary</p> <p>Lechler France S.A., Montreuil, France</p> <p>Lechler AB, Hagfors, Sweden</p> <p>Lechler SA, Wavre, Belgium</p> <p>Lechler S.A., Madrid, Spain, and</p> <p>ELEX India Pvt. Ltd., Thane, India</p>
Paula Monteiro-Munz, Grabenstetten, Employee representative (from May 21, 2010)	Deputy chairwoman of the Works Council of ElringKlinger AG
Manfred Rupp, Pfullingen, Employee representative (through May 21, 2010)	Simulation technician
Manfred Strauß, Stuttgart	<p>Managing partner of M&amp;S messebau und service GmbH, Neuhausen a.d.F.</p> <p>Governance roles:</p> <p>Member of the shareholders' committee of Pro Stuttgart Verwaltungs GmbH, Stuttgart,</p> <p>Member of the advisory board of Pro Stuttgart Verkehrsverein, Stuttgart</p>
Gerhard Wick, Geislingen a. d. Steige, Employee representative (from May 21, 2010)	Union secretary for IG Metall, Baden-Württemberg district

### Remuneration of the supervisory board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 501 k (2009: EUR 286 k) in the reporting period.

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

	Fixed remuneration		Variable remuneration		Total remuneration	
	2010 EUR k	2009 EUR k	2010 EUR k	2009 EUR k	2010 EUR k	2009 EUR k
Dr. Helmut Lerchner	50,000	40,000	39,003	19,276	89,003	59,276
Markus Siegers	25,500	14,000	23,196	9,638	48,696	23,638
Walter Herwarth Lechler	30,000	31,000	25,558	14,457	55,558	45,457
Gert Bauer	19,000	14,000	19,502	9,638	38,502	23,638
Armin Diez	16,333	0	11,874	0	28,207	0
Pasquale Formisano	12,333	0	11,874	0	24,207	0
Dr. Rainer Hahn	15,000	14,000	19,502	9,638	34,502	23,638
Karl Uwe van Husen	27,000	26,000	19,502	9,638	46,502	35,638
Dr. Thomas Klinger-Lohr	18,000	18,000	19,502	9,638	37,502	27,638
Paula Monteiro-Munz	16,333	0	11,874	0	28,207	0
Manfred Rupp	3,500	14,000	7,628	9,638	11,128	23,638
Manfred Strauß	15,000	14,000	19,502	9,638	34,502	23,638
Gerhard Wick	12,333	0	11,874	0	24,207	0
<b>Total amount</b>	<b>260,332</b>	<b>185,000</b>	<b>240,391</b>	<b>101,199</b>	<b>500,723</b>	<b>286,199</b>

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 2010.

The difference between the provision for variable remuneration for the financial year 2009 and the actual amounts paid out was EUR 2,522. 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, responsible for all affiliated entities and the corporate functions of Finance, Controlling, Legal Affairs, Personnel, Investor Relations, IT and Public Relations, as well as the Aftermarket and Industrial Parks divisions

Theo Becker, Metzingen responsible for the Cylinder-head Gaskets, Corporate Research and Development, Special Gaskets, Casings/ Modules/Elastomer Technology, Shielding Technology divisions and the corporate functions of Quality and Environment, Materials Management and the Runkel plant

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 and member  
of the supervisory board of Fielman AG

(from July 8, 2010)

Karl Schmauder is chairman of the advisory board  
of e-mobil BW GmbH, Stuttgart

(from October 6, 2010)

**Remuneration of the management board**

Total remuneration of the Management Board in financial year 2010 amounted to EUR 1,921 k (2009: 1,927 k). This is composed of a fixed component of EUR 823 k (2009: EUR 802 k) and a variable component of EUR 1,098 k (2009: EUR 1,124 k). The variable component is made up of short-term performance-related remuneration amounting to EUR 966 k (2009: EUR 1,030 k) and EUR 132 k (2009: EUR 94 k) of performance-related remuneration with long-term incentive effects. The long-term performance-related remuneration relates to stock appreciation rights.

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

	fixed remuneration (prior year) EUR	Short-term per- formance-based remuneration (prior year) EUR	Long-term per- formance-based remuneration (prior year) EUR	Total amount (prior year) EUR
Dr. Stefan Wolf	330,106 (328,473)	413,806 (441,336)	52,812 (39,270)	796,724 (809,079)
Theo Becker	251,341 (235,560)	275,871 (294,549)	39,369 (25,440)	566,581 (555,549)
Karl Schmauder	241,975 (238,210)	275,871 (294,549)	40,054 (29,782)	557,900 (562,541)
<b>Total</b>	<b>823,422</b> <b>(802,243)</b>	<b>965,548</b> <b>(1,030,434)</b>	<b>132,235</b> <b>(94,492)</b>	<b>1,921,205</b> <b>(1,927,169)</b>

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, 2009 and the amounts actually paid in 2010 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 3 to 4 years. The strike price is the average stock price of the last 60 trading days prior to the grant date. The number of stock appreciation rights is calculated based on the fixed remuneration of the respective board member and the strike price. The cash payment to be granted is calculated based on the difference between the exercise price, which is also calculated as an average of the stock price over the last 60 trading days, and the strike price. A payment occurs only in the event that the share price of ElringKlinger AG increases more than the smoothed index in which the stock is listed, but at least by 25%. The payment per tranche is limited to the fixed salary amount for the year.

Provisions are recognized in order to cover the estimated future obligation. The fair value of the obligation is determined based on the Cox-Ross-Rubinstein model using current market parameters. The volatility of the share price (55.9%), the MDAX index (33.1%) and a correlation of 71.6% were determined over a three-year period. The provision is accrued pro rata temporis over the vesting period and is assessed on every balance sheet date and again on the exercise date. Changes in the fair value are recognized in net income. The option model also includes dividend payments planned by the Management Board.

For financial year 2010, the following data arose:

Tranches	Tranche 2008	Tranche 2009	Tranche 2010
Date of issue	2008	2009	2010
Number of outstanding stock appreciation rights (not yet exercisable)	20,341	108.754	49.090
Average strike price (EUR)	24,63	6,95	15,68
Average remaining time to maturity in years	0,09	1,05	3,04
<b>Value of stock appreciation rights held by members of the Management Board</b>			
December 31, 2010 (EUR k)	32	412	75
December 31, 2009 (EUR k)	28	74	0
December 31, 2008 (EUR k)	1	0	0

Additions to pension provisions for members of the Management Board amounted to EUR 845 k (2009: EUR 117 k) and are related to Dr. Stefan Wolf in the amount of EUR 262 k (2009: EUR 40 k), Theo Becker in the amount of EUR 213 k (2009: EUR 45 k) and Karl Schmauder in the amount of EUR 370 k (2009: EUR 32 k).

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

Provisions of EUR 11,269 k (2009: EUR 8,902 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 868 k (2009: EUR 856 k) during the 2010 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 2010, the following long-term equity investments existed and were announced pursuant to § 21 (1) German Securities Trading Act (WpHG).

### 1. Voting rights notification

ElringKlinger received the following notification on February 4, 2011:

Notification pursuant to § 21 (1) WpHG

On 31 January 2011 BlackRock, Inc. exceeded the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, BlackRock, Inc. held 3.12% of the voting rights in ElringKlinger AG arising from 1,978,212 voting rights. 3.12% of the voting rights (1,978,212 voting rights) are attributable in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.

On 31 January 2011 BlackRock Financial Management, Inc. exceeded the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, BlackRock Financial Management, Inc. held 3.12% of the voting rights in ElringKlinger AG arising from 1,978,212 voting rights.

3.12% of the voting rights (1,978,212 voting rights) are attributable in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.

On 31 January 2011 BlackRock Holdco 2, Inc. exceeded the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, BlackRock Holdco 2, Inc. held 3.12% of the voting rights in ElringKlinger AG arising from 1,978,212 voting rights.

3.12% of the voting rights (1,978,212 voting rights) are attributable in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.

### 2. Voting rights notification

ElringKlinger received the following notification on November 2, 2010:

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

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

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

### 3. Voting rights notification

ElringKlinger received the following notification on November 2, 2010:

In the name of and on behalf of FIL Limited, Hamilton HMCX, Bermuda we hereby notify you pursuant to section 21 (1) WpHG of the following:

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

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

#### **4. Voting rights notification**

ElringKlinger received the following notification on November 2, 2010:

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

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

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

#### **5. Voting rights notification**

ElringKlinger received the following notification on October 28, 2010:

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

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

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

#### **6. Voting rights notification**

Correction of our announcement on October 12, 2010

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

Notification pursuant to § 21 WpHG – correction

We hereby notify you pursuant to § 21 (1) WpHG that the percentage of voting rights in ElringKlinger AG, Dettingen/Erms fell below the threshold of 10% on October 7, 2010 and amounted to 9.449% (5,987,000 voting rights) on this day.

Of these voting rights, 0.358% (227,000 voting rights) are attributed to us in accordance with § 22 (1) sentence 1 no. 1 WpHG.

#### **7. Voting rights notification**

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

Voting rights notifications pursuant to § 21 (1) WpHG

Notifying parties:

1. Eroca AG, Basel, Switzerland
2. Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany
3. KWL Beteiligungs-GmbH, Ludwigsburg, Germany

4. PAUL LECHLER STIFTUNG gGmbH, Ludwigsburg, Germany
5. Elrena GmbH, Basel, Switzerland
6. Stiftung Klaus Lechler, Basel, Switzerland

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

1. EROCA AG

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

2. Klaus Lechler Beteiligungs-GmbH

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

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

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

- Eroca AG.

3. KWL Beteiligungs-GmbH

The percentage of voting rights of KWL Beteiligungs-GmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day. Of these voting rights, 9.22% (5,838,736 voting rights) are attributed to KWL Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 no. 1 WpHG and an additional 9.18% (5,815,944 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

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

- Eroca AG,

- Klaus Lechler Beteiligungs-GmbH.

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

- Elrena GmbH.

4. PAUL LECHLER STIFTUNG gGmbH

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

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

The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH were held by the following

companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG

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

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

- Elrena GmbH.

- b. The percentage of voting rights of PAUL LECHLER STIFTUNG gGmbH in ElringKlinger AG exceeded the threshold of 20% on October 7, 2010 and amounted to 20.72% (13,126,990 voting rights) on this day.

Of these voting rights, 9.77% (6,187,573 voting rights) are attributed to PAUL LECHLER STIFTUNG gGmbH in accordance with § 22 (1) sentence 1 WpHG and an additional 9.77% (6,188,037 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

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

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

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

- Elrena GmbH.

#### 5. Elrena GmbH

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

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

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

- Eroca AG.

#### 6. Stiftung Klaus Lechler

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

Of these voting rights, 9.18% (5,815,944 voting rights) are attributed to Stiftung Klaus Lechler in accordance with § 22 (1) sentence 1 WpHG and an additional 9.22% (5,838,736 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.

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

- Elrena GmbH.



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

- Eroca AG.

#### 8. Voting rights notification

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

Voting rights notifications pursuant to § 21 (1) WpHG

Notifying parties:

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

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

##### 1. Lechler Beteiligungs-GmbH

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

##### 2. INLOVO GmbH

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

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

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

- Lechler Beteiligungs-GmbH.

#### 9. Voting rights notification

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

Voting rights notification pursuant to § 21 (1) WpHG

Dear Sir or Madam:

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

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

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

#### 10. Voting rights notification

Voting rights notification pursuant to § 21 (1) WpHG

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

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

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

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

#### 11. Voting rights notification

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

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

#### 12. Voting rights notification

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

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

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

#### 13. Voting rights notification

ElringKlinger AG has received the following notification:

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

1 October 2008

On behalf of Columbia Wanger Asset Management, L.P., 227 W. Monroe Street, Suite 3000, Chicago, IL, USA, we hereby give notice, pursuant to sec. 21 para. 1 WpHG, that on 29 September 2008 the voting interest of Columbia Wanger Asset Management, L.P., in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/ Erms, Germany, fell below the threshold of 3% and amounted to 2.99% of the voting rights [i.e., 1,727,000 shares with voting rights, out of 57,600,000 shares with voting rights outstanding (based on Bloomberg)] on this day.

2.99% (all) of the voting rights (1,727,000 voting rights) are attributed to us in accordance with sec. 22 para. 1 sent. 1 no. 6."

#### 14. Voting rights notification

We received the following notification on March 27, 2008:

Voting rights notification pursuant to § 21 (1) WpHG

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

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

#### 15. Voting rights notification

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

Notification pursuant to § 21 (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. voting rights) on this day.

#### 16. Voting rights notification

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

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

#### 17. Voting rights notification

ElringKlinger has received the following notification:

"Notification pursuant to § 21 para. 1 WpHG

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

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

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

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

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

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

#### 18. Voting rights notification

“Notification pursuant to § 21 para. 1 WpHG

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

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

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

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

The percentage of voting rights of Threadneedle Investment Funds ICVC in ElringKlinger AG at 02 October 2007 amounted to 2,992 % (574,392 shares). These voting rights are held by subfunds of Threadneedle Investment Funds ICVC.”

#### 19. Voting rights notification

ElringKlinger received the following voting rights notification:

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

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

Notification of voting rights in our own name

Prudential plc. has fallen below the 3% threshold of § 21 para. 1 WpHG on 04 September 2007 and now holds 2.94% (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG. It was attributed these 2.94% (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG pursuant to § 22 para. 1 sent. 1 no. 6 in connection with § 22 para. 1 sent. 2 WpHG.

#### 20. Voting rights notification

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

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

Karl Uwe van Husen, Germany:

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

### 21. Voting rights notification

ElringKlinger AG, Dettingen/Erms, WKN 785602

Sale of shares

Reaching the 5% threshold

Dear Sir or Madam:

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

This notification is made pursuant to § 21 WpHG.

### 22. Voting rights notification

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

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

Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany:

- a. The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG exceeded the thresholds of 5% and 10% on November 30, 2001 and amounts to 12.13% (582,012 voting rights) on this day. Of these voting rights, 12.13% (582,012 voting rights) were attributed to Paul Lechler Gesellschaft bürgerlichen Rechts in accordance with § 22 (1) sentence 1 no. 1 WpHG (essentially corresponding with § 22 (1) no. 2 WpHG as amended on November 30, 2001). The voting rights attributable to Paul Lechler Gesellschaft bürgerlichen Rechts were held by the following company that was controlled by it and holds 3% or more of the voting rights in ElringKlinger AG:
  - Lechler Beteiligungs-GmbH.
- b. The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG amounted to 12.13% (582,012 voting rights) on April 1, 2002. Of these voting rights, 12.13% (582,012 voting rights) were attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to § 22 (1) sentence 1 no. 1 WpHG. The voting rights attributable to Paul Lechler Gesellschaft bürgerlichen Rechts were held by the following company that was controlled by it and holds at least 3% of voting rights in ElringKlinger AG:
  - Lechler Beteiligungs-GmbH.
- c. The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG fell below the thresholds of 10% and 5% on December 4, 2003 and has amounted to 0.00% (0 voting rights) since then.”

## Declaration of compliance with the German Corporate Governance Code

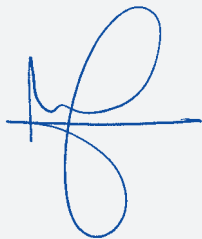
The Management Board and Supervisory Board issued a declaration of compliance on December 4, 2010 pursuant to § 161 AktG on the German Corporate Governance code and published it on the ElringKlinger AG internet site on December 4, 2010. This declaration of compliance will be available on the ElringKlinger AG internet site and therewith made permanently available to shareholders. It will be published in the annual report as part of the corporate governance report.

## Proposal for the appropriation of profits

In agreement with the Supervisory Board, the Management Board proposes to the Annual General Meeting to appropriate the retained earnings as of December 31, 2010 amounting to EUR 22,176 k in order to distribute a dividend of EUR 0.35 per share.

Dettingen/Erms, March 16, 2011

The Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder







# ElringKlinger AG Management Report for the 2010 Financial Year

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## Macroeconomic Conditions and Business Environment

### World economy recovers faster than expected

The global economic upturn proved surprisingly dynamic over the course of 2010, with the emerging markets again acting as the principal driving force. The United States also made an unexpectedly large contribution to economic recovery, despite having to contend with unfavorable market conditions. Although the rate of global economic growth decreased slightly in the second half of the year as some of the state-financed stimulus packages gradually came to an end, the majority of the regional economies were in a solid position. In total, global economic output rose by a significant 5.0% (-0.6%)<sup>1</sup>. The global recovery had a positive impact on consumer demand and thus on sales figures for passenger cars and commercial vehicles, which ultimately also proved beneficial to the overall business performance of ElringKlinger AG.

Whereas the economic growth rates in many of the key emerging markets, such as China, India and Brazil – where ElringKlinger AG is represented by subsidiary companies – moved beyond their pre-crisis levels, the rate of GDP growth recorded by the major industrialized countries remained below the figures seen in 2007 and, in some cases, 2008.

The eurozone economy grew by 1.7% in 2010, thus clawing itself back only halfway from the slump caused by the previous year's recession. Economic performance differed significantly in the various countries that make up the eurozone. Faced with a situation in which the adverse effects of the global economic downturn were compounded by structural and financial problems, some of the southern European economies were unable to extricate themselves from the grip of recession. Economic output in Greece, for instance, shrank by 4.6%. In parallel, the economic climate in Spain, Portugal and Ireland remained challenging. Having said that, these countries are not among the key sales markets targeted by ElringKlinger AG.

Buoyed by its strong focus on capital goods exports, Germany was one of the main beneficiaries of the upturn in global economic trade. In contrast to the double-digit growth rates recorded within the area of foreign trade, however, domestic demand recovered at a more sluggish pace. Driven by exports, Germany's gross domestic product rose by 3.5% in 2010.

Most of the eastern European countries also recorded an upturn in their economic output over the course of 2010. The Russian economy, for instance, returned to growth at the beginning of 2010. Acknowledged as a key market of growing importance, Russia saw its gross domestic product rise by 4.0% year on year in 2010 as a whole. Maintaining its considerable forward momentum, Turkey's economy recorded a 7.7% rise in output – the highest growth rate in the European region. Having acquired Ompaş A.Ş. in October 2009, ElringKlinger AG is well represented – with its own subsidiary – in the burgeoning Turkish market.

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<sup>1</sup> Figures in parentheses refer to the previous year

Supported by an expansive monetary policy and government-funded stimulus packages, the United States returned to growth in 2010, having successfully emerged from the recession. Despite a persistent spike in unemployment figures and continued problems within the real estate market, the domestic economy recorded unexpected growth of 2.8% in 2010. The emerging markets of Latin America maintained their dynamism in 2010, buoyed by strong domestic demand. South America's key economy, Brazil, saw its gross domestic product grow by 7.5%.

The Asian economies played a pivotal role in driving the global economy forward. In 2010, the region as a whole recorded growth that exceeded pre-crisis levels by a significant margin. Vibrant aggregate demand within the Chinese economy proved to be the dominant driving force behind growth in Asia. Recording growth of 10.1%, the Chinese economy surged ahead at a rate that was even more impressive than in the previous year. With GDP expanding by 9.2%, India also managed to emulate the stellar performance seen prior to the crisis. Having grown in importance recently, the ASEAN economies, among them Thailand and Malaysia, developed strongly in 2010. Japan benefited from the economic strength of neighboring economies in the form of higher exports, thereby raising its gross domestic product by 3.5%.

#### **Vehicle demand driven by BRIC markets and US in 2010**

**The automotive sector was among those to benefit from the speedy recovery of the world economy. Both passenger car production figures and sales volumes grew at encouraging rates.**

Business within the international automotive market picked up considerably faster in 2010 than originally anticipated. Among the key growth drivers were the BRIC economies (Brazil, Russia, China and India), although the US market also proved surprisingly buoyant. With the exception of Russia, ElringKlinger AG does not generate revenue directly within the BRIC markets. Instead, it is represented by its local subsidiaries, whose positive performance in expansive markets in turn contributes to overall business. Global vehicle production rose by 23.1% to 70.9 million units in 2010, which was just above the previous record of 70.8 million units in 2007.

In addition to being driven by significant consumer demand, the considerable growth in production figures was attributable primarily to the marked reduction in stock levels at the height of the crisis and the subsequent ramp-up of production to more normal levels in 2010. As a result, the level of new car registrations worldwide remained below the total number of vehicles produced. The figure rose by 9.1% to 69.6 (63.8) million newly registered vehicles. Stock levels were expanded at an appropriate rate and remained well below the volumes seen at the end of 2007 and beginning of 2008.

Trends within the regional vehicle markets differed significantly. In the BRIC countries, the US and Japan, automobile sales rose sharply compared to the previous year, supported in part by government incentive programs. In contrast, business in the major European vehicle markets, whose state-funded stimulus packages had been discontinued, remained relatively subdued.

As anticipated, the number of new registrations in Germany, the single largest market in Europe, declined by 23.4% in 2010. The slump in sales volumes was attributable to the car scrappage incentive scheme introduced in 2009, which provided a major boost to automobile sales in Germany at the time. Having said this, strong exports – particularly to Asia, but also to North America – helped the German automobile industry to more than offset the downturn recorded within its domestic market. In 2010, vehicle exports totaled 4.2 million units, 23.7% up on the previous year. Domestic automobile production rose by around 12.0% year on year, reaching a new record of 5.6 million units.

With many of the national stimulus packages coming to an end, the western European automobile market recorded a decline in new car registrations by 5.1% to 13.0 (13.7) million units. However, the downturn in demand was less severe than projected at the beginning of the year. Toward the end of the year the rate of decline gradually diminished. Prompted by buoyant demand from abroad, car makers expanded their vehicle production by 10.4% in western Europe.

Eastern Europe, excluding Russia, proved weaker, with the number of passenger cars sold contracting slightly by 3.2%. Although automobile sales rose by 30.3% in Russia, this figure still fell considerably short of the record levels seen in the past. The scrappage incentive scheme introduced in Russia in early 2010 helped to boost demand by a significant margin. Against this backdrop, car manufacturers succeeded in almost doubling their production in Russia to 1.2 million units in 2010.

Turkey, the strongest eastern European vehicle market alongside Russia and a market served by a subsidiary of ElringKlinger AG, proved particularly dynamic in 2010. Auto makers based in Turkey expanded their production by 18.0% in the year under review. Total vehicle production increased by 25.9% to 1.1 million units. On this basis, Turkey produced almost as many vehicles as Russia in 2010.

North America saw its vehicle market recover surprisingly well despite the challenging economic climate. In the United States, sales of passenger cars and light trucks exceeded last year's figure by 11.1%, rising to 11.6 million vehicles sold. In parallel, manufacturers adjusted their stock levels in line with higher demand, as a result of which automobile production in the NAFTA region outpaced sales in the year under review, increasing by 39.1% to approx. 12.0 million units. Demand for light trucks was buoyant, and sports utility vehicles (SUVs) proved much more popular than standard sedans. With fuel prices down, many American consumers opted for larger, often less efficient, vehicles – irrespective of the fact that prices at the pumps have a tendency to rise very quickly.

In South America, demand for passenger vehicles developed very dynamically in the majority of countries. Government-funded incentive programs in Brazil, Latin America's key market, came to an end as early as March 2010. Despite this, however, automobile sales surged by 10.6% to 3.3 million vehicles in 2010 as a whole.

Asia was by far the most important sales region for the international automotive industry in 2010. China emerged as the single largest market worldwide.

The number of newly registered vehicles in China rose to 18.1 million, which corresponded to a 32.4% rise in sales – up from a significant base in 2009. Vehicle manufacturers within the Chinese market also expanded their production by 32.4%, with 18.3 million new vehicles – 16.5 million of which were cars and light trucks – rolling off the assembly lines. ElringKlinger AG will be able to tap into market growth in China via its subsidiary companies. In 2010, production capacity was expanded at the two production sites in Changchun and Suzhou by means of newly constructed facilities.

In India, sales of passenger vehicles stood at 2.4 million units, up 31.4% year on year. Rising by 29.8% to 2.8 million vehicles, car production remained equally dynamic.

Elsewhere in Asia, the mature Japanese vehicle market also developed well, with automobile sales rising by 7.4% year on year to 4.2 million vehicles in 2010. Over the same period, car production grew by around one-fifth to 8.3 million units.

Rather than being supplied directly by ElringKlinger AG, the Japanese market, too, is served mainly by local production from the joint venture company ElringKlinger Marusan Corporation.

#### **Commercial vehicle market on track for recovery**

After the severe crisis of 2009, the international market for commercial vehicles also showed clear signs of an upturn. Stronger demand for transportation services in the wake of economic recovery as well as the improved situation within the freight forwarding sector led to a considerable increase in the number of orders placed for commercial vehicles in 2010. Having said that, the recovery witnessed in the truck market was less dynamic than that seen in the auto industry, with sales figures falling well short of the record levels seen in the boom years of 2006 and 2007.

ElringKlinger AG generates around 10% of its revenue through sales in the truck sector and was thus able to benefit from ongoing recovery with regard to demand for commercial vehicles. However, capacity utilization has yet to reach pre-crisis levels.

The upturn in Germany's commercial vehicle market gathered pace in 2010. The domestic market saw a 20.0% rise in the number of heavy trucks registered. On the back of strong foreign trade, the domestic commercial vehicle industry recorded an increase in production of 65.0% to 115,280 units.

Expressed in terms of truck sales, the European commercial vehicle market as a whole recovered by 5.8% year on year. Whereas truck manufacturers sold only 3.3% more vehicles in western Europe compared to 2009, new truck registrations in eastern Europe spiraled upward by an impressive 32.2%.

The US truck market recovered from the severe weakness displayed during the crisis. Sales figures rose by 9.0% in 2010 – still down more than half on the level recorded in 2006.

The Asian truck markets also reported solid gains, although the emphasis there is on small commercial vehicles.

## Significant Events – Acquisitions and Capital Measures

In 2010, ElringKlinger AG acquired the flat gaskets business of the Freudenberg Group, Weinheim, effective from January 1, 2011. Additionally, capital measures were implemented for the purpose of financing specific growth projects.

### **Acquisition of Static Flat Gaskets lead center from Freudenberg Group**

On September 30, 2010, ElringKlinger AG signed an agreement on the acquisition of the Static Flat Gaskets lead center of the Freudenberg Group, Weinheim.

The Static Flat Gaskets lead center of the Freudenberg Group includes business operations relating to cylinder-head and exhaust system gaskets. In addition to the Freudenberg subsidiary Burgmann Automotive GmbH, Gelting (Germany), ElringKlinger AG also took over part of Freudenberg-Meillor S.A.S., Nantiat and Chamborêt (France), as well as Oigra Meillor s.r.l., Turin (Italy).

In implementing the acquisition, the company will be looking to extend its international position within the field of cylinder-head gaskets and highly heat-resistant specialty gaskets for engines and exhaust systems. In the area of specialty gaskets, the overall portfolio will be extended to include several additional products, e.g. within the turbocharger and exhaust recirculation segment. At the same time, the company's market position will be strengthened significantly in France and Italy in particular. The new subsidiaries of ElringKlinger AG are to contribute around EUR 49 million to consolidated sales in fiscal 2011. The operating margin is to be guided towards that of the Group by 2012.

Inclusion in the consolidated group of ElringKlinger will take place as of January 1, 2011.

### **Successful placement of new shares from Authorized Capital**

On October 6, 2010, ElringKlinger AG placed 5,759,990 new, no-par-value registered shares with institutional investors by way of an accelerated bookbuilt offering. The placement attracted considerable interest among international investors and was more than five times oversubscribed.

The issuance of the new shares, which are entitled to dividends as of January 1, 2010, was effected on the basis of partial utilization of the Authorized Capital approved at the General Meeting of Shareholders held on May 21, 2010, which amounted to EUR 28,800,000. As a result, the company's share capital has increased by just under 10 percent, from EUR 57,600,000 to EUR 63,359,990. The placement price was EUR 21.50 per share. On this basis, the company's gross proceeds from the issuance of new shares were approx. EUR 123.8 million. The new shares were approved for trading on the Regulated Market of the Frankfurt Stock Exchange on October 7, 2010.

As a result of the issuance of new shares, ElringKlinger's freefloat rose from 44.6% to 48.0%. This meant an improvement in the market liquidity of ElringKlinger stock, a factor that is of particular importance to institutional investors.

The proceeds of the issuance will be used primarily for the purpose of financing further dynamic growth and optimizing the company's financing structures. Alongside the partial financing of the acquisition and integration of the Static Flat Gaskets unit of the Freudenberg Group, the proceeds of the equity offering have been earmarked for the expansion of the company's new E-Mobility division, the construction of a new plant for plastic housing modules focused on commercial vehicle applications and for the pursuit of additional external growth opportunities.

## Internal Control Criteria

The Management Board of ElringKlinger AG refers to financial performance indicators as a significant basis for decision-making within the company. The performance indicators play an integral role in the overall evaluation of all issues to be assessed and therefore also provide the basis for successful business performance of ElringKlinger AG. The financial performance indicators are based on sales and earnings performance. In terms of earnings, the focus is primarily on EBIT (Earnings Before Interest and Taxes) and EBT (Earnings Before Taxes). The success of individual divisions within ElringKlinger AG is measured on the basis of ROCE (Return on Capital Employed). The level of tied-up capital is thus also significant in relation to investment decisions. For ElringKlinger as an exchange-listed stock corporation, EBIT (Earnings Before Interest and Taxes) represents a key performance indicator.

All performance indicators are planned, calculated and monitored for the Original Equipment, Aftermarket, Engineered Plastics, Services and Industrial Parks segments and for the divisions within each segment.

ElringKlinger AG's control system also includes financial management. The main emphasis here is on controlling liquidity, the capital structure and any market price risks that may have been identified, especially with regard to currencies, interest rates and materials costs. Credit risks are also subject to

continuous monitoring. A detailed explanation of the different elements of the financial management system is contained in the "Report on Opportunities and Risks" of this management report.

The Management Board of ElringKlinger AG also makes use of non-financial indicators for the purpose of management. These include the headcount and changes in the headcount, average absenteeism due to illness, surveys on occupational safety, the number of workplace-related accidents, energy consumption figures, quality assessments and defective component rates. More information on non-financial performance indicators can be found in this management report in the sections entitled "Procurement", "Environmental, Quality and Occupational Safety Management", "Research and Development", "Employees" and "Report on Opportunities and Risks".

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

Financial instruments are also only employed in the normal scope of business. They are monitored within each division and, in addition, centrally. The principles governing the use of derivative financial instruments are described in the risk report under the heading "Risks associated with use of derivatives". The nature and scope of the derivative instruments held as at December 31, 2010, are detailed under the heading "Derivative financial instruments" in the Notes.

The principal goals of ElringKlinger AG are to achieve profitable growth and an above-average return on the capital employed.

## Sales and Earnings Performance

### Sales continue to recover

The global vehicle market showed a continuous recovery in 2010. On the back of a surprisingly strong rise in car production and a host of product start-ups, sales revenue at ElringKlinger AG ended the year up 24.6% at EUR 382.6 (307.1) million. However, it should be noted that the previous financial year was marked by cutbacks in production, some on a massive scale, on the part of numerous car manufacturers. There was also a further recovery in the components business for commercial vehicles, although, at the end of 2010, it was still some way below pre-crisis levels.

### Foreign sales account for greater share of AG revenue

The biggest rise in car production came from the emerging markets of China, India and South America as well as from the United States. ElringKlinger AG derives only a minimal part of its revenue directly from these markets, since it is represented here by its local subsidiaries. The increase in vehicle production numbers also recorded in the markets of western and eastern Europe, together with new product start-ups, boosted the share of overall sales generated by ElringKlinger AG during the financial year in markets outside Germany to 64.5% (63.7%).



At plus 26.0%, sales revenue generated in markets outside Germany grew at a faster rate than domestic sales to reach EUR 246.6 (195.7) million.

#### **Domestic sales**

In Germany, sales revenue at ElringKlinger AG increased by 22.1% to EUR 136.0 (111.4) million. The main factor here was a strong rise in car production among those vehicle manufacturers with production facilities in Germany.

#### **Growth driven by recovery in Original Equipment**

Each of the AG's business segments contributed to the increase in sales in 2010. One of the strongest performers in this respect was the Original Equipment segment, which maintained the steady recovery of the previous year. Within the segment, sales were driven by a dynamic upturn in demand from vehicle manufacturers.

Several new product start-ups again helped the Original Equipment segment to deliver a percentage increase in revenue for 2010 that exceeded the rise in vehicle production.

Compared to the previous year, when sales remained weak, revenue for the Original Equipment segment was up 28.8% at EUR 282.3 (219.2) million. As a result, the share of the AG's total revenue attributable to Original Equipment sales rose to 73.8% (71.4%).

The ElringKlinger Group develops and produces metal-based gaskets and shielding components for lean downsized engines that operate at high temperatures and combustion pressures. In 2010, the company benefited from the increasing application of this engine concept among nearly all vehicle manufacturers.

Both the Plastic Housing Modules/Elastomer Technology and Specialty Gaskets divisions achieved above-average growth.

The Plastic Housing Modules/Elastomer Technology division was able to take advantage of considerable interest among its customers for weight reduction solutions that make a significant contribution towards cutting CO<sub>2</sub> emissions. Sales revenue was given a substantial boost by several product start-ups including new, ultra-light MuCell plastic cam covers, transmission end-shield covers and pistons.

There was strong demand among customers of the Specialty Gaskets division, particularly for gasket systems in the turbocharger area, control components for automatic transmissions and high-temperature gaskets for the exhaust system.

The small decline in sales reported by the AG's Shielding Technology division was due entirely to the migration of the shielding business at Dettingen/Erms (Germany) to the Group's specialized shielding technology facility operated by ElringKlinger Abschirmtechnik (Schweiz) AG. Combining these activities at a single site has brought greater efficiency in terms of development, application technology and production.

### **Aftermarket business also records strong growth**

Sales also increased in ElringKlinger AG's Aftermarket segment. Revenue for 2010 ended the year up 14.7% at EUR 95.7 (83.4) million.

Overall, with the government's scrappage scheme considerably reducing the stock of older vehicles dating back more than nine years, there was little movement in the domestic market in 2010. Demand for garage repairs and spare parts fell accordingly, although ElringKlinger was nevertheless able to improve its sales revenue in Germany by increasing its market share and offering additional products.

In general, the company's export markets delivered a good level of growth in 2010. There was a noticeable rise in demand in eastern Europe and the Middle East, two regions that are particularly important to the Group's aftermarket business. With buyers now finding it easier to obtain financing after the economic crisis and an improvement in the economic situation as a whole, the business environment was altogether more positive. Many wholesalers chose to build up their stocks to meet increasing demand for parts.

In addition, ElringKlinger increased its market share through the targeted expansion of its product range. The company presented some of these under the brand name 'Elring – Das Original' at 'Auto-mechanika', the world's biggest aftermarket fair in Frankfurt. The list of products on show included a new and comprehensive portfolio of turbocharger installation and gasket kits that will make a substantial contribution to future sales revenue.

On account of the exceptionally high rate of growth in the Original Equipment segment that followed the collapse in production during the economic crisis, the share of total company sales attributable to the Aftermarket business fell in 2010 to 25.0% (27.1%), despite a double-digit increase in the segment's own figures.

### **Rental income from Industrial Parks shows modest increase**

Rental income generated by the industrial parks operated by ElringKlinger AG in Idstein and Ludwigsburg rose to EUR 4.6 (4.5) million in 2010. This was largely attributable to rental increases.

### **Increase in inventories of finished goods and work in progress**

In response to the substantial rise in production output, ElringKlinger AG expanded its procurement volumes and inventories in the period under review. Following a decrease of EUR 8.2 million in 2009, when business was dominated by the crisis, in 2010 the company increased its inventories of finished goods and work in progress by EUR 3.5 million.

### **Decrease in work performed by the entity and capitalized**

At EUR 9.5 (12.4) million, work performed by the entity and capitalized was down on the previous year. This item mainly relates to the manufacture of tools for new projects by the company itself.

### Operating result boosted by improved capacity utilization and efficiency

In terms of its earnings, ElringKlinger AG benefited in 2010 from a marked improvement in capacity utilization and from further streamlining of its cost structure. Over the course of the year, the company gradually adapted its capacity in order to meet the considerable year-on-year increase in quantities requested by customers as part of their operations scheduling and thus also the higher production volumes required. The company's earnings situation also benefited from the fact that personnel and material expenses grew at a slower rate than sales revenue.

Following changes to the valuation methodology applied with regard to the current saleability of inventories, the figure for impairments was reduced by a one-off EUR 2.1 million with a consequent non-recurring boost to earnings.

### Sales growth outpaces rise in materials and personnel costs

Although prices for materials remained manageable compared with the levels of 2007, they have nevertheless moved up rapidly since the low points reached in 2009. In response to growth in the global economy, prices for most of the raw materials needed by ElringKlinger AG rose continuously over the year. The company took early measures to counter this trend, for example by introducing more material-efficient manufacturing processes. Existing long-term supply agreements helped to reduce costs in 2010. Consequently, while sales grew by 24.6%, the rise in material-related costs was kept down to 23.1%.

The partial hedging of surcharge prices for the alloys used in high-grade steel produced no significant impact on income in 2010. It was predominantly in 2009 that ElringKlinger AG made use of derivative instruments in order to hedge the price of commodities in the medium term, with a particular emphasis on nickel-related alloy surcharges. The objective here was to limit the substantial fluctuations in purchase prices. Some of the hedging instruments remained in place up to April 2010. Settlement payments due in 2010 generated total additional materials expense of EUR 0.6 (9.6) million. This contrasts with other operating income of EUR 0.8 (13.2) million – based on price movements in the fair value of the commodity-related derivative – as a result of the partial reversal or use of the short-term provisions created in connection with the commodity price hedge. This reduction in the level of provisions on the one hand and settlement payments on the other had a positive net effect of EUR 0.2 (3.6) million on income from ordinary activities.

Overall, the cost-of-materials ratio (materials expense as a proportion of sales) declined from 45.5% to 44.9%. Taking into consideration the change in inventories (materials expense less inventory changes as a proportion of sales), the ratio would have fallen to 44.0% (48.2%).

### Lower personnel expense ratio – impact of non-recurring items

In 2009, during the economic crisis, ElringKlinger AG made use of the option to postpone the collective wage increase, for those German production sites concerned, for nine months to December 2009. Consequently, the figure for personnel expenses increased from that point. The termination of short-time work at the company's sites in Germany also led to a rise in personnel expenses from the begin-

ning of 2010. In the second half of 2010, ElringKlinger AG steadily increased its personnel capacity in response to dynamic growth in demand and appointed additional staff, mostly on a temporary basis, in order to maintain its flexibility. Compared to the previous year, the number of employees was up 7.4%.

In 2008, a collective pay agreement (known in German as the TV FlexÜ) was reached with employees in the metals and electrical industry on the flexible transition to retirement. The TV FlexÜ lays out the terms under which employees may be entitled to request a partial-retirement agreement. The legal consequences arising from the TV FlexÜ are dependent on a permanent collective financing contribution on the part of employees. During the collective pay negotiations held in February 2010, it was agreed that for the period from May 1, 2010, to March 31, 2012, the employee contribution stipulated in the TV FlexÜ would consist of the terms negotiated in relation to the matter of job security. As a result, it also became necessary to create provisions to cover partial-retirement benefit claims potentially made by those with a corresponding entitlement in the period up to March 2012. This produced a one-off increase of EUR 1.4 million in personnel expenses.

The profit-sharing bonus of EUR 1,000 per employee, agreed for 2008 and 2009, led to a further increase in personnel expenses for 2010 of EUR 1.8 million.

Provisions of EUR 1.7 million were created under other provisions in response to a ruling of the German Federal Labor Court in December 2010 on the interpretation of the Framework Collective Pay Agreement (Auslegung der Bestimmungen des Entgelttarifabkommens – ERA). This also added to personnel costs. The purpose of this provision is to hedge against potential settlement payments for the company's obligations under the structural fund established by the Framework Collective Pay Agreement.

Overall, personnel expenses in 2010 rose to EUR 103.4 (84.3) million. Nevertheless, the increase was limited to 22.7%, and the figure therefore remained lower than the percentage increase in sales. The main factors here were improved capacity utilization, more extensive automation at most of the AG's production sites and lean cost structures in the administrative areas.

The personnel expense ratio (i.e. personnel expenses as a percentage of sales) at ElringKlinger AG fell accordingly to 27.0% (27.5%).

#### **Slight fall in depreciation and amortization**

As in previous years, ElringKlinger AG maintained a high level of investment in tangible fixed assets in 2010. As well as constructing a new logistics center at the Dettingen/Erms site, the company purchased new equipment for all its sites in preparation for product start-ups.

In 2010, as a result of the migration of shielding component production from ElringKlinger AG's Dettingen/Erms site to its Swiss subsidiary ElringKlinger Abschirmtechnik (Schweiz) AG, the company did not need to apply the corresponding scheduled depreciation of EUR 1.6 million.

As a significant proportion of the company's capital expenditure involved land and buildings, the total figure for the amortization and depreciation of intangible and tangible fixed assets fell to EUR 35.0 (37.5) million.

It should be noted that, due to the implementation of the Act to Modernize Accounting Law (Bilanzrechtsmodernisierungsgesetz – BilMoG), the treatment of depreciation for additions to tangible fixed assets in 2010 has changed from the diminishing balance to the straight-line method, and the assets' useful lives have been extended in some cases. This produced a lower figure for depreciation in the year under review.

#### **Decline in other operating income**

The 2010 figure for other operating income was substantially lower than in the previous year. It should be noted that the corresponding figure for 2009 included EUR 13.2 million from the partial reversal of commodity price hedging provisions. Even an increase of EUR 5.5 million in gains from foreign currency translation could not make up for this difference. These translation gains were primarily associated with loans granted to subsidiaries.

A necessary change in the method of calculating general allowances for doubtful accounts relating to outstanding receivables resulted in a non-recurring addition to income from ordinary operations of EUR 0.9 million.

In 2010, ElringKlinger AG received grants totaling EUR 3.1 (2.7) million from government support programs. These were directed at new development projects in the areas of fuel cell and battery technology and are included in the figure for other operating income.

#### **Currency differences responsible for increase in other operating expenses**

Other operating expenses for 2010 ended the year EUR 20.6 million higher at EUR 68.0 (47.4) million.

This increase was mainly attributable to exchange differences, primarily in connection with loans to subsidiaries and the ongoing financing of ElringKlinger's purchase of the SEVEX Group in 2008. The acquisition was financed by ElringKlinger in Swiss francs.

The appreciation of the Swiss franc against the euro made it necessary to revalue the company's ongoing repayment liabilities upwards. During the year under review, this resulted in non-cash foreign currency losses of EUR 8.9 million.

Total foreign currency exchange losses stood at EUR 14.9 (3.2) million, EUR 11.7 million higher than in the preceding year.

Consulting and other ancillary costs totaling EUR 2.6 million were incurred in connection with the seasoned equity offering. These are also reported under other operating expenses.

### **Income from affiliated companies buoyed by higher distributions from subsidiaries**

Most of ElringKlinger's subsidiaries recorded an improvement in income in 2010, in some cases quite substantial, as a result of greater capacity utilization. This made it possible to distribute the profits of some subsidiaries.

This contributed to an increase of EUR 13.2 million to EUR 19.0 (5.8) million in ElringKlinger AG's income from affiliated companies.

The company's subsidiaries are predominantly financed by means of internal funding. With this in mind, no distributions were made in the case of high-growth subsidiaries, e.g. in Asia and Brazil.

In order to reflect the improvement in sales and earnings as a result of the general economic and sector-specific upswing, ElringKlinger AG performed write-ups of the investment carrying amounts relating to the subsidiaries ElringKlinger México, S.A. de C.V. Toluca, Mexico, ElringKlinger Korea Co., Ltd., Changwon, Korea and Elring Klinger (Great Britain) Ltd., Redcar, United Kingdom. By contrast, the carrying amount relating to ElringKlinger North America, Inc., Plymouth, USA, was written down by EUR 3.0 million in the period under review. In aggregate, i.e. including the above-mentioned write-down, write-ups of investment carrying amounts stood at EUR 6.3 million.

Overall, income from affiliated companies ended the year up EUR 26.2 million at EUR 25.3 (-0.9) million.

### **Interest expense higher**

Compared to the previous year, interest expense ended the year up EUR 1.4 million at EUR 10.9 (9.5) million. Although interest expenses on bank borrowings were actually lower in 2010, an additional expense of EUR 2.8 million was incurred as a result of the change introduced by Germany's Act to Modernize Accounting Law (Bilanzrechtsmodernisierungsgesetz – BilMoG) and the corresponding discounting of provisions.

A temporary reduction in the figure for bank debts was achieved out of the proceeds of the seasoned equity offering and helped to bring down interest expenses in the fourth quarter. However, its impact on interest expense for the year 2010 as a whole was less significant.

In total, the net interest result stood at EUR -8.6 (-7.0) million.

### **Income from ordinary activities more than double the figure for 2009**

Despite an increase of EUR 20.6 million in other operating expenses, the improvement in capacity utilization together with a substantially higher figure for income from affiliated companies helped to boost income from ordinary activities by EUR 35.0 million to EUR 60.2 (25.2) million.

It should also be noted that last year's figure had benefited from the partial reversal of the provision created for the company's hedging position on nickel alloy surcharges.

### Extraordinary expense reduces profit

Adoption of the new rules imposed by Germany's Act to Modernize Accounting Law (Bilanzrechtsmodernisierungsgesetz – BilMoG) produced extraordinary expenses of EUR 13.4 million that had a non-recurring impact on the profits of ElringKlinger AG. The impact of this change is examined in detail in the Notes to the Financial Statements under the heading 'Rule change introduced by Germany's Act to Modernize Accounting Law (Bilanzrechtsmodernisierungsgesetz – BilMoG).

### Increase in tax expense

Income taxes rose by EUR 6.1 million compared to the previous year and stood at EUR 10.2 (4.1) million at the end of the reporting period. Taxable income was boosted by the strong rise in sales revenue.

It should be noted that tax expenses for 2009 were unusually low. This was attributable largely to the partial reversal of provisions for contingent losses associated with commodity price hedging for alloy surcharges. The provision was not deductible for tax purposes when it was recognized in 2008. Correspondingly, this had a positive effect on the figure for 2009.

For the most part, the greatly increased dividend income attributable to subsidiaries in 2010 was not taxable.

ElringKlinger AG's tax rate for 2010 (income taxes in relation to income from ordinary activities) rose to 16.9% (16.2%).

### Net income rises to EUR 36.5 million

Due to the percentage increase in income tax expense as well as to the exceptional expenses associated with the transition to BilMoG regulations, net income generated by ElringKlinger AG in 2010 rose at a less pronounced rate than income from ordinary activities, but was nevertheless up 73.0%, or EUR 15.4 million, at EUR 36.5 (21.1) million.

### Income exceeds earnings forecast

In its management report accompanying the financial statements for 2009, ElringKlinger AG anticipated that organic growth in sales revenue and a parallel increase in income from ordinary activities would be possible in 2010. At the same time, the company predicted a rise in income from affiliated companies.

Driven by a stronger than expected recovery in global vehicle production and in the company's crucially important European and North American vehicle markets, ElringKlinger AG achieved substantial increases in both sales and earnings, including a significant rise of EUR 13.2 million in the figure for income from affiliated companies.

### Dividend to rise

After allocation of EUR 14.3 (9.6) million to other revenue reserves, ElringKlinger AG's net retained earnings (i.e. distributable profit) stood at EUR 22.2 (11.5) million. With the consent of the Supervisory Board, the Management Board will propose to the Annual General Meeting a higher dividend of EUR 0.35 (0.20) per share for the financial year 2010, making a total distribution of EUR 22.2 million.

The 5,759,990 new shares in ElringKlinger AG placed on October 6, 2010, as part of the company's seasoned equity offering, qualify for a dividend from January 1, 2010.

## Net Assets

As at December 31, 2010, the financial position and cash flows of ElringKlinger AG were very healthy and helped the company to win a number of new, long-term orders. The seasoned equity offering in October 2010 also helped to provide additional funding for further expansion.

### Total assets up 21.8%

The year-end figure for total assets reflected both the strong growth achieved by the company in 2010 and the seasoned equity offering. As well as an increase in cash, primarily from the proceeds of the capital increase, there were substantially higher figures for tangible fixed assets and financial assets and an increase in working capital. These were the main factors that boosted total assets by 21.8% compared with December 31, 2009, to end the year on EUR 674.7 (553.9) million.

The amount of capital expenditure on tangible fixed assets in 2010 exceeded the figure for the amortization and depreciation of fixed assets. Tangible fixed assets rose by 12.0% to EUR 201.0 (179.4) million following a high level of investment in land and buildings (EUR 6.3 million) and in fixed assets under construction (EUR 35.9 million).

The higher figure for financial assets was mainly attributable to a net write-up of EUR 6.4 million in the investment carrying amount of subsidiaries and to a rise of EUR 5.4 million in loans to affiliated companies. Another factor was the purchase of further stakes totaling 20% in ElringKlinger Logistic Service GmbH (Germany) and 40% in Elring of North America, Inc., (USA), the latter of which made ElringKlinger AG the sole shareholder. Overall, the year-end figure for financial assets was up EUR 17.3 million on the previous year at EUR 256.6 (239.3) million.

As at December 31, 2010, intangible fixed assets stood at EUR 1.0 (1.1) million, equivalent to just 0.2% of total assets.

Fixed assets as a whole were 9.2% higher at EUR 458.6 (419.8) million.

### Growth ties up capital in inventories and receivables

In response to rapidly increasing demand, in 2010 the Group adjusted its inventories to deal with higher production volumes. As at December 31, 2010, inventories were up EUR 9.0 million on the year-end figure for 2009 at EUR 58.0 (49.0) million. As such, the increase in inventories was less marked than that in sales revenue.



Another result of surging sales was a 20.7% increase in the figure for trade receivables and other assets which ended the year at EUR 102.1 (84.6) million.

Nevertheless, the increase in the amount of capital tied up in inventories, receivables and other assets was lower than that in the figure for sales.

Cash in hand, bank balances and checks totaled EUR 55.7 (0.3) million at the end of the reporting year, a rise of EUR 55.4 million on the figure for 2009. This was mainly due to partial inflows from the proceeds of the seasoned equity offering.

Total current assets also rose and accounted for 32.0% (24.2%) of ElringKlinger AG's total assets.

#### **Seasoned equity offering takes equity ratio up to 56.5%**

While retained earnings rose by EUR 10.7 million to EUR 22.2 (11.5) million, the dividend distributed in 2010 in respect of the financial year 2009 was EUR 2.9 million higher at EUR 11.5 (8.6) million. The amount allocated to the revenue reserve was up EUR 4.7 million on the previous year at EUR 14.3 (9.6) million. As at December 31, 2010, the revenue reserve totaled EUR 175.0 (161.5) million.

The 2010 share capital increase led to a rise in the corresponding balance sheet figure of EUR 5.8 million to EUR 63.4 (57.6) million. The premium of EUR 118.1 million was credited to the capital reserve, taking it to EUR 120.8 (2.7) million.

In total, shareholders' equity as at December 31, 2010 was up EUR 148.1 million on the previous year at EUR 381.4 (233.3) million. Accordingly, the equity ratio rose from 42.1% to 56.5%.

Unlike the previous year, when provisions had fallen by EUR 9.9 million, in 2010 they rose by EUR 14.8 million to end the year on EUR 78.6 (63.8) million.

This increase was mainly due to a change in the method of valuing pension provisions under the new rules laid out in Germany's Act to Modernize Accounting Law (Bilanzrechtsmodernisierungsgesetz – BilMoG). In total, provisions for pensions climbed by EUR 14.7 million to EUR 53.3 (38.7) million.

Whereas tax provisions recognized as at December 31, 2010 were down EUR 2.7 million at EUR 1.1 (3.8) million, the figure for other provisions ended EUR 2.8 million higher to reach EUR 24.2 (21.4) million. As well as the above-mentioned increase in personnel provisions, the item 'Other provisions' reflects a rise in the figures for contingent losses relating to order backlog.

At 11.7% (11.5%), provisions accounted for a slightly higher proportion of total assets at the year end than in 2009.

### Liabilities down by substantial margin

Part of the proceeds of the seasoned equity offering and net cash from operating activities were used to reduce bank debts by EUR 41.1 million to EUR 154.8 (195.9) million. In the main, payments for the investment projects being funded by the capital increase were not due until 2011.

Short-term bank borrowings (with remaining terms of up to one year) were down EUR 8.7 million on the previous year. Longer-term bank borrowings (with remaining terms from one to over five years) fell by EUR 32.4 million.

Trade payables ended the year higher at EUR 19.7 (15.3) million as a consequence of the strong rise in production volumes in 2010. This percentage rise of 28.8% was slightly higher than the increase in sales.

Payables to affiliated companies were EUR 6.5 million lower at EUR 0.4 (6.9) million, mainly as a result of the loan repayment to ElringKlinger Kunststofftechnik GmbH.

In total, ElringKlinger AG was able to reduce its liabilities by EUR 43.0 million to EUR 213.5 (256.5) million. Thus, liabilities accounted for 31.6% of total equity and liabilities, down from 46.3% in the previous year.

### Reduction in net debt

Compared with December 31, 2009, ElringKlinger AG was able to scale back net debt (financial liabilities less cash) by EUR 96.5 million to end the year on EUR 99.1 (195.6) million.

## 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.

### Cash flow from operating activities driven by strong growth

In 2010, ElringKlinger AG recorded a fall in cash flow from operating activities.

Net income, which was up EUR 15.4 million on the previous year, had a positive impact on cash flow.

Cash flow from operating activities also benefited from depreciation/amortization and write-downs of intangible fixed assets, tangible fixed assets, tools and financial assets (less reversals of write-downs) amounting to EUR 28.5 (44.2) million, although the year-end figure remained EUR 15.7 million lower than the previous year.

Whereas in 2009 total provisions had declined by EUR 9.9 million, mainly due to price movements in the fair values of commodity-related hedging transactions aimed at counteracting fluctuations in alloy surcharges for nickel and to changes in the quantities hedged, in 2010 the company recorded an increase in provisions of EUR 14.8 million.

As the economic crisis receded, an increase in working capital proved to be the key factor contributing to negative cash flows from operating activities in the period under review. As production was scaled up over the course of 2010, procurement volumes were adjusted to match increasing demand, and inventories rose accordingly. Consequently, the amount of capital tied up in inventories ended the year EUR 9.1 million higher compared to a decline of EUR 18.1 million in 2009. Strong growth in 2010 also led to an increase of EUR 13.5 (4.2) million in trade receivables, trade receivables due from affiliated companies as well as trade receivables from other long-term investees.

The year-end figure for other assets was down EUR 0.2 million. In 2009, a decrease in other assets of EUR 5.8 million, due to refunded income taxes, had had a positive effect on cash flow from operating activities.

Due to an increase in production requests and the corresponding rise in procurement volumes for raw materials, there was a rise in trade payables and other liabilities not attributable to investment or financing activities. These were up EUR 4.6 million compared to an increase of EUR 12.8 million in 2009. In turn, this led to a higher figure for cash flow for operating activities, although the effect was less pronounced than in the previous year.

In 2010, ElringKlinger AG generated total net cash of EUR 63.0 (87.8) million from operating activities, down 28.2% on the previous year's figure. The cash return (cash flow from operating activities as a proportion of sales) fell back to 16.5% (28.6%).

#### **Decline in cash flow from investing activities – capital expenditure on tangible fixed assets well above level of 2009**

In 2010, investment spending by ElringKlinger AG focused on increasing production capacity, in particular the procurement of equipment and tools for planned new product start-ups. In addition, the company purchased land at its sites in Dettingen/Erms and Langenzenn.

Capital expenditure on intangible assets was unchanged on the previous year at EUR 0.5 (0.5) million and was directed primarily at the purchase of software licenses.

The outflow of cash for buildings and land, machinery, equipment and tools totaled EUR 60.9 (42.5) million, EUR 18.4 million up on last year's figure. Compared to the long-term average, the investment ratio – capital expenditure on tangible fixed assets as well as intangible fixed assets as a proportion of sales – remained at an above-average 16.1% (14.0%).

At its headquarters in Dettingen/Erms, ElringKlinger invested in conversion work on existing buildings and in the expansion of its testing and laboratory facilities in the research and development area. Land was purchased at the site to accommodate the planned construction of a new factory for plastic housing modules in 2011. Construction of the new logistics center in Dettingen/Erms costing EUR 14.0 million was largely completed in 2010.

Within the area of Cylinder-head Gaskets, capital expenditure at the company's sites in Dettingen/Erms and Runkel primarily involved the purchase of equipment needed for newly launched projects or to enhance the efficiency of manufacturing processes.

The Specialty Gaskets division invested mainly in measures to increase capacity and develop additional expertise in the area of exhaust technology. To this end, it purchased a fully automated production system and cutting-edge stamping/embossed technology to manufacture multilayer exhaust gaskets and V-rings for turbochargers. ElringKlinger AG also purchased additional plant technology to make transmission control components for modern automatic drives.

In order to increase its capacity at the site in Langenzenn, the Shielding Technology division invested in additional processing facilities for the manufacture of thermal and acoustic shielding components.

In preparation for new production start-ups, primarily involving ultra-light MuCell plastic cam covers, the Plastic Housing Modules/Elastomer Technology division in Dettingen/Erms invested in new production lines and automated production cells.

As regards New Business Areas, in 2010 ElringKlinger AG channeled investments into the automation of SOFC fuel cell stack production and additional test stand technology.

The company invested heavily in the laboratory equipment and testing systems needed by the newly created E-Mobility division to make samples, prototypes and small-scale batches of lithium-ion battery components. It also purchased machines and automatic systems for the planned series production in 2011 of cell connectors and complete cell contact systems for lithium-ion batteries.

Cash outflows for investment in affiliated companies and other long-term investees stood at EUR 5.8 (25.1) million, EUR 19.3 million down on the figure for the previous year.

In total, net cash used in investing activities fell back from EUR 65.3 in 2009 to EUR 61.7 million.

On this basis, in 2010 ElringKlinger AG had an operating free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for net investments in financial assets) of EUR 7.1 (47.6) million.

#### **Seasoned equity offering provides major boost to cash flow from financing activities**

The financial year 2010 produced a net inflow of cash from financing activities totaling EUR 54.1 million. This stands in contrast to a net outflow of EUR 23.3 million last year.

The main factor determining the level of cash flow from financing activities in 2010 was an inflow of EUR 123.8 million, the gross issue proceeds from the seasoned equity offering in October.

The total dividend paid out to shareholders came to EUR 11.5 (8.6) million, EUR 2.9 million up on the previous year.

On balance, ElringKlinger reduced its bank borrowings in 2010 by a further EUR 41.1 million. This followed a net repayment in 2009 of EUR 39.1 million. Short-term liabilities to banks fell by EUR 18.9 million, and EUR 22.2 million of long-term borrowings were repaid.

Net cash from financing activities was also affected by loans totaling EUR 10.6 million granted by ElringKlinger AG to subsidiaries. By contrast, in 2009 the company had collected repayments from subsidiaries as well as proceeds from time deposits amounting to EUR 24.4 million. In addition, borrowings from affiliated companies were reduced by EUR 6.6 (0.0) million.

As at December 31, 2010, cash and cash equivalents amounted to EUR 55.7 (0.3) million.

## Procurement

Whereas the previous year had been dominated by a significant adjustment in demand prompted by the sharp decline in automobile production, the focus for procurement management in 2010 was on formulating a response to unexpectedly rapid growth.

The main task of the purchasing department was the procurement of commodities and materials for production. The considerable rise in customer demand at an unprecedented level proved challenging with regard to purchasing, logistics and the management of the entire supply chain. In 2010, worldwide procurement for the AG as well as for the subsidiaries and affiliated companies of the ElringKlinger Group was again overseen to a large extent by the Central Purchasing department of ElringKlinger AG in Dettingen/Erms.

Alongside the purchase of sufficient amounts of raw materials and primary products for production, the noticeable rise in prices also represented a challenge for procurement management.

#### **Purchasing volume rises significantly**

In 2010, ElringKlinger AG's purchasing volume rose significantly year on year, in line with the increase in sales. It expanded by 42.4% to EUR 240.3 (168.8) million and encompassed externally sourced raw materials, consumables and supplies as well as merchandise for the company's Aftermarket business, in addition to investments in land, property, plant and equipment and real estate.

#### **Partial raw material shortages**

In the economic crisis year of 2009, practically all suppliers significantly reduced their stocks and discontinued some of their production capacity. Parts of the ElringKlinger AG procurement portfolio were also affected by this trend. Particularly in the area of cold-rolled strip (steel), suppliers' production capacities failed to return to the levels seen in the pre-crisis years 2007/2008. The issue of potential material shortages had to be addressed by means of timely scheduling. The company's requirements in 2010 exceeded, in part considerably, the quantities originally planned.

Drawing on its close and long-standing relationships with suppliers and the continual qualification of further sources of supply since 2006, the company was nevertheless able to guarantee the supply of the required amounts for production purposes at all times over the course of 2010.

Special consignments and extra shifts were required to enable the company to produce and deliver within schedule and meet the often sudden increase in demand from customers; this led to additional costs.

The continual global benchmarking of costs and quality by the Group purchasing department contributed in no small part to the company being able to procure the necessary quantities of raw materials at prices still considered appropriate.

#### **Raw material prices rise again**

Raw material prices, which had in part fallen considerably during the economic crisis in 2009, rose again noticeably in 2010. However, in a long-term comparison, they remained at a manageable level.

As a result of the supply contracts concluded in 2009, the company was able to limit the rise in average purchase prices for the key raw materials used by ElringKlinger AG, namely C-steel, high-grade steel and the associated alloys, as well as aluminum, polymer granules and rubber.

In the case of aluminum, for example, the Central Purchasing department consolidated the quantities required by the individual companies and, as a result of timely scheduling, was able to benefit from price advantages.

The material requirements originally planned for 2010 by ElringKlinger customers were in many cases insufficient. In order to rapidly secure additional volumes in excess of the amounts confirmed in the procurement contracts, the company had no choice but to pay higher material prices.

#### **Price hike limited by long-running energy contracts**

The significant growth in production output led to a 31.9% rise in energy consumption at ElringKlinger AG. Although there was a noticeable increase in the market prices for electricity and gas, the main energy sources, the company was able to limit the increase in energy costs to 33.0%.

Alongside process optimization and the deployment of fuel-efficient machines in production, it was above all the long-running supply contracts that led to the increase in costs being less severe in relation to the general rise in energy prices.

As already reported for 2009, ElringKlinger AG has concluded long-term supply contracts for electricity and gas, thus guarding to a certain extent against an increase in purchase prices until 2013. Instead of being exposed to the marked increase in electricity prices on the spot market, ElringKlinger used these long-term deals to secure fixed and calculable energy prices for the coming years. Additional purchases were made on the spot market during the year for the purpose of covering peak-flow requirements.

#### **Supplier structure expanded in Asia**

In the context of the international production network of the ElringKlinger Group, the Central Purchasing department in Dettingen/Erms reviews and controls measures aimed at sourcing larger quantities from regional suppliers in order to keep logistical channels as efficient as possible. These measures were influenced by the fact that, in some areas, regional buying quantities are set by the state. Additionally, some customers specify that supplies must come from local production. Furthermore, procurement management is able to mitigate currency risk by purchasing the required raw materials in the same currency zone in which the sales revenue will be recognized.

At the Group's Indian site in Ranjangaon, the purchasing department appointed its own purchase analyst to conduct a detailed assessment of the local procurement market for the Group. As a result, ElringKlinger AG is also in a position to take advantage of more cost-effective sources of supply.

In view of the further increase in purchase volumes, the procurement of sufficient materials, the prevention of supplier shortages and measures to limit price increases in raw materials will also represent the core tasks for central procurement management at ElringKlinger AG in 2011.

## Environmental, Quality and Occupational Safety Management

### Think and act sustainably for a better environment

Sustainability in the way in which business is conducted occupies a high position in the overall corporate strategy of ElringKlinger AG. Thinking and acting in a sustainable manner means taking corporate responsibility with regard to employees, customers, suppliers, society and the environment. As a supplier to automobile manufacturers worldwide, ElringKlinger assumes direct responsibility for environmentally sound mobility. At the forefront of this are the issues of scaling back fuel consumption and reducing emissions, with regard to both product development and production processes.

### Environmentally friendly production processes

The production processes at ElringKlinger AG's three production sites are regularly tested, evaluated and refined in terms of their environmental compatibility and the efficient use of resources. This basic principle is an integral element of the corporate guidelines.

ElringKlinger AG's environmental management regularly identifies key environmental indicators and extracts relevant data, such as material and energy consumption, as well as emissions and waste accumulation. The data is tested and evaluated in order to continually reduce energy and material consumption. Alongside the main goal of minimizing the company's environmental footprint, these measures also have a positive impact on the organization's cost structures. Streamlining CO<sub>2</sub> consumption was at the heart of the environmental program in 2010.

### Investment in environmentally sound machinery and buildings

By investing in modern production machinery that operate with lower consumption rates and therefore require less energy, ElringKlinger AG endeavors to counteract the increase in energy requirements. Improved energy efficiency is considered one of the most important criteria for the investment decision.

An example of this in 2010 is the acquisition of new servo presses for the manufacture of multilayer gaskets. The advantage of these presses lies in a more energy-efficient pendulum lifting operation. The energy created during the braking phase of a lifting movement is fed back into an energy storage system and is available for the next movement.

In 2010, the central heating system at the site in Dettingen/Erms was changed from oil-powered to gas-powered, also with the aim of reducing energy. Compared with oil, gas offers a higher thermal efficiency rate.

A groundbreaking investment in 2010 was the – now almost completed – new construction of a state-of-the-art, fully automated logistics center at the site in Dettingen/Erms. This building, with a floor space of more than 10,000 m<sup>2</sup> was constructed in close proximity to the production areas and replaces the existing external storage facilities. As a result, the distances to be traveled between production, storage and dispatch are now shorter. A modern, networked inventory management system controls



the central storage of all components – from raw materials to the final product – and thus guarantees an optimum organization of stock. The issue of effective energy use was also addressed with regard to the loading and removal of components into and from the high-rack storage units. The energy originating from the downward movements during the removal from storage is used to generate electricity.

#### **Reduced material usage and improved quality are not mutually exclusive**

A further aim of the environmental program in 2010 was the reduction in the use of externally sourced raw materials, consumables and supplies. As an example, the innovative MuCell injection-molding method was applied in the manufacture of particularly light but resilient plastic housing modules. As a result, the company was able to reduce the use of polyamides. Another example of reduced material consumption is the fact that, since 2010, the paper catalog for the Aftermarket division is only produced and sent out on demand.

#### **Green Card for CO<sub>2</sub> footprint of ElringKlinger AG vehicle fleet**

In 2010, ElringKlinger AG was the only company in the German automobile and automotive supply industry to receive the Green Card from Deutsche Umwelthilfe e.V. in recognition of sustainable transparency and disclosure of internal climate protection targets with regard to the company car policy.

The average CO<sub>2</sub> footprint of the ElringKlinger pool of company cars was 159 g/km in 2010. In order to gradually reduce consumption by the vehicle fleet over the coming years, cars with a high CO<sub>2</sub> emission level will be replaced by vehicles with lower CO<sub>2</sub> emissions.

#### **Quality and occupational safety**

A quality management system, standardized and certified in accordance with the automobile industry standard TS 16949 as well as ISO 9001, has been established at all ElringKlinger AG sites for many years. In 2010, Deutsche Gesellschaft zur Zertifizierung von Management Systemen (DQS GmbH), an organization specializing in the certification of management systems, again conducted the necessary follow-up and repeat audits.

Certification in accordance with quality standard TS 16949 applies not only to the actual manufacture of products but also to product development. A resource analysis is carried out in the development and planning phase, which provides the basis for as low a material usage and as high a recycling rate as possible.

In addition, an integrated and certified environmental management system in accordance with DIN EN ISO 14001 is in place at all production sites. The certificates were published on the company website and can be accessed as follows: [www.ElringKlinger.de/en/sustainability/environment-quality/certifications](http://www.ElringKlinger.de/en/sustainability/environment-quality/certifications).

In 2010, further progress was made with the development of occupational safety management, with the aim of being certified in accordance with OHSAS (Occupational Health and Safety Assessment Series) 18001.

The corporate guidelines “Quality and Environmental Policy”, “Code of Conduct” and “Safety at Work Policy” apply to all employees as a binding basis for their actions. They are integral to the company’s internal rules and policies. The guidelines can be accessed as follows: [www.ElringKlinger.de/en/sustainability/guiding-principles](http://www.ElringKlinger.de/en/sustainability/guiding-principles).

Internal audits in the areas of quality, environment and occupational safety are conducted regularly. Targets are coordinated, and their implementation is centrally reviewed on a monthly basis. These audits supplement the integrated management system and provide indications as to whether the company’s processes are controlled in a high-quality, environmentally-friendly, cost-effective, responsible and safe manner, and where there is room for improvement. The area of occupational safety and health protection is also a central aspect for ElringKlinger, the objective being to mitigate the risk of injury by means of targeted and regular employee training. In 2010, there were 63 cases of occupational accidents that led to an inactive period of more than three days.

#### **Customer satisfaction through zero-defect quality**

Applying Web-based procedures and systems, consistent standards are communicated and made available to all sites on the basis of target-setting processes, consistent quality of products as well as a simplified, standardized documentation of the target-setting processes. Quality management was further improved through the expansion of the computer-aided quality control system CAQ as well as the introduction of the QM module within SAP. These measures contributed to maintaining customer satisfaction figures at a very high level in 2010.

In order to achieve “zero-defect quality” in all production processes, high-quality raw materials and parts sourced from external suppliers are essential. Therefore, ElringKlinger AG has established exacting standards with regard to the selection of suppliers. Through audits and defined information processes, the suppliers are incorporated within the company’s quality management system. In addition to this, all suppliers must comply with the prevailing environmental protection regulations and laws in all areas and processes. In 2010, all business partners were able to demonstrate certification in accordance with ISO 9001. In the year under review, 40% of the suppliers had a certification in accordance with TS 16949, and 51% had a certified environmental management program in line with ISO 14001.

## Research and Development

#### **Innovation for both drive concepts: low-consumption combustion engine and e-mobility**

In 2010, ElringKlinger AG assumed a promising position in its core business areas for the coming years with numerous new developments and applications in established product groups. At the same time, many product concepts were being developed in its New Business Areas division, some scheduled to be launched in the very near future. Once new products have been introduced by customers,

ElringKlinger sees them as standard and immediately begins further optimizing the concepts and exploring other application possibilities. In 2010, as before, this philosophy enabled the company to further improve its competitive position.

### Challenging market conditions

The automotive industry is currently on the verge of crucial developments in drive technology. The aim is to find new, environmentally compatible yet affordable solutions. Following the crisis, automotive manufacturers are once again demanding higher levels of innovation from their suppliers, with financing capabilities to match.

ElringKlinger AG has registered growing interest among vehicle manufacturers in working together with long-term development partners on the supplier side who are capable of contributing to solutions for optimizing the conventional combustion engine and, at the same time, providing input into the development of new electric drive systems. In view of this, ElringKlinger began early on to position itself in such a way that the company is now one of the very few providers in the world capable of supplying products for both combustion engines and electric drives. Accordingly, one of the main areas of focus in 2010 was the expansion of development activities in battery and fuel cell technology.

In particular, the company benefits from the trend among almost all customers towards hybrid concepts, i.e. combining fuel-efficient combustion engines with an electric drive. As well as components for combustion engines, ElringKlinger now also supplies additional products for battery technology.

### Increase in research and development capacities

In 2010, ElringKlinger expanded its R&D activities, both in established product areas and in its New Business Areas division, chiefly at its Dettingen/Erms location. As at December 31, 2010, the total number of R&D employees at ElringKlinger AG increased to 268 (235).

In fiscal year 2010, ElringKlinger AG increased its research and development expenditure by 22.9% to EUR 38.6 (31.4) million. It should be noted that the company had invested to the same degree in developing new products and technologies in spite of the difficult market environment that prevailed in 2009. In 2010, research and development expenditure accounted for 10.1% (10.2%) of sales – slightly less than in the previous year. However, the year-on-year reduction in the R&D ratio can be attributed entirely to the substantial increase in sales revenue, i.e. a higher denominator in the R&D expense-to-sales calculation.

### Protection of know-how: a competitive factor

In order to protect technology know-how and intellectual property, ElringKlinger AG has a special patents department. In 2010, alone, it filed 24 patent applications and registered industrial rights.

For the same reason, the ElringKlinger Group's research and development activities are concentrated at ElringKlinger AG's locations in Germany and at ElringKlinger Abschirmtechnik (Schweiz) AG in Switzerland. The Technology Centers of Excellence located there provide most of the R&D services required by the ElringKlinger Group as a whole.

### Combustion engines: focus on downsizing

ElringKlinger firmly believes that combustion engines will remain the dominant type of drive for the foreseeable future. It also feels that there is considerable further potential in the combustion engine to be tapped in coming years, be it as a consumption-optimized downsized engine or combined with an electric drivetrain as part of a hybrid concept. By contrast, although the market share of pure electric vehicles will grow significantly, ElringKlinger does not expect this to account for more than 5% to 10% of worldwide vehicle production in the next ten years.

As far as engine construction is concerned, the priority for passenger car manufacturers is to reduce fuel consumption and minimize hydrocarbon and nitrogen oxide emissions. The increasingly strict CO<sub>2</sub> restrictions, together with the Euro 6 standard that is due to come into force as of 2014, are making noticeably higher demands on engine technology in general and, in particular, on the engine and exhaust components supplied by ElringKlinger.

With regard to combustion engines, ElringKlinger AG and its product portfolio are benefiting from the trend towards more fuel-efficient turbo-charged engines. The increase in efficiency brought about in capacity-reduced downsized engines is usually accompanied by higher peak temperatures and ignition pressure in the combustion chamber. This means that even higher requirements were made of new cylinder-head and specialty gasket concepts developed in 2010.

### Metal gaskets: new designs and turbocharging applications

In the Cylinder-head Gaskets division, the focus was on developing even more effective gasket concepts in response to the growing number of downsizing concepts. ElringKlinger came up with many new cylinder-head gasket designs for the new generation of highly efficient turbocharged direct-injection petrol engines that make considerable demands on the sealing system.

In order to counter the high peak pressures and elevated temperatures associated with these engines, ElringKlinger developed additional support elements with embossed stoppers used on the rear area of the gasket.

Thanks to new, extremely stable elastomer coating materials, it was possible to further improve the performance and durability of the sealing system under these extreme conditions.

The Specialty Gaskets division developed new, extremely heat-resistant gasket systems for turbochargers, made from special alloys. High-grade V-ring seals were developed to marketability and are now one of the key components for turbochargers. Virtually all major international turbocharger manufacturers are currently involved in development projects with ElringKlinger. In this way, ElringKlinger has laid the foundation for strong growth with this product group in coming years. The division also made significant progress in production technology for sealing rings capable of withstanding high temperatures and for multilayer turbo gaskets.

The growing complexity of the exhaust tract has led to increased demand for high-grade sealing systems among customers. In order to meet these requirements in high-temperature environments, the Specialty Gaskets division developed numerous exhaust gasket applications with special sealing geometries. The Euro 6 standard, which is to take effect in 2014, requires a further significant reduction in nitrogen oxide values in engines. In response to this, ElringKlinger supplies, among other things, SCR (selective catalytic reduction) adapter modules for reducing nitrogen oxide by means of urea injection. In this area of application, the Specialty Gaskets division works together closely with ElringKlinger Motortechnik GmbH, which provides the relevant engineering services.

As regards transmissions, further weight-reduced and coated transmission control component applications were prepared for series production and are to be used in the new generation of twin clutch automatic transmissions.

#### **Shielding technology: demand for thermal management**

Engine downsizing and complex exhaust aftertreatment systems that are capable of complying with the stringent Euro 6 standard require intelligent thermal management. Encapsulation, catalytic converter technology and turbochargers cause temperatures to rise in the engine compartment, vehicle underbody and around the exhaust system. This prompted ElringKlinger to develop numerous heat shield applications for sensors, controls and hose lines that need to be protected from the high ambient temperatures.

In order to meet growing customer demand for acoustic shielding solutions, the Shielding Technology division developed an array of new sound insulation products. One of the key requirements of this design was to use multilayer composite technology to develop combined acoustic heat shields capable of both absorbing sound and providing protection from high temperatures. With the aid of new material concepts and production technologies, substantial progress was made in reducing the weight of components.

Thanks to its intelligent shielding systems, the Shielding Technology division also made a key contribution to reducing heat loss, shortening the cold-start phase and, in turn, reducing harmful emissions and fuel consumption. By lowering thermal loss with the aid of shielding systems, catalysts are activated more quickly, thereby helping to reduce HC and NOx emissions. Together with several vehicle manufacturers, ElringKlinger also worked on improving thermal management in the engine compartment through more effective encapsulation and shielding, thus ensuring improved emissions and consumption levels for cold starts and initial acceleration.

With regard to e-mobility – and, in this case, battery technology in particular – the Shielding Technology division worked on a number of very promising new product concepts. In addition to EMC (electromagnetic compatibility) shielding, the division is currently developing battery housings. Much attention was generated by the shielding technology package for thermal and acoustic protection designed by ElringKlinger for the Fisker Karma hybrid electric sports car.

### **New trend in plastic housing modules: less weight, more functions**

In the area of plastic housing modules, a number of new lightweight modules made from thermoplastics have been developed for engine and transmission applications, including cam covers, engine and gearbox oil pans, clutch pistons and end-shield housing.

Particularly among Asian manufacturers, there was a clear trend towards reducing weight by replacing heavy metal components with lightweight plastic housing modules, thereby also making noticeable progress in the reduction of CO<sub>2</sub> levels.

The main focus of development work was on the production of exceptionally light yet robust plastic housing modules. Using the new MuCell injection-molding technique, it was possible to produce an even lighter polyamide material structure, thus significantly reducing the already-low weight of the plastic housing modules. A cam cover made from this new material has already been series-produced.

Integrating additional functions was a central challenge when designing new products. In this way, ElringKlinger not only helps to reduce complexity and weight, but also to save costs.

When designing a new plastic cam cover, the developers integrated turbocharger vacuum accumulators, heat shielding and a pioneering oil separator which, with the aid of a fleece oil separation system, achieves far better separation rates.

Another key focus of development work in 2010 was the design of a whole series of plastic housing modules for trucks. Given the significant mechanical stress to which these products are subjected, durability and tooling technology requirements are particularly high. In addition to plastic cam covers with integrated lead frames for electrics, high-volume oilpan modules were also launched on the market. These modules already contain key functional elements such as an oil suction pipe, filter sieve, release module and sealing system.

In 2010, ElringKlinger was presented with a Key Supplier Award by one of the world's leading truck manufacturers for its innovative plastic housing modules, which helped to render vehicles considerably lighter and, in turn, to reduce fuel consumption and emission levels.

### **New fields of business: New division E-Mobility installed**

2010 saw ElringKlinger expand the development capacity in its New Business Areas division substantially. In response to the growing long-term importance of electromobility, the company set up its own independent E-Mobility division which bundles battery and fuel cell technology activities. This move is designed to make more effective use of the many material and process synergies that exist between these two areas in particular. In the area of battery technology alone, ElringKlinger added over 20 people to the team of developers at its Dettingen/Erms location. Particularly with regard to

battery storage technology, there are many opportunities for ElringKlinger to use its existing expertise and development processes to make a significant technological contribution and to launch new products on the market.

A large proportion of the costs incurred by the E-Mobility division were covered by government grants. In 2010, ElringKlinger AG received funding of EUR 3.1 million for the current development projects in the field of battery and fuel cell technology. With research partnerships, it was possible to minimize the upfront costs for this development work and to speed up the marketability of comprehensive system solutions.

#### **Cell connectors for lithium-ion batteries ready for series production**

ElringKlinger developers turned their attention to battery technology as early as 2009 with the development of special plastic bipolar plates for bipolar lead-acid batteries. Battery technology opened up a number of additional growth opportunities for the company, which focused much of its R&D efforts in 2010 on developing components for lithium-ion and other high-energy batteries.

Of particular significance was the completion of development work on an innovative, exceptionally powerful solution for connecting lithium-ion cells and modules. The cell connectors level out the temperature fluctuations and are highly robust and thermally resilient. Here, the Group was able to draw on its existing expertise in production technology for high-grade metal and plastic components. A major contribution to this new product was made by the technological know-how from the Cylinder-head Gaskets division, which involves similar technical challenges. In addition to the cell and module connectors themselves, ElringKlinger developed the plastic cell carriers and coverings.

Important flagship projects secured by ElringKlinger AG in 2010 included two major series production contracts from a German automobile producer for the supply of cell contact systems for lithium-ion batteries. The cell contact systems for the lithium-ion high-energy batteries are to be used both in hybrid vehicles and in pure electric vehicles.

At present, the E-Mobility division is already working on connection solutions for prismatic and "coffee bag" cell structures, which permit more compact storage than the currently standard cylindrical cell structures.

In 2010, owing to the high level of interest among vehicle manufacturers and battery producers, ElringKlinger began to set up an E-Mobility research and development center at its Dettingen/Erms location and to establish its own large-scale series production for cell connectors.

Further battery components such as pressure equalization and ventilation systems, were developed in cooperation with ElringKlinger Kunststofftechnik GmbH, which contributed its PTFE material expertise and its know-how regarding the production of membranes. In addition, Battery Technology

worked on sealing concepts and on solutions for draining moisture in batteries. ElringKlinger is also involved in a number of interesting development projects of its own relating to the thermal management of high-energy batteries. In 2010, ElringKlinger Battery Technology paved the way for launching additional parts for lithium-ion batteries and other high-energy battery concepts on the market in coming years.

#### **Fuel cell technology for mobile and stationary applications**

2010 also saw ElringKlinger make considerable progress in the field of fuel cell technology and come substantially closer to its goal of producing marketable product solutions.

In 2010, the first facility for building complete SOFC (solid oxide fuel cell) stacks went into operation for a pilot production. Stacks are constructed with a six-axis robot designed for a range of stack variants. The facility uses gripper technology to cope with the various functional elements of the fuel cells and to position and hold them with high repeat accuracy. Following this, the components are laser-welded together in a fully automated and extremely reliable procedure.

Together with cooperation partners Eberspächer and Behr, ElringKlinger developed a complete high-temperature fuel cell stack module that includes heat exchangers and reformers and which is capable of transforming fuels such as diesel, natural gas or bio-ethanol into highly efficient electrical energy. A "thermobox" specially designed by ElringKlinger's Shielding Technology division shields the entire system from high temperatures.

This is destined for the US market, where it will be used for supplying electrical power and stationary air conditioning in the drivers' cabs of heavy trucks. Since the introduction of an environmental anti-idling law in 35 US states has made it illegal to leave engines in stationary trucks running in order to keep the cab interior air-conditioned, ElringKlinger's concept has met with very positive feedback from North American truck manufacturers. The aim of this development project is to offer a series-ready product for this extremely interesting market by 2015.

Many prototypes have already been produced and are currently being put through their paces by ElringKlinger's Fuel Cell Technology division in a series of extensive durability tests. The electrical power of the stack modules has since been increased and now ranges from 1.5 kW to a maximum of 3.0 kW.

At present, this highly efficient technology is also being prepared for stationary use in a project subsidized by the Federal Ministry of Economics and Technology. Drawing on the principle of combined power/heat generation, the ElringKlinger lightweight SOFC stack is designed for decentralized electricity and heat supply in family homes and residential apartment blocks. Regardless of future electricity prices and government subsidies, ElringKlinger sees these applications as having significant potential in the medium term and has joined forces with two cooperation partners from the heating industry in this non-automotive market segment.

ElringKlinger is developing bipolar plates for PEM (proton exchange membrane) low-temperature fuel cells, which are to replace engines as the drive unit in cars of the future. In this connection, the company has already been working together with international vehicle manufacturers for several



years. The high volume of bipolar plates required for these stacks make this product a commercially interesting proposition for ElringKlinger, even when used in small vehicle series. In 2010, the company enhanced the design of the bipolar plates and their functional elements and optimized the relevant cost structures. As regards process engineering, ElringKlinger has made important progress in the introduction of manufacturing processes that are suitable for series production, in the assembly of fuel cell stacks, and in sealing technology. Here, stamping and punching procedures are performed using progressive tooling and state-of-the-art laser-welding techniques.

A further project, which began in 2010, is geared towards the broad market for forklifts and similar vehicles. In this connection, ElringKlinger integrated a start-up team of specialists working in this area within its Fuel Cell Technology division in order to increase know-how significantly in this area. Bipolar plates and compact PEM stacks with an output of around 3.0 kW are developed as part of this project, which is also supported by government grants.

#### **Pioneering coating material for reducing soot in diesel particulate filters**

Following the introduction of Euro 5 standards for passenger cars in September 2009, almost all new diesel vehicles are now equipped with particulate filters for reducing soot. In order to reduce the necessary burn-off temperature and improve filter regeneration, the filter units are generally coated with expensive alloys containing precious metals.

ElringKlinger exclusively licensed an innovative material based on an alkali silicate substance from a partner company specializing in coating technology. Over the past two years, this has been further developed and optimized as a coating material in diesel particulate filter units. Internal laboratory and durability tests have shown that this environmentally compatible material, which is free of precious metals, is very catalytically reactive and suitable for lowering the temperature level and reaction times required to regenerate the filter. This in turn reduces the necessary post-injection of fuel, resulting in lower CO<sub>2</sub> emissions. In addition, there is potential for reducing coating costs significantly compared with the precious metal-based systems that are currently standard.

In 2010, important progress was made with regard to fatigue strength. Test bodies with ElringKlinger coatings are currently being assessed by a European passenger car manufacturer.

Given that the new Euro 6 legislation for trucks is due to take effect in 2014, ElringKlinger also expects this material concept to generate great interest among commercial vehicle manufacturers. Because of this, the first applications have been developed for catalytic soot reduction in diesel particulate filter units for trucks. Coated test models are currently being used for test runs.

#### **Conclusion: growth assured by strong R&D pipeline for established products and new drive technologies**

All in all, ElringKlinger AG's significant technological expertise in combustion engines and the specific areas of e-mobility outlined above means that, whatever direction future drivetrain technology ultimately takes, the company is ideally positioned to play an important role in developing suitable technical solutions and products. It is also well placed to generate the high level of sales necessary to meet its goal of at least 5% long-term organic revenue growth per year.

## Employees

### Creation of jobs at ElringKlinger AG

The economic recovery in 2010 and the associated dynamic increase in demand for automobiles, as well as the start of production for numerous new products, resulted in a considerable increase in production volumes and capacity utilization at ElringKlinger AG. As a result, ElringKlinger AG was able to provide more employment over the course of the financial year 2010.

The number of ElringKlinger AG employees increased to 1,757 (1,636) as at December 31, 2010. Thus, the headcount increased by 7.4% compared with the previous year, which was still feeling the effects of the crisis. The annual average headcount at the ElringKlinger AG sites in Dettingen/Erms, Langenzenn and Runkel was 1,683 (1,653).

In order to be able to support the considerable increase in sales and the numerous new development projects, additional employees were recruited primarily in production-related areas and in research and development. This took place predominantly in the second half of the year. The preponderance of temporary contracts, which incidentally also relate to the reappointment of employees who had been released in the previous year, gives the company the opportunity to react to extreme economic fluctuations, such as those seen in 2009, in a timely manner.

The 33 new appointments in research and development were generally made in the New Business Areas division, for which ElringKlinger is currently establishing a Center of Excellence at the Dettingen/Erms site.

### Training as part of corporate responsibility

Good professional training is the foundation for qualified staff. For decades, the company has been offering young, motivated people a comprehensive range of commercial and technical training courses, as well as degree programs based on the dual system of on-the-job training and studies. As at December 31, 2010, ElringKlinger AG had trained 70 school-leavers and graduates. Vocational trainees therefore accounted for 4.0% (4.5%) of the total workforce.

Furthermore, ElringKlinger AG also continually supports numerous students with their diploma, bachelor and master theses. In addition, it offers work experience for school pupils and students. In 2010, ElringKlinger AG supported a total of 72 diploma students and interns in various practice-oriented projects. This pool is also an annual source of very well trained employees for the company.

### Qualified employees – the basis for sustained commercial success

One of the most important purposes of ElringKlinger AG's strategically aligned personnel policy – alongside securing young, qualified people – is to further improve the skill levels of the existing workforce. The HR development department focuses intensely upon continual further development and individual career advancement for all employees. Qualification meetings, during which the need

for continuous education is defined and appropriate measures are initiated, were held with 891 collective-agreement employees in 2010. In addition to purely specialist qualification measures, general training courses such as project management and team seminars, software courses and foreign language courses are also offered. In 2010, ElringKlinger AG booked 13,200 hours of advanced education for its employees and spent around EUR 190,000 on training.

#### **Targeted support for future leaders**

ElringKlinger AG has developed a training program for the purpose of targeting the development of young talent. The program is spread over the course of two years and, through character building and technical courses, prepares young people with high potential for future leadership tasks. This program, which was initiated in 2008, was successfully completed in 2010 by 15 young people with high potential; more than half of the participants had taken on leadership tasks immediately after completion. The current group will be able to prove their leadership capabilities upon completion of the program in 2011.

#### **Think ahead and show initiative**

ElringKlinger AG employees work continually on innovative products and the optimization of production processes. In 2010, 188 suggestions for improvement were made as part of the company suggestion scheme, of which 80 were successfully implemented.

#### **Only satisfied employees are motivated employees**

ElringKlinger AG's aim is to cultivate a fair, long-standing and successful partnership with its employees. Employee satisfaction is reflected in the low employee turnover rate of only 0.8% (0.5%) and, in most cases, a long-term loyalty to the company. The number of sick days per employee in 2010 was 11.7 (11.1).

Additionally, the company wants to motivate its employees to be highly committed by offering fair remuneration. In 2010, all ElringKlinger AG employees received an employee profit share of EUR 1,000 per person for the two financial years 2008 and 2009.

## Compensation Report

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

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

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

Management Board contracts regarding short-term compensation were adjusted in line with Germany's new Act on the Appropriateness of Management Board Compensation effective for payments as from 2010 (including 2009 management bonus). Based on these new requirements, short-term variable compensation is calculated as a percentage of the average pre-tax result of the last three years (previously, as a percentage of the pre-tax result of the current financial year). 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 5 tranches beginning as of February 1, 2008, up to February 2012. For one member of the Management Board, allocation also occurs in 5 tranches, but beginning as of January 1, 2009, up to January 1, 2013. The grant price is the average share price of the last sixty stock exchange trading days prior to the grant date. The number of stock appreciation rights is determined on the basis of fixed remuneration payable to the individual Management Board member as well as the level of the grant price (fixed compensation in relation to grant price = number of shares allocated). The amount to be remunerated is calculated as the difference between the redemption price, which is also calculated as an average of the last sixty stock exchange trading days, and the grant price. A payment is made only when the share price of ElringKlinger AG has increased more than the index in which ElringKlinger is listed, but at least by 25%. A provision is recognized in consideration of expected future obligations. Remuneration per tranche is limited to the amount of annual fixed salary payable. The vesting period for the tranches allocated on February 1, 2008, and February 1, 2009, as well as January 1, 2009, is three years; for all other tranches it is four years.

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

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

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

#### **Compensation structure for members of the Supervisory Board**

The compensation structure for Supervisory Board members remained unchanged compared with last year. The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on June 1, 2006.

In accordance with the recommendations of the German Corporate Governance Code in the version of May 26, 2010, compensation is comprised of a fixed component and a variable component, the latter being calculated on the basis of Group earnings before taxes in the financial year ended.

In accordance with the recommendations of the German Corporate Governance Code in the version of May 26, 2010, the role of the Supervisory Board chairman and that of his deputy were taken into account when determining the level of compensation. The Chairman of the Supervisory Board receives two times and the Deputy Chairman one-and-a-half times the compensation paid to other Supervisory Board members.

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

As at December 31, 2010, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

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

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as at December 31, 2010, are as follows:

Walter H. Lechler, Stuttgart

Total of 21.836% (of which 9.74% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG)

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

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

Details relating to authorized capital and the utilization of authorized capital are included in the Notes on page 12 to 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 carries the overall responsibility. Internal reporting is used to monitor and control business performance. Regular quarterly reporting by the company divisions is a central element of the risk management system. It covers developments in all fields relevant to the company that can affect business activity and, in particular, the continuation of ElringKlinger AG as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, the commodities markets and internal risks. This reporting system involves identifying 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 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 in the past 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 two accountancy firms. 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. They are evaluated by the Management Board, whereupon necessary measures are approved and realized. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weakness. The Cylinder-head Gaskets division was audited in fiscal 2010. As in financial years 2008 and 2009, specialist audit firms were appointed to carry out a precautionary analysis of processes and workflows in the Finance and Controlling areas in order to identify any potential risk of fraud. All internal audits showed that both statutory regulations and internal requirements had been met. The recommendations submitted with regard to potential areas for optimization have been put in place or are currently being implemented.

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

### Control and risk management system with regard to accounting

With regard to accounting and external financial reporting, the internal control and risk management system may be described with reference to the following basic characteristics. The system is geared toward the identification, analysis, valuation, risk control and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board and Supervisory Board. In accordance with the distribution of responsibilities, Finance and Corporate Investment Management, which are in charge of accounting, come under the remit of the Chairman of the Management Board. These departments control accounting within ElringKlinger AG and throughout the Group and compile the information required for the preparation of the separate and consolidated financial statements. Corporate Investment Management is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. The Group companies report to the head of Corporate Investment Management, who in turn reports to the Chairman of the Management Board.

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

ElringKlinger AG, its German subsidiaries and some of its international subsidiaries use SAP; other leading Group companies plan to introduce SAP in the future. All implemented systems feature hierarchical access systems; all clearances are documented in the system. For companies that use SAP, access rights are managed according to established rules. Within the German companies, access decisions are taken by the heads of Finance; at the international subsidiaries, access is granted by the heads of Corporate Investment Management. Local management teams make 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 avoid 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

### Market and sales risks

As a global automotive supplier, ElringKlinger AG is dependent to a large extent on the performance of the vehicle manufacturing industry. Having come through the most severe crisis to hit the automotive industry, international car markets recovered strongly in 2010, in some cases returning to pre-crisis levels. Production output is expected to expand steadily, albeit at lower levels, during 2011 and over the next few years.

Macroeconomic conditions over which the company has no influence present a latent threat.

A resurgence of the financial crisis or further worsening of the debt situation in European Union countries could have an adverse effect on the buying habits of consumers, which in turn would serve to suppress the sales trend.

A severe and sustained slowdown of economic activity in general and vehicle demand in particular on Asian markets would have the potential to impair growth prospects, especially for the subsidiaries of ElringKlinger AG. In this event, among other things, the rapid expansion envisaged for China would have to be scaled back and the company would face the risk of being unable to exploit the increased production capacity of 2010 to maximum advantage.

Although such a situation cannot be foreseen at present, any sharp decline in vehicle production across one or more sales regions of ElringKlinger AG would quickly lead to a fall in customer demand for parts. A development of this kind would adversely impact production capacity and thus impair the operating margin. In this case, the Management Board would respond promptly by adjusting structures and costs as appropriate at every stage of the value chain in order to safeguard the earnings situation of the company.

In summary, however, it should be noted that significant declines in car sales and production volumes remain unlikely possibilities as things stand.

### Customer risks

One result of the marked upturn in the international vehicle sector has been a considerable improvement in the earnings situations of nearly all customers of ElringKlinger AG. As a consequence, the risk of defaults on outstanding accounts has declined further; in the unlikely event of the insolvency of a major client, the impact would be within the single-digit million euro range.

In recent years, risks linked to reliance on a number of major customers have declined. Compared to other companies within the sector, ElringKlinger AG has an exceptionally broad international client structure. In 2010, the company's three biggest customers accounted for less than one third of sales revenue overall. Virtually all global manufacturers of vehicles and engines were part of the customer base last year, along with a growing number of vehicle suppliers.

### Price risks

The trend for material prices could prove to be adverse in 2011. Prices of the key materials required by ElringKlinger AG (high-grade steel with alloys, carbon steel, aluminum and polymer granules) fell during 2008 and the first half of 2009 – the period of the crisis – for the first time in many years. As from mid-2009, however, some of these commodities started to rise sharply in price once again. Capacity withdrawn from the market by raw material suppliers during the crisis is returning to the market only gradually. Increasingly speculative interest in particular commodity groups could cause prices to balloon, which in turn could bring about a price level well above the level warranted by actual production-related demand from the manufacturing sector.

The company counteracts these influences by consolidating the requirements of various Group companies, concluding long-term supply agreements and continually optimizing material consumption in its product development and manufacturing processes. Contractual price setting is not possible in the case of exchange-listed alloys for high-grade steel, and this presents one of the main uncertainties in terms of the development of material prices. Hedging of reasonable purchase prices, where necessary, is only possible by means of derivative hedging instruments. However, it is also possible to absorb a proportion of material consumption, as well as possible cost increases, by means of scrap trading with the company's residual punched portions. Where calculated prices are exceeded, the company passes on price increases at least in part. Within this context, there is a risk of being unable to pass on rising material costs in full, which has an adverse effect on the gross margin.

Aside from the development of material prices, the availability of materials also poses a risk that should not be underestimated. During the crisis, production of some material groups required by the ElringKlinger Group was reduced and production capacity was temporarily scaled back. Since then, the requirements of the manufacturing sector have increased significantly. Demand from the developing nations of Asia, in particular, has remained high. If the global economic upturn continues unchecked, temporary supply shortages cannot be ruled out.

By means of early materials planning, ElringKlinger AG has taken steps to ensure material for production is available in the volumes required.

### Currency risks

Currency risks generally arise in connection with loans issued to subsidiaries by ElringKlinger AG and receivables from affiliated companies.

The exchange rate risk is essentially linked to the development of the euro against the Swiss franc, Canadian dollar, US dollar, Mexican peso, Brazilian real and Japanese yen.

The currency risk in relation to the Mexican peso and the US dollar is minimized in that foreign currency loans extended by the parent company to the various subsidiaries are covered by financing in the same currency.

Movement in the exchange rate between the Swiss franc and the euro can bring about significant variation in the net finance result. In 2008, ElringKlinger AG financed the takeover of the Swiss SEVEX Group with loans in Swiss francs; a rise in the rate of the Swiss franc will therefore impact negatively on the result. It should be noted that since financial liabilities are settled in Swiss francs from the profit distributions of ElringKlinger Abschirmtechnik (Schweiz) AG, cash flows are not exposed to any risk.

Generally speaking the exchange rate risk is limited because on virtually all sales markets, costs and sales revenues are incurred in the same currency owing to the presence of subsidiaries in many cases.

#### Financing risks

In overall terms, as the insolvencies of 2010 testify, financing risks in the automotive supply industry remain high.

Compared to many companies in the sector, the financing profile of ElringKlinger AG is very sound. The company's financing is generally structured as medium- to long-term. There is presently no risk of failure to meet payment deadlines.

If the economic picture continues to brighten and interest rates rise, conditions on loans with variable interest rates could tighten and this would have a negative effect on the net interest result. A review of the risk profile or downgrading of the credit rating for the entire sector by the ratings agencies and commercial banks could also result in higher risk premiums and tighter financing conditions as a consequence.

The observance of defined financial covenants is stipulated as part of loan agreements. They require a certain minimum equity ratio and specify maximum gearing. These covenants were observed in 2010: ElringKlinger AG is performing well above the prescribed levels on all indicators.

ElringKlinger is not aware of any significant financing risks or financing risks that may jeopardize its business. The company's financing capability improved once again with the successful seasoned equity offering of October 2010. With a sound equity ratio of 56.5%, strong net cash from operating activities and available credit lines in excess of EUR 100 million from commercial banks, ElringKlinger AG has a solid financing profile and thus, correspondingly, a competitive advantage.

Financing for planned future expansion is thus secured; there is also scope for larger-scale investment in the expansion of new business areas or further acquisitions.

#### **Wage costs risks**

Alongside material costs, personnel expenses represent the biggest cost item for the company. If wage costs were to spiral, this would present a risk to the relative competitiveness of ElringKlinger AG and threaten the company's ability to achieve its earnings targets.

A short-term collapse in customer sales – of which there is no sign at present – could bring about a sharp rise in the staff costs ratio and impair the earnings situation.

ElringKlinger AG did not cut back on regular staff during the crisis, opting instead only to allow temporary contracts to lapse. As sales rose strongly in 2010, the number of short-term staff increased significantly once again. ElringKlinger AG thus has the necessary flexibility to cope with an unexpectedly rapid slump in demand.

In view of the upturn in its business performance and the exceptional commitment of its workforce, ElringKlinger AG decided during the crisis to bring forward to February 2011 wage increases stipulated under a pay agreement for April 2011. As a result, wage costs for staff members on collective-agreement wages will rise by 2.7% in 2011; there will be no further increases in wage costs for 2011.

Generally speaking, any further rise in wage costs would pose a serious risk to the earnings situation. Increased wages would have to be counterbalanced by corresponding efficiency increases, especially in production. However, the planned sales increases and the disproportionately low rise in employee numbers point to scope for restricting wage costs.

#### **Supplier risks**

The loss of key suppliers also constitutes a risk to ElringKlinger AG. For smaller suppliers in particular, the financing situation remains demanding; for this reason, withdrawals of delivery quantities cannot be ruled out.

The ElringKlinger Group has close and long-standing working relationships with most of its suppliers. The suppliers are incorporated into the company's quality management and early warning systems, which means potential risks can be identified at an early stage.

ElringKlinger procures its essential raw materials and input products from major international organizations. There is no threat to agreed delivery quantities within this area. Moreover, the company does not rely on a single supplier.

In recent years, the number of suppliers used has increased significantly in response to internationalization and the expansion of the supplier base. At all times, ElringKlinger works with at least two suitably qualified suppliers to procure the necessary materials and intermediate products.

In overall terms, risks to the value chain of ElringKlinger AG deriving from the supplier structure are manageable.

#### Risks from derivative transactions

ElringKlinger AG uses derivative financial instruments to constrain foreseeable risks only in specific instances and only after careful consideration of the potential costs and benefits. The company uses derivatives solely to hedge against price fluctuations of alloys used in high-grade steel (such as nickel) as well as currency exchange and interest rate risks.

It is not possible to procure the alloys used in high-grade steel by means of long-term contracts. Since alloys are exchange-listed, they are subject to considerable price fluctuation. Price changes feed into the total price of spring steel as variable surcharge rates with time delays.

As at December 31, 2010, ElringKlinger AG had no hedging contracts in relation to its required alloys for high-grade steel. In the event that prices increase well above costed figures, the resumed use of hedging contracts as a tool of risk management cannot be ruled out.

ElringKlinger AG has established interest rate hedges for the purpose of mitigating risk associated with changes to interest rates. As part of these hedging agreements, floating interest rates are swapped for fixed interest rates. For further details, please refer to "Derivatives/Financial Instruments" in the Notes.

#### Legal risks/warranty risks

As a manufacturer and a supplier to the automobile industry, ElringKlinger may be exposed – in relation to sales and earnings – to corresponding warranty and liability risks. 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 for the purpose of preventing and mitigating such risks. Furthermore, risks in this area are covered to a large extent by insurance policies, which are an element within the risk management system. Finally, ElringKlinger addresses its exposure to legal risks by recognizing appropriate provisions in its annual accounts. Compared with the previous year, there were no other significant risks in the period under review.

## Opportunities

#### Market opportunities: expanding business in Asia

The upsurge in global car production in 2010 has brought the figures almost back to pre-crisis levels. Over 2011 and the years ahead, demand for cars is expected to rise and production figures are likely to increase accordingly.

If these positive forecasts on the part of vehicle manufacturers are borne out, experience shows that ElringKlinger AG and its subsidiaries stand to benefit disproportionately from growth in the market.

Vehicle demand is shifting away from the three well-established markets (USA, Europe and Japan) in favor of the BRIC regions, and ElringKlinger AG is benefiting indirectly from the trend through the results of its subsidiaries in those countries. In recent years, ElringKlinger has secured a strong position in these regions by building new plants and investing heavily in additional capacity. In Brazil, ElringKlinger is a leading producer of metal-based flat gaskets; in India, the company has established a state-of-the-art plant. Production capacity almost doubled in China alone during 2010 with the construction of two new factories: this region will remain a focal point for investment in 2011. From a technological standpoint, ElringKlinger is also benefiting from the fact that the majority of BRIC nations and the rapidly expanding ASEAN countries are complying with the European Euro 4 and Euro 5 emissions standards. As a consequence, demands on the performance of engine and exhaust components as regards sealing technology and thermal shielding are rising.

In the future, therefore, markets with high growth potential for the automotive sector will provide a good foundation on which the ElringKlinger Group can achieve substantial sales increases over the medium to long term.

#### **Market consolidation and acquisitions**

As a result of the crisis in the sector and strongly rising pressures on financing, the number of insolvencies in the automotive supply industry continued to increase during 2010. Some competitors have already withdrawn from the market, and bank lending has become more restrictive as capital requirements rise.

Moreover, many small and medium-sized supply companies do not possess global manufacturing structures. Since engine platforms are increasingly designed as "global engines" that are produced simultaneously in several regions around the world, vehicle manufacturers are insisting on global production and supply capabilities from suppliers. In a number of owner-managed companies in the sector, the issue of succession and the future management of organizations is arising.

In these circumstances, it may be assumed that consolidation of the supply industry is continuing apace. This may present ElringKlinger AG with further acquisition options at reasonable prices, which would enable the company to strengthen its market position in certain business areas or develop new regional markets with strong growth potential more rapidly. The gaskets area will be largely consolidated following the takeover by ElringKlinger AG of the Freudenberg Metal Flat Gaskets division, but highly attractive opportunities could present themselves for other business areas.

In this environment, there is also a chance of making specific acquisitions to complement the company's own fields of expertise in technological terms (for example, the field of new drive technologies).

With all business areas of ElringKlinger AG growing organically, there is no time pressure as regards takeovers. When appraising possible acquisitions, the focus will be on the potential for raising profitability at Group level rather than increasing sales.

## Financing

Production volumes continued to increase steeply in 2010. Within the automotive supply industry, this led to a much greater need for resources to finance required commodities and materials in advance. At the same time, the levels of capital tied up in outstanding accounts tended to increase. Taken together with tighter lending conditions on the part of banks and an earnings position that is often unsustainable in this sector, liquidity bottlenecks of the kind that often bring about corporate insolvency cannot be ruled out. For ElringKlinger, this could produce an advantage as competitors withdraw from the market or are no longer in a position to invest sufficiently in research and development or measures to enhance productivity.

As regards the production of new drive technologies in particular, high levels of research and development expenditure as well as investment in developing and manufacturing of new products are required. This presupposes appropriate spending power.

It is also clear that since the crisis, vehicle manufacturers have been paying particular attention to the financial status of suppliers when allocating new projects. Priority number one is the long-term delivery capability of a supplier as this will prevent disruption of the supply chain.

Thanks to the seasoned equity offering successfully carried out in October 2010, ElringKlinger AG has generated extra financial leeway. Compared to its competitors, the company is in a very stable situation as regards its financial position, financial performance and cash flows; this will enable it to secure refinancing under terms favorable for the sector.

As a technology partner to vehicle manufacturers for the long term, ElringKlinger AG is in a position to attract new orders, expand its market share and participate as appropriate in new developments in the field of e-mobility.

## Technology and climate change

### Cutting CO<sub>2</sub> emissions

Intense global debate continues over climate change and the complex problems it is causing. Cutting emissions of the greenhouse gas carbon dioxide is without doubt the primary goal at present for the automotive industry. Permissible threshold values will be reduced significantly in the years ahead, both in Europe (95g/km by 2020) and the USA (162g/km by 2016).

Moreover, many emerging nations – and particularly China – are introducing much tighter laws governing the emission of nitrogen oxide, carbon monoxide and hydrocarbon compounds with a view to converging with stringent European standards.

With a product portfolio based on reducing consumption and emissions, ElringKlinger is well placed to expand its current market share and grow more strongly than the market on the basis of new products and applications.

Despite the growth projections, all-electric vehicles are at present set to remain first and foremost a niche application for the major conurbations. For this reason, the combustion engine will remain the dominant drive unit for the foreseeable future, optimized for fuel economy through downsizing. This technological trend will present ElringKlinger with new opportunities to benefit from a higher take-up rate for ElringKlinger components as well as additional new products (for example, in the field of turbocharger gaskets).

#### Hybridization and electric vehicles

Over the next few years, the majority of vehicle manufacturers will hybridize the power train, in other words, combine the combustion engine with an electric motor. With nearly all manufacturers launching several hybrid platforms, analysts are forecasting that by 2025, nearly half of all new vehicles will take the form of mild, micro or plug-in hybrids. One aim will be to reduce the fuel consumption levels of vehicle fleets produced by specific manufacturers and thereby cut carbon dioxide emissions. At the same time, the hybrid vehicle will increasingly establish itself as the car of the moment for consumers who are prepared to accept the higher prices associated with the technology. Many nations are developing or have already introduced subsidy models that will serve to encourage the trend towards buying hybrid vehicles.

ElringKlinger AG will be able to draw on the technological expertise it already possesses to supply, within the hybrid framework, new parts such as cell connectors, separator plates and pressure compensation components for the installed lithium-ion batteries or electric motors. The Group has identified good prospects for substantially increasing sales per vehicle in the future, especially through new products in the batteries area.

#### Assessment of aggregate risk

The early warning tools in the risk management system of ElringKlinger AG proved their effectiveness during the crisis. By adapting its structures rapidly, the company navigated successfully through the difficult period before demonstrating a high degree of flexibility in converting the strong subsequent upturn into rising sales and earnings figures.

With a long-term investment policy, research and development expenditure above the sector average, a healthy product pipeline and steadily rising productivity, the ElringKlinger Group is gaining clear advantages over its competitors.

However, although the market situation has improved markedly and a pattern of global economic stability is emerging, high levels of national debt, currency exchange fluctuations and the possible after-effects of the financial crisis in the USA add up to latent risk potential; it would still be unwise to underestimate the element of uncertainty when planning and forecasting future business developments.

Despite this, the overall level of risk to the sector and the company has clearly decreased since 2009. At this time, we do not perceive any risks that could threaten the survival of ElringKlinger AG, either in isolation or together with other factors.

Thanks to a combination of product developments, new technologies and financial robustness, the company has the potential to outperform the market in future calculated on the basis of vehicle



production. ElringKlinger AG will also be in a position to benefit actively from the opportunities that arise as the sector continues to consolidate.

## 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/2010-euf-en](http://www.elringklinger.de/2010-euf-en).

## Report on Expected Developments

### Market and Sector Outlook – Economic Recovery Continues

Compared to 2010, the rate of growth displayed by the global economy is expected to weaken in 2011. Despite this, however, global economic output is projected to rise by 4.3%.

As for the German economy, there is every chance that the recovery seen in 2010 will continue into 2011. While the forward momentum in 2010 was driven primarily by exports, Germany is now seeing additional impetus from an upturn in domestic demand. Germany's gross domestic product is expected to rise by 2.1%, which would constitute the highest growth rate in Europe.

In the eurozone, meanwhile, the strong and weak economies will continue to drift apart. Southern Europe, in particular, has been impacted by significant budget deficits and national debt, a situation that is likely to have an adverse effect on growth. In total, the gross domestic product within the eurozone is forecast to rise by 1.4%. By contrast, the majority of the eastern European countries are expected to achieve growth of 4.0% on average in 2011. Against the backdrop of rising oil and gas prices, GDP growth in eastern Europe's largest market, Russia, is expected to be 4.3%. Turkey, which has advanced to become the sixth largest economy in Europe, is likely to see its gross domestic product grow by 4.2%.

As regards 2011, the US economy is expected to follow on from the upturn seen in 2010. On a less positive note, however, the continued spike in unemployment together with the protracted weakness of the housing sector and the associated risks to the financial industry are likely to exert some downward pressure. Overall, the growth forecast for the United States has been set at between 2.5% and 3.0%.

The economies of Latin America will continue to develop solidly. Brazil is expected to see its economy grow by 4.9% in 2011.

As in the past, the emerging economies of Asia will again achieve the most pronounced growth rates. Having said that, this region as a whole is expected to be slightly less dynamic compared to the previous year. The People's Republic of China is purposefully restricting its highly expansive economic policy of the past and will therefore grow at a less pronounced rate than in previous years. Having said that, with estimated GDP growth of 8.8% (10.1%), the economic upturn seen in China looks set to continue in 2011. Supported by state-funded investment measures and higher private consumption, India – the region's most important market after China – will also remain dynamic. Its economy is expected to grow by 8.0% in 2011. By contrast, the 2011 outlook for Japan is less favorable, with economic output expected to edge up by a mere 1.1% (3.5%).

Despite existing risks, the tangible economic prospects in conjunction with rising disposable incomes in many of the emerging markets provide a solid basis for the continued upturn in business within the global automobile market over the course of 2011.

#### **Continued – yet more moderate – growth in global car production and demand**

Propelled by dynamic growth, global car production came close to its pre-crisis level in 2010. From this higher base, the market is now expected to develop along normal lines. The automobile industry looks set to maintain its forward momentum in 2011, albeit at a less pronounced rate of growth than that recorded in 2010. Leading market research institutes have forecast that global demand for passenger vehicles will stand at 72.6 million units in 2011. Against this backdrop, the overall sales volume is projected to rise by around 2.9 million vehicles year on year. In parallel, global auto production will continue to expand in 2011. Compared to 2010, forecasts suggest global growth of 6.2% in the number of passenger cars manufactured over the course of 2011.

The BRIC markets and emerging economies will continue to act as the key growth drivers of the automotive industry in 2011. The Asian markets, in particular, will account for a much larger share of global automotive business. Alongside China and India, the ASEAN countries – such as Malaysia, Thailand, the Philippines and Vietnam – look set to play an increasingly important role.

By contrast, ElringKlinger AG anticipates virtual stagnation for the European automotive market. Both sales volumes and production output are unlikely to move much beyond the levels recorded in 2010.

For Germany, Europe's largest vehicle market, all indicators are set for growth in 2011. Buoyed by a positive economic outlook, automobile sales are likely to rise for the first time since 2009. The forecast for passenger car sales has been set at 3.1 (2.9) million vehicles. As was the case in the previous year, domestic production will benefit from strong foreign demand and should reach a new record of 5.8 (5.6) million vehicles manufactured.

The North American vehicle market will continue to recover in 2011, albeit at a much slower rate compared to 2010. Following the significant upturn in vehicle production in 2010, ElringKlinger AG currently anticipates that any gains made over the course of 2011 will be more moderate, particularly against the backdrop of persistently high unemployment figures and the financial pressures felt by

many consumers in the US. On this basis, both registration and production figures in North America are likely to remain well below their pre-crisis levels of around 17 million vehicles sold and 15 million units produced. In the medium term, however, the high average age of vehicles, together with scrappage rates that have been in excess of new vehicle purchases for many years now, should act as a stimulus for market growth.

After buoyant growth in recent years, the Brazilian automotive market is expected to record moderate growth from the high base already achieved. As regards new vehicle registrations, the forecast for 2011 stands at growth of 3.7%.

The medium- to long-term growth trend in the Chinese automotive market will remain intact in 2011, although the overall momentum is likely to be less dynamic, considering the boom recorded in recent years. Despite the planned restriction of new registrations in some of the country's major conurbations, such as Beijing, there is every chance of continued growth in what has now become the world's largest auto market, particularly when one considers that the level of penetration in the Chinese car market is still extremely low at just 23 vehicles per 1,000 inhabitants. ElringKlinger anticipates growth within the mid-single-digit percentage range both in terms of new registrations and vehicle production. It would appear likely that Chinese production will reach a level of 17.9 million passenger cars and light trucks in 2011.

With projected growth of 19.9% in terms of production output and 17.0% with regard to new registrations, the Indian vehicle market will remain buoyant in 2011.

New registrations within the Japanese market, however, are expected to contract by around 2% in 2011 as a result of discontinued government incentive packages for new vehicles and uncertainties regarding Japan's economic performance.

ElringKlinger AG anticipates that global vehicle production will grow by a further 2 to 3% in 2011.

#### **Upward trend in commercial vehicle sector continues**

Following a dramatic downturn at the height of the crisis, the steady recovery seen within commercial vehicle markets around the globe looks set to continue in 2011. However, neither North America nor Europe is likely to return to the pre-crisis level as early as 2011.

Global sales of heavy trucks in excess of six tons are expected to rise by 8.0% to 3.0 million units. German truck manufacturers have forecast growth of up to 25% in terms of production output. Against the backdrop of recovering economies and higher transport volumes, demand throughout Europe will remain solid. On this basis, the European market for heavy trucks is expected to grow by around 10.0% in 2011.

The US market for heavy-duty trucks is also likely to expand in 2011, also growing by 10.0% to 220,000 vehicles.

As ElringKlinger AG generates approx. 10% of its revenue through sales of truck components, the upturn within the commercial vehicle sector is also expected to have a positive impact on the company's business performance. Furthermore, a new plant for plastic housing modules means that the company will be able to extend its product portfolio and manufacturing capacities in this area.

## Outlook – Company

### Competition and price situation

The industry as a whole will continue to be influenced by competitive pressures in 2011. In view of the significant technological barriers and the capital intensity associated with production in ElringKlinger's core area of business, there is no likelihood of market entry by potential new competitors. The pressure exerted on prices within the Original Equipment segment has now returned to pre-crisis levels. Despite greater consolidation within the sector and ever increasing R&D contributions made by suppliers, there are no signs of a tangible improvement in this area.

### Investment in e-mobility and lightweight design

Having spent a total of EUR 60.9 million in 2010, ElringKlinger AG plans to invest around EUR 55 million in buildings, plant/equipment and tools in 2011. This capital expenditure is the result of various product start-ups, including several associated with the New Business Areas division. Additional funds may be channeled into the purchase of coating machinery for diesel particulate filters if the project continues to progress well in 2011.

ElringKlinger AG is in the process of establishing operations for the production of cell contact systems at its site in Dettingen/Erms, as well as pooling its research and development activities in the field of battery and fuel cell technology within a new E-Mobility Center of Excellence. Investments of around EUR 20 million in total have been earmarked for this purpose.

In 2011, the Dettingen/Erms site will also see the construction of a new plant for the production of lightweight plastic housing modules, with an investment volume of more than EUR 20 million. Applying fully automated production processes, the facility will manufacture cam cover modules, oil pan systems and other components, primarily for the European commercial vehicle industry.

### Solid order intake

Order intake increased significantly in 2010, rising to EUR 422.5 (321.8) million at the end of the year, which was 31.3% up on the previous year's figure.

As at December 2010, order backlog at ElringKlinger AG was equivalent to EUR 172.1 (132.2) million, 30.2% higher than a year earlier.

The level of orders in hand remains high, providing a good foundation from which to achieve the company's revenue and earnings targets. Based on order intake in the first two months of 2011, it would appear the demand will remain solid.

## Forecast: Sales and Earnings Position 2011 and 2012

### Earnings situation remains solid

The financial performance of ElringKlinger AG continued to improve over the course of 2010. This was attributable mainly to sustained cost savings implemented during the crisis as well as persistent efforts to raise efficiency levels with regard to production processes. In 2011, ElringKlinger AG will continue to benefit from lean structures and an anticipated increase in the level of production capacity utilized.

Visibility has improved with regard to the level of orders placed by customers, and at the same time it has become easier to plan ahead in terms of the actual number of units requested as part of customer production scheduling. However, the economic uncertainties remain, and they will continue to have an indirect influence on the industry as a whole. This, in turn, is likely to lead to fluctuations in the quantity of components requested by customers as part of their production scheduling.

Compared to 2009, the levels of stock held by vehicle producers have risen again. Having said that, they have not yet reached a level that is considered excessive.

If global economic growth accelerates any more, there is the distinct possibility that persistently high demand for commodities and components will lead to shortages in terms of the availability of materials and, consequently, a rise in commodity prices. After the lows recorded in spring 2009, material prices have already increased noticeably. Given the number of speculators active within commodity markets again, it is impossible to rule out further price hikes within this area. ElringKlinger endeavors to offset price rises by means of long-term supply contracts, further optimized manufacturing methods and higher efficiency levels in production. To some extent, higher prices for sourced materials have to be passed on to customers. At present, there is no derivative-based hedging in place for high-grade steel alloys. However, action within this area will be considered if prices continue to rise.

The year-on-year increase in administrative expenses for 2011 will be marginal.

In total, staff costs are expected to rise at a moderate rate. The collective pay increase of 2.7% originally scheduled for April 1, 2011, was brought forward to February 1, 2011, under provisions set out in the collective wage agreement.

### Further growth in sales and earnings

Based on the general economic trend outlined above and working on the assumption that market conditions will remain favorable, ElringKlinger AG anticipates further growth in sales revenue for 2011. In 2011, income from ordinary activities is expected to exceed the figure recorded in 2010.

Building on its strong positioning with products engineered for CO<sub>2</sub> reduction and promising opportunities in the area of battery components, ElringKlinger AG considers itself well placed to drive sales forward by means of organic growth in 2012 and in the medium term, while also generating in-

come from ordinary activities that is, at the very least, proportional to its growth in sales. Within this context, product rollouts, particularly those associated with the company's New Business Areas, will make a more sizeable contribution.

#### **Financing requirements covered**

The seasoned equity offering executed in 2010 generated proceeds that will cover a significant part of the funding required for the acquisition of the Metal Flat Gaskets division from the Freudenberg Group. These proceeds will also be used for the purpose of financing the investment measures to be implemented in 2011, as discussed earlier. Therefore, the company's financing requirements as they stand at present have been covered in full. What is more, the company has reserves at its disposal for the purpose of targeting additional external growth should the opportunity arise and provided that the purchase price is considered appropriate.

Projected cash flow from operating activities will exceed, the payments currently anticipated in connection with investments in property, plant and equipment both in 2011 and 2012. On this basis, the company will be in a position to cover its estimated financing requirements by means of internal funding. Furthermore, ElringKlinger AG has additional room for maneuver in the form of borrowing facilities negotiated with various banks.

#### **Reduction in net debt**

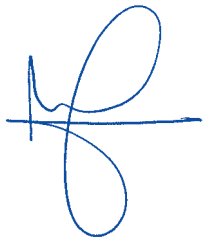
After a marked reduction in net financial debt by EUR 99.1 million in the fourth quarter of 2010 as a result of the seasoned equity offering, net financial debt will increase in the first half of 2011 due to payments made in connection with the Freudenberg acquisition and the investments outlined above, as well as the company's dividend payment. ElringKlinger AG anticipates a reduction in net financial debt as from the second half of the year as well as for 2012.

Overall, the financial performance, financial position and cash flows of ElringKlinger AG can be considered very solid. The company thus finds itself in a good position when it comes to achieving the medium- and long-term targets it has set itself.

## Events after the Reporting Date

Apart from the closing of the acquisition of the Metal Flat Gaskets division from the Freudenberg Group effective from January 1, 2011, as outlined above, there were no other significant events after the reporting period that are subject to disclosure.

Dettingen/Erms, March 16, 2011  
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 for the business year from January 1 to December 31, 2010. 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 16, 2011

PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

Marcus Nickel  
Wirtschaftsprüfer  
(German Public Auditor)

ppa. Renate Berghoff  
Wirtschaftsprüferin  
(German Public Auditor)

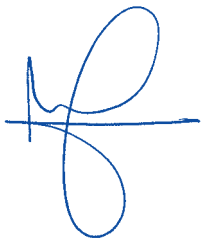


## Responsibility Statement

### 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 16, 2011  
Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder



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