2013

Annual Report

beyond CO_2

elringklinger

ElringKlinger Group – Key Figures

(IFRS)

		2013	2012[5]	2011	2010	2009	2008	2007
Order intake	€ million	1,309.8	1,134.8	1,089.0	886.6	612.9	621.3	644.7
Order backlog	€ million	595.4	456.0	448.4	333.1	242.2	208.6	245.1
Sales revenue	€ million	1,175.2	1,127.2	1,032.8	795.7	579.3	657.8	607.8
Cost of sales	€ million	846.2	815.0	744.2	557.0	426.3	464.2	400.1
Gross profit margin		28.0 %	27.7 %	27.9 %	30.0 %	26.4 %	29.4 %	34.2 %
EBITDA	€ million	236.3[3]	215.2	245.5[6]	188.9	134.5	133.2	169.0
EBIT[1]	€ million	160.4[3]	135.8	148.7[6]	106.7	63.3	71.5	121.0
EBIT margin		13.6 %[3]	12.0 %	14.4 %[6]	13.4 %	10.9 %	10.9 %	19.9 %
Earnings before taxes	€ million	149.2[3]	123.6	136.6[6]	94.0	49.4	60.0	114.9
Net income	€ million	111.2[3]	89.2	97.6[6]	68.6	34.8	43.2	80.3
Net income attributable to shareholders of ElringKlinger AG	€ million	105.4[3]	85.7	94.9[6]	65.6	33.2	39.8	75.9
Net cash from operating activities	€ million	120.0	112.3	74.5	126.2	148.8	98.2	99.3
Net cash from investing activities	€ million	-128.0	-108.2	-147.4	-128.1	-93.6	-211.7	-101.9
Net cash from financing activities	€ million	14.6	-13.3	35.4	74.0	-49.3	116.9	4.4
Operating free cash flow[2]	€ million	-4.8	8.2	-10.5	-1.9	58.2	-37.6	5.5
Balance sheet total	€ million	1,395.3	1,268.6	1,217.6	991.3	772.3	764.5	572.5
Equity	€ million	704.6	642.2	610.1	522.3	318.3	288.1	281.1
Equity ratio		50.5 %	50.6 %	50.1 %	52.7 %	41.2 %	37.7 %	49.1 %
Return on equity after taxes		16.5 %[3]	14.2 %	17.2 %[6]	16.3 %	11.5 %	15.2 %	31.3 %
Return on total assets after taxes		9.2 %[3]	8.2 %	9.9 %[6]	9.2 %	6.4 %	8.2 %	16.5 %
Return on Capital Employed (ROCE)		14.4 %[3]	13.3 %	16.7 %[6]	15.2 %	8.8 %	13.6 %	30.3 %
Earnings per share	€	1.66[3]	1.35	1.50[6]	1.11	0.58	0.69	1.32
Dividends paid	€ million	31.7[4]	28.5	36.7	22.2	11.5	8.6	26.9
Dividend per share	€	0.50[4]	0.45	0.58	0.35	0.20	0.15	0.47

[1] including currency effects
[2] Net cash from operating activities minus net cash from investing activities (excluding acquisitions)
[3] including one-time gain from assumption of control of ElringKlinger Marusan Corporation (EUR 17.6 million before taxes; EUR 12.7 million after taxes)
[4] Proposal to the Annual General Shareholders' Meeting 2014
[5] Financial year 2012 adjusted due to IAS19R
[6] including one-time gain from sale of Ludwigsburg industrial park (EUR 22.7 million before taxes; EUR 16.5 million after taxes)

July

Stake increase in Hug

ElringKlinger acquires a further 25% interest in exhaust specialist Hug and now holds 94%. Following its successful turnaround, the Swiss subsidiary of ElringKlinger is on track for success. In California, Hug has established itself as a market leader in the CARB retrofit business for diesel particulate filters. The United States Postal Service also relies on the Swiss company: almost 400 vehicles are retrofitted with Hug exhaust gas purification systems in 2013.

February

Acquisition of joint venture in South Korea

ElringKlinger completes the full acquisition of its South Korean joint venture company, which has been operating within the Group since 1990. Around EUR 10 million is invested in a new, state-of-the-art production plant at the future site in Gumi. Since February 2014, the newly built facility supplies the fourth-largest vehicle market in Asia with cylinder-head and specialty gaskets as well as shielding components and lightweight plastic modules from its local production lines. **Significant Events, cf. page 78**

September

IAA 2013: It's all about emissions

Under this heading, ElringKlinger showcases a number of newly developed products at the IAA trade show in Frankfurt – focusing on the reduction of emissions. Sporting a fresh design and audiovisual impressions, the newly created booth proves to be a real eye-catcher. Customers, investors and members of the press alike are impressed by the innovative concepts presented in the field of lightweight design, acoustic and thermal management, turbocharger sealing, e-mobility and exhaust gas purification. Crowd-puller: a fuel cell that is already in active use in forklift trucks.

2013

Highlights of the Year

October

ElringKlinger stock surges to reach all-time high

ElringKlinger shares are buoyed by the company's positive first-half year results and a favorable climate for stock markets in general. The stock makes particularly strong gains in the third quarter of 2013 and moves beyond the record level achieved in 2007. In October, ElringKlinger's share price reaches a new all-time high of EUR 35.14. **ElringKlinger and the Capital Markets, cf. page 36**

October

Inauguration of first production plant in Indonesia

The very first ElringKlinger production plant in Indonesia is officially inaugurated as part of a grand opening ceremony. Thus, the Group is now also represented with its own production facility in the burgeoning ASEAN markets. The new plant in Greater Jakarta supplies cylinder-head and specialty gaskets as well as heat shields, mainly to Japanese car and truck manufacturers.

November

E-Mobility: successful production ramp-up

ElringKlinger launches full-scale series production of cell contact systems for one of Germany's premium car manufacturers. The volume of components supplied by ElringKlinger increases markedly, as the first all-electric vehicles roll off the production line. In parallel, the E-Mobility division is helping to drive forward the development of new battery cell housings as a member of an industrial consortium.

beyond CO_2

Carbon dioxide (CO_2) is the most familiar of all the greenhouse gases. As such, it is usually the first one that comes to mind when discussing climate change. The main sources of carbon dioxide emissions are road transport, maritime transport and, above all, the energy sector. In terms of overall emissions, however, other hazardous pollutants such as nitrogen oxides (NOx), hydrocarbons (CH) and particulates (C) are equally precarious. In this year's annual report we want to focus on these other emissions as well as CO_2 and look at the products designed by ElringKlinger to deliver clean and sustainable mobility.

beyond

CO_2

Solutions from ElringKlinger

ElringKlinger specializes in the development of cutting-edge green technology that helps not only to reduce CO_2 but also to cut emissions of nitrogen oxides, hydrocarbons and particulates, all of which can damage our health. Today, ElringKlinger is one of only a small number of automotive suppliers around the world to develop and produce technologically sophisticated components for every type of vehicle drive, from downsized and optimized versions of the traditional combustion engine through to electric vehicles powered by batteries or fuel cells. To round off our emissions-reduction portfolio, we supply particulate filters and complete exhaust gas purification systems for use in ships, buses, trucks, construction and agricultural machinery, locomotives and power stations. Additionally, ElringKlinger Kunststofftechnik supplies products made of high-performance PTFE plastics – increasingly to sectors outside the automotive industry. One of our great strengths lies in our capacity to innovate, and we harness this to achieve the company's goals of sustainable mobility and profitable growth. These efforts are supported by our committed workforce of some 6,700 people at 42 ElringKlinger Group locations worldwide.


CO2

36 billion metric tons of CO_2 were released into the atmosphere worldwide in 2013.

CO_2 reduction with ElringKlinger

MASTERS OF REDUCTION

A radical shift is under way in the world of motoring. Driven by climate change, the growing scarcity of resources and rising fuel prices, the search is on for new solutions. The key issue for the automotive industry is how to cut CO_2 emissions even further. While strenuous efforts are being made to optimize the traditional combustion engine, new types of vehicle drive technologies are also being developed.

Flyweight: Lightweight oil pans for trucks are just one of the products to roll off the assembly line at ElringKlinger

Highly heat-resistant V-ring gaskets
for turbochargers

weight reduction
=
lower fuel consumption
=
lower CO_2 emissions

25%

lower fuel consumption

Fuel consumption can still be reduced by over 25% through downsizing and further optimization of the traditional combustion engine.

With new legislation being introduced all over the world, manufacturers have no choice but to deliver massive reductions in the CO_2 emissions of cars and commercial vehicles. By 2021, the emission level for new vehicles in Europe will have to fall by another 20% – in the United States by even 30%. At the same time, also emerging market countries such as China have their sights set on low-emissions technology, with a legally prescribed target of cutting CO_2 emissions by 30%. There is still plenty of scope for meeting this target with the traditional combustion engine. Downsizing, i.e. reducing cylinder capacity, can slash fuel consumption by over 25%, and the trend is therefore towards more compact, turbocharged engines that nevertheless achieve a comparable performance. The figures speak for themselves. By 2018, nearly 70% of all new vehicles in Europe and 40% worldwide are expected to be fitted with turbochargers.

High-temperature mica seals
on a metal core for turbochargers

"When the heat is on, we are the right people for the job. Our shielding products are designed not only to protect heat-sensitive vehicle components; they also provide acoustic shielding and other integrated functions such as sealing and sensors. Our business is smart thermal management for turbocharged engines and increasingly complex exhaust tracts."

Beate Zika-Beyerlein, Head of Research and Development in the Shielding Technology Division

At the same time, however, downsizing means higher injection pressures and temperatures, and this places much greater demands on sealing and shielding technology. In response, ElringKlinger develops high-performance gasket and shielding solutions for engines, transmissions, turbochargers and the exhaust tract.

Apart from downsizing, one of the most effective and increasingly common ways of reducing CO_2 emissions is to introduce new lightweight technology, replacing heavy metal components with plastic wherever possible. Less weight means less fuel consumption and consequently lower CO_2 emissions. In most cases, this also turns out to be cheaper on the production side. Thanks to its lightweight polyamide plastic modules and new fiber-reinforced organo-materials, all weighing almost a third less than their metal counterparts, ElringKlinger has established itself as a major player in the industry's efforts to cut CO_2.

3x higher

Potential revenue

At EUR 150, ElringKlinger's potential revenue from each hybrid vehicle is approximately three times higher than for non-hybrids.

50 % hybrids

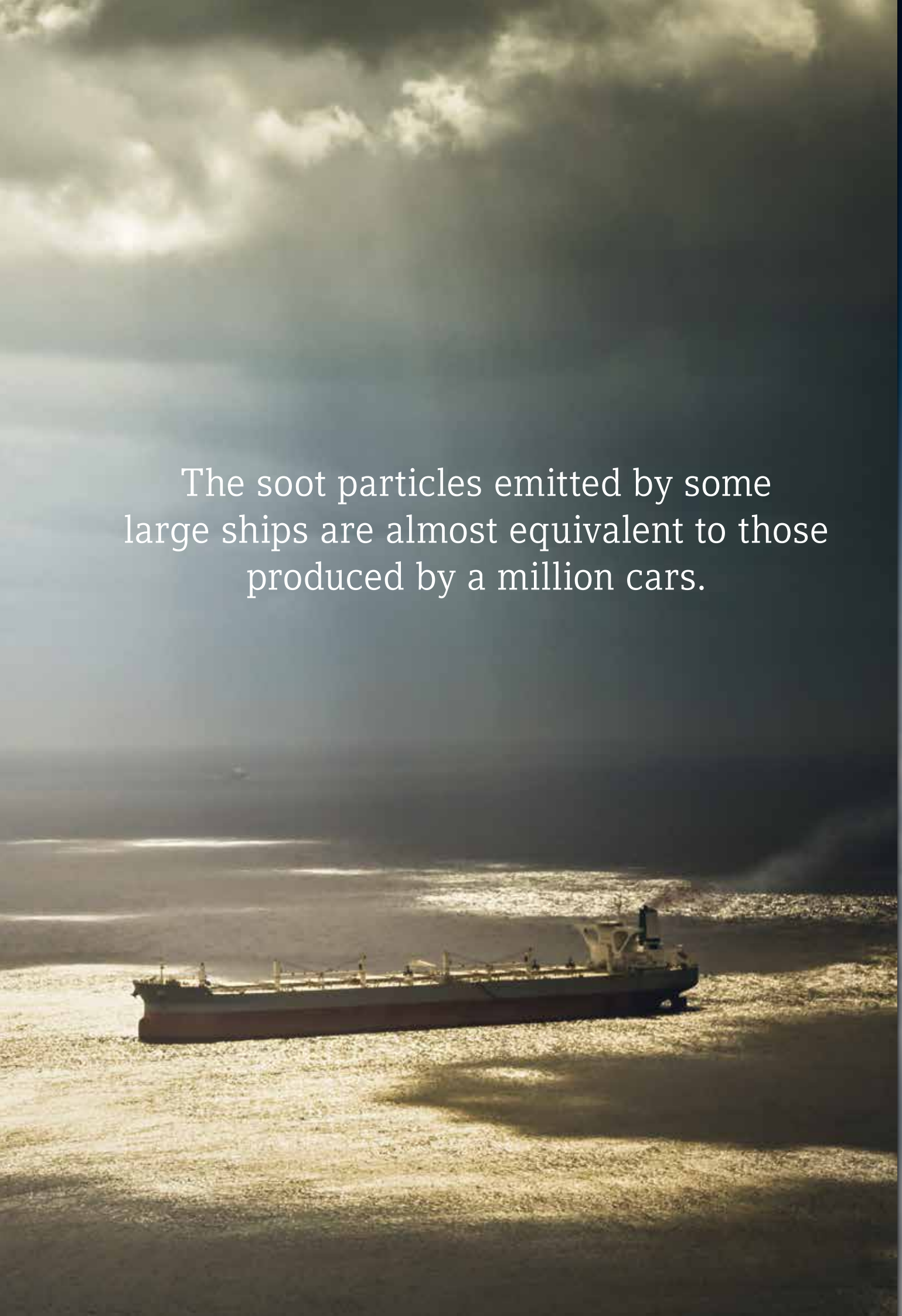
By 2025, nearly half of all new vehicles in Europe will be driven by a combination of a combustion engine and an electric engine.

Cell contact system for lithium-ion batteries
with integrated thermal and electronic monitoring

ElringKlinger's development expertise does not stop at products to refine the combustion engine. The technology behind hybrid vehicles represents a bridge into a new automotive age. The entire industry is working at full speed on the development of alternative drive concepts. Electric engines – whether driven by batteries or fuel cells – play a key role in this transformation, although pure electric vehicles are likely to remain a niche market in the near future. By contrast, hybrids, which combine an electric engine with a conventional combustion engine, are becoming increasingly popular. ElringKlinger began to prepare itself for this development at an early stage, and its portfolio already includes battery and fuel cell components. Cell contact systems for lithium-ion batteries are just one example. These are in series production and can be found in both hybrid and pure electric vehicles. ElringKlinger's portfolio ranges from pressure equalization components, cell housings and cell covers through to battery housings and seals. In terms of fuel cell technology, the company develops and produces bipolar plates and sealing systems for fuel cells, as well as complete stacks.

20 % lower

In Europe, CO_2 emissions from new vehicles will have to be reduced by a further 20 % to 95 g/km by the year 2021. Hybrid and electric vehicles have a key role to play in meeting this target.


The soot particles emitted by some large ships are almost equivalent to those produced by a million cars.

particulate reduction with ElringKlinger

CAPTAINS OF CLEANLINESS

Exhaust gas purification is not just an issue for cars and trucks. In fact, road transport emissions account for just a fraction of the total. In future, with tighter standards also being applied to the exhaust gases produced by stationary engines, construction and agricultural machinery and ship engines, some form of exhaust gas treatment will be essential. This is a huge potential market for companies that specialize in the field of exhaust gas purification. Diesel engine particulates above all have to be neutralized in order to minimize their environmental impact and prevent the risk they pose to health.

"Purification is our core business. At Hug, we specialize in the entire exhaust gas cleaning process – from ceramic filters and coatings through to canning and electronics – for both the aftermarket and the OE market."

Lukas Cavegn, Head of Development, Exhaust Gas Treatment Division (Hug Engineering AG, a subsidiary of ElringKlinger AG)

Particulate emissions are highly damaging to the climate and to our health and can therefore be seen as a danger to people and the environment. With industrial production growing at a rapid pace in emerging market countries and a corresponding boom in the volume of road and freight traffic, measures to cut the level of particulates are needed as a matter of urgency. Faced with ever increasing air pollution, many countries have adopted tough standards on exhaust gases. In the years ahead, one of the main challenges will be to reduce emissions of particulates and nitrogen oxides for stationary diesel and gas-powered engines, construction and agricultural machinery and for the diesel engines in ships and locomotives. The exhaust gas purification systems made by ElringKlinger subsidiary Hug are an effective solution to this problem.

Clean as a whistle: Hug, an ElringKlinger subsidiary, produces ceramic substrates made of silicon carbide; these are used in its diesel particulate filters

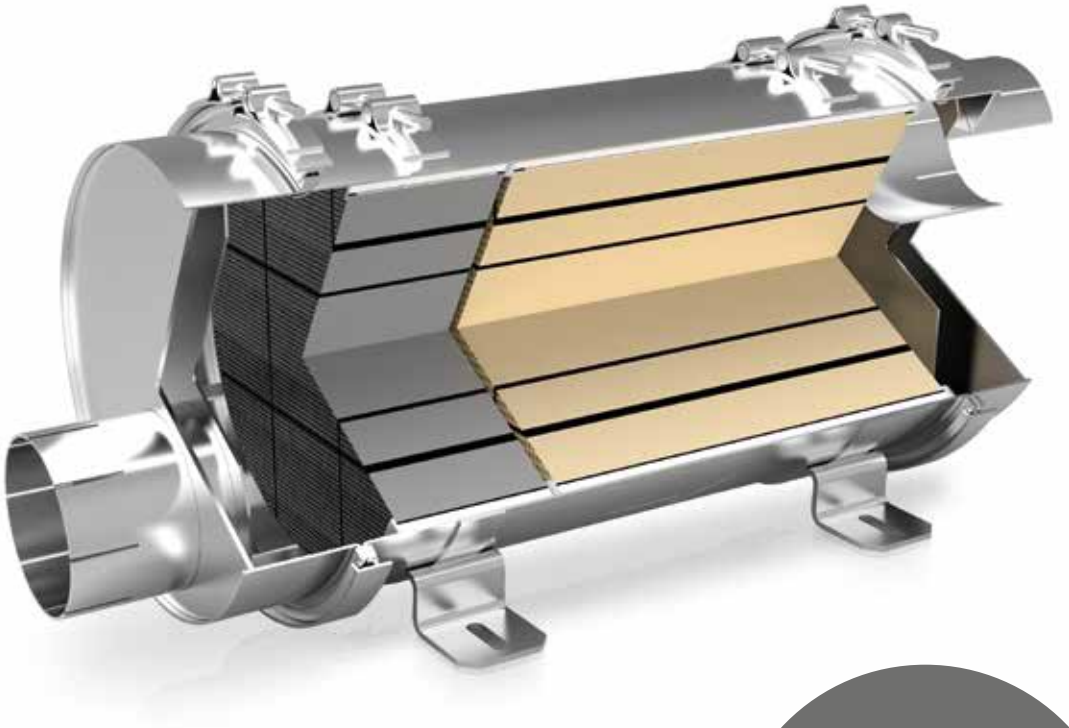
California, the largest single automobile market in the United States, has already made the retrofitting of diesel particulate filters compulsory for all trucks and buses over 6.34 metric tons. Other US states are set to follow its example. Hug increased its share of the Californian market to over 30% in just a short time and has now established itself as the market leader. Hug's diesel particulate filters are equipped with highly active CleanCoat™ technology that removes over 99% of extremely small particulates in the range of 20–300 nanometers.

International shipping is responsible for roughly the same volume of total global pollutant emissions as road transport. In fact, maritime transport accounted for almost 2 million metric tons of particulates back in 2000. As yet, there is no legislation in place to make diesel particulate filters mandatory for sea-going vessels. Looking ahead, ElringKlinger anticipates strong demand from the shipping industry for effective exhaust gas purification technology, not only for inland waterways but also for environmentally sensitive coastal areas and at sea. In response, Hug has filed a patent application for a new filter technology that effectively filters out particulates even for ship engines, which are generally driven by heavy oil.

Up to
20
nanometers

Hug's particulate filters feature porous honeycomb walls made of specialized ceramics that capture even extremely tiny particles.

mobiclean™ R diesel particulate filter system with oxidation catalyst for on- and off-road applications



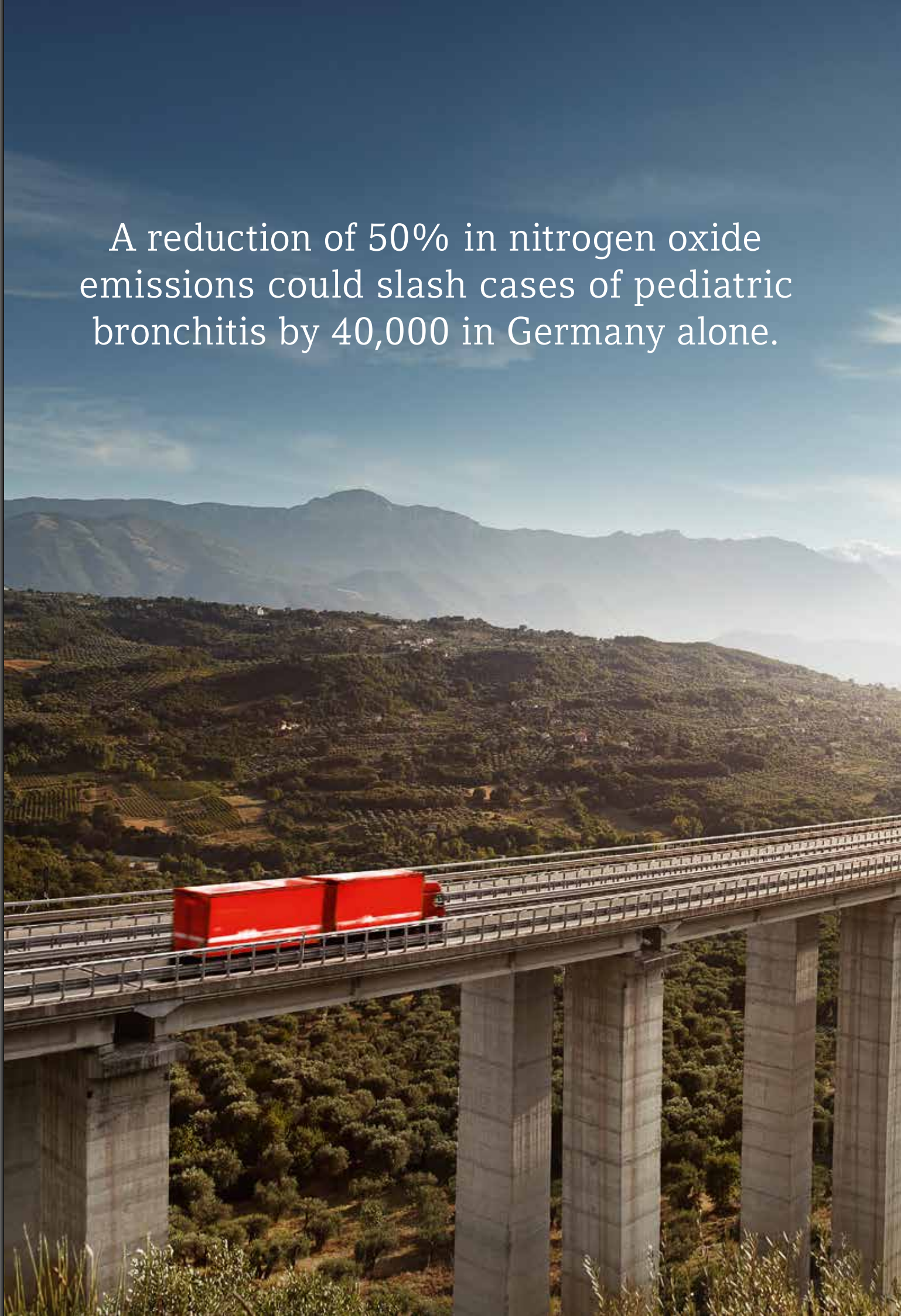
320°C

Hug's CleanCoat™ system contains no precious metals and allows particulates to be burnt off inside the filter at temperatures as low as 320°C.

99%

reduction in particulates

Hug's exhaust gas purification systems filter out over 99% of the particulates in exhaust gases.


A reduction of 50% in nitrogen oxide emissions could slash cases of pediatric bronchitis by 40,000 in Germany alone.


NOx

Nitrogen oxide reduction with ElringKlinger

CHAMPIONS OF AIR PURIFICATION

Air pollution control is a vital resource for both human beings and the environment. Nitrogen oxides (NOx), which are released during the combustion of fossil fuels, are a particularly toxic category of gases. Besides causing smog, they can damage our central nervous system. The challenge facing both the automotive sector and other industries such as shipping is to eliminate these hazardous exhaust gases.

NOx

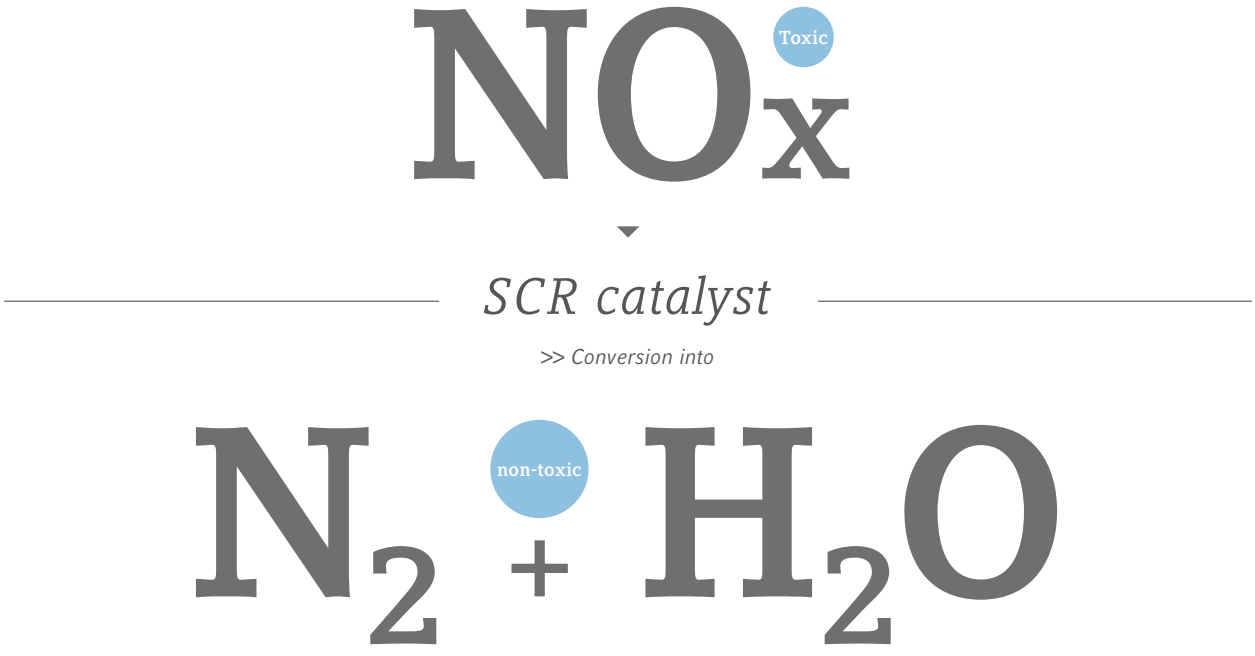
In future, vehicles will have to be even cleaner. The Euro 6 standard, which comes into force in 2014, stipulates a dramatic reduction in NOx emissions from diesel engines. For cars, the maximum permitted figure will be just 80 mg/km, less than half the previous limit of 180 mg/km. The limit for trucks has even been cut by as much as 80%. This cannot be achieved solely by optimizing the engine. In order to comply with the Euro VI standard, trucks will have to be equipped with an SCR system to reduce NOx emissions. Selective catalytic reduction (SCR) involves injecting urea into the exhaust tract to neutralize toxic nitrogen oxides and break them down into harmless water and nitrogen components – without unwanted secondary reactions. The process reduces the emission of nitrogen oxides by up to 99%.

Clean Air: ElringKlinger has developed an SCR adapter module to ensure compliance with the strict Euro VI standard for trucks.

"Our job is to deliver clean reactions. Our specialty gaskets are made of graphite or mica. Because they have an extremely low leakage rate, the SCR system is more effective at breaking down nitrogen oxides. So we feel we are making a really valuable contribution to emissions reduction and helping to keep the air clean."

Jochen Schöllhammer, Development Engineer in the Specialty Gaskets Division

ElringKlinger is on a "clean air mission". The company develops and produces components for SCR exhaust gas aftertreatment systems. One of these is an SCR adapter module for trucks that is made up of an injection module, a flange adapter and a mixer. ElringKlinger also supplies specialty gaskets made of graphite or mica for high-temperature applications – in SCR systems, for example, where these volume seals boost overall efficiency by minimizing leakage rates and optimizing thermal management.



Offering an extensive range of products, ElringKlinger is committed to making a major contribution to the reduction of NOx. Specialty gaskets and SCR adapter modules are two key solutions aimed at meeting increasingly stringent emission standards. Hug, the Swiss subsidiary of ElringKlinger, also sees the reduction of nitrogen oxide as a business opportunity that presents tremendous potential – in terms of OE manufacturing and retrofitting. Supplying catalytic converters, the purification specialists help to neutralize NO and NO_2 into water and nitrogen – e.g. in construction machines, commercial vehicles and ship engines. The rate of reduction is achieved: up to 99%.

The issue of reducing emissions is not restricted to the automotive and shipping industries. Other sectors face similar challenges. In response, Hug has developed complete exhaust gas purification systems for the large, high-performance natural gas engines that are increasingly being used to generate electricity in power stations. More and more gas-fired power stations are being built – especially in the United States, which has a plentiful supply of gas from fracking. Hug is also developing a new type of catalyst to significantly cut the amount of methane, a highly active greenhouse gas, that is released during the combustion of natural gas in large-scale engines.

Up to
1100°C

ElringKlinger's specialty graphite and mica gaskets deliver outstanding sealing properties in SCR systems even at temperatures between 550° and 1100°C.

<0.01 l/min

ElringKlinger sealing systems guarantee leakage rates of less than 0.01 l/min.

High-temperature graphite seal
for use at the joints of the SCR system

Contents

To our Shareholders

Consolidated Financial Statements

Combined Management Report

KEY (TO SYMBOLS)

* *Glossary Reference*

* *Internet Reference*

* *Cross Reference*

Dr. Stefan Wolf (Chairman/CEO)
Responsible for Group companies, the corporate functions Finance, Controlling, Legal Affairs, Human Resources, IT, Investor Relations and Corporate Communications, as well as the Aftermarket and Industrial Parks divisions

Karl Schmauder
Responsible for Original Equipment Sales and New Business Areas

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

Letter to Shareholders

Dear Shareholders,
dear Ladies and Gentlemen,

Although the pattern of growth was uneven across the different regions of the world in 2013, the overall trend for the global economy was upwards. The picture was equally varied in the automotive markets, which are of particular significance to ElringKlinger's business. Having reached a high level in 2012, the North American market recorded further significant growth in 2013. The strongest expansion in 2013 came from China and other Asian markets. China moved even further ahead in its position as the world leader in terms of new vehicle registrations. Europe's vehicle market contracted as a result of ongoing weakness in Southern Europe. Brazil, Russia and India were well below expectations.

Despite this relatively difficult background, the ElringKlinger Group managed to increase its sales revenue by 4.3% to EUR 1,175.2 million. Earnings before taxes stood at EUR 149.2 million, compared with EUR 123.6 million in 2012. This figure includes non-recurring exceptional income of EUR 17.6 million from the first-time consolidation of the other 50% share in ElringKlinger Marusan Corporation, Tokyo, Japan, held by the joint venture partner. Under the terms of the revised joint venture agreement, the ownership interest held by the partner is now attributed to ElringKlinger. If we exclude this exceptional item, the Group's earnings before taxes were up 6.5% on the previous year. Profitability is well above our cost of capital. The Group therefore continues to achieve profitable growth.

We are keen to ensure that you, as our valued shareholders, benefit from this gratifying performance, including that of the parent company ElringKlinger AG. ElringKlinger AG's net retained earnings of EUR 31.7 million should be distributed in the form of a dividend of EUR 0.50 per share. Maintaining the pattern established in previous years, this means that the dividend will once again rise by EUR 0.05.

As of December 31, 2013, the ElringKlinger Group employed a total of 6,716 people at 42 sites around the world. This figure is up by 453 on the year-end total for 2012. The Group's consistent progress is largely attributable to its well-trained, highly committed and creative workforce. The Management Board would like to thank all of the Group's employees for their efforts over the course of the financial year just ended. This success provides the motivation to address future challenges with renewed vigor.

The ElringKlinger Group is well positioned to achieve further profitable growth. Our portfolio covers all the core issues faced by the automotive industry. Over the next few years, all our customers' efforts will be directed at making vehicles lighter and thus also reducing fuel consumption and emissions of CO_2 and other pollutants. Looking further ahead, the overarching goal will be to move "beyond CO_2."

Although it will remain the predominant drive technology over the medium term, the combustion engine will be optimized and combined with alternative drive systems. This will require innovative sealing technology.

Changes in consumer behavior as well as the increasingly strict rules on emissions that will come into effect in the next ten years or are already enacted into legislation in many countries will demand for completely new vehicle and drive concepts. Young people are looking for ways of remaining individually mobile that are environmentally friendly with low fuel consumption and low emissions.

At ElringKlinger, we are well aware of our origins. We are firmly established, clearly structured, quick when it comes to making decisions and good at engaging with people. We are often referred to as the "gasket makers at the foot of the Swabian Alb." Although we are proud of our roots, we have come a long way since then. Serving almost every single vehicle manufacturer around the globe as well as customers in other industries, our Group now develops, manufactures and sells high-tech products in the fields of sealing technology, shielding technology, lightweight plastic engineering and exhaust gas purification technology as well as innovative PTFE products.

We still have many ambitions for the future, too. Our strategy for the next few years is geared towards achieving profitable growth with groundbreaking solutions that deliver environmentally friendly mobility.

In our gasket business, which dates back well over a hundred years, we remain committed to developing, producing and supplying our customers with new sealing concepts for downsized engines in the form of state-of-the-art flat metal gaskets.

Our Plastic Housing Modules division is set to achieve significant growth. This is an area in which we can make a sizeable contribution when it comes to reducing overall vehicle weight. The formula "lower weight = lower fuel consumption = lower emissions" still applies and will continue to do so. We continuously examine vehicles to find new opportunities to replace heavier metal parts with lighter plastic components combined with the latest sealing technology.

Our strongest division in terms of revenue – Shielding Technology – can also be expected to generate considerable forward momentum. As a result of the emphasis on lightweight construction, temperatures in many parts of the vehicle are rising more and more. This has led to a surge in demand for shielding solutions. Our original focus was on shielding components for engine applications. In 2008, our acquisition of today's subsidiary ElringKlinger Abschirmtechnik (Schweiz) AG allowed us to build up a strong position in the field of shielding technology for the vehicle underbody. This division has a number of promising projects in the pipeline for the coming years, which also includes the area of acoustic shielding.

In 2011, we improved our strategic position by acquiring the Hug Group in Elsau, Switzerland. In response to stricter rules on emissions, the whole area of exhaust gas purification is becoming more and more important, not only in the automotive sector, but also in other industries and fields of application such as shipping, stationary generators, power stations, construction and agricultural machinery and rail transport. Our filter technologies offer the prospect of substantial sales and

earnings in these areas. The turnaround from a loss of EUR 3.5 million in 2012 to a contribution of around EUR 13 million to Group earnings in the financial year 2013 shows just how far we have come in this division.

Our activities in the Battery Technology division and Fuel Cell Technology are a sign of our commitment to the drive concepts of the future. We are currently supplying components for electric vehicles, although production is still on a relatively small scale and involves considerable up-front costs. We expect demand for these highly innovative components to increase in response to consistent growth in the number of hybrid vehicles. ElringKlinger stands to benefit from this trend.

We anticipate renewed growth in the Aftermarket division with the introduction of several new product ranges, especially for the engines made by Asian manufacturers.

In Engineered Plastics, our PTFE (Teflon) components will provide a springboard for solid revenue growth over the coming years with the help of high-tech solutions targeted not only at the automotive industry, but also at the fields of medical technology and mechanical engineering.

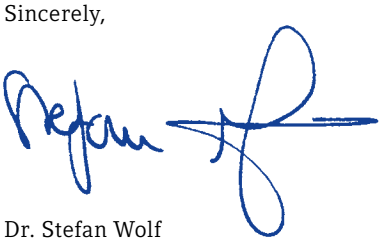
We have developed numerous ground-breaking solutions to help achieve further reductions in vehicle weight. Whatever the drive technology, lightweight construction will be at the heart of future vehicle design. Our new product range based on metal-polymer technology provides a foothold in the rapidly growing market for lightweight components for engine compartment, body and chassis. Our tooling expertise gives us a competitive edge in this field.

We are committed to making further consistent progress along our chosen path. We have achieved a transformation from being the "gasket makers at the foot of the Swabian Alb" into an innovative, integrated technology group with a global profile. Our challenge now is to take advantage of the opportunities in new technological fields.

We have set our sights on further profitable growth, with a clear focus on the needs of our customers and society as a whole, but without losing sight of the philosophy that guided our founder Paul Lechler: "At the heart of everything we do are people." Furthermore, we are pursuing profitable expansion in the interests of our customers, shareholders and employees. Our goal is not short-term profit maximization, but rather sustainable and profitable growth.

Our slogan for the 2013 annual report is "Beyond CO_2." I hope you enjoy reading it. As you will see, there is still a good deal of potential to cut emissions, so further interesting opportunities for ElringKlinger are there to be grasped. We are working on it.

Sincerely,



Dr. Stefan Wolf

Report by the Supervisory Board 2013

During the financial year 2013, the Supervisory Board discharged the duties incumbent on it according to the law, the Articles of Association, the rules of procedure and the German Corporate Governance Code. The Supervisory Board monitored the activities of the Management Board and supported it in an advisory capacity, particularly with regard to the strategic positioning of the Group. The Supervisory Board was involved in all decision-making processes deemed to be of fundamental importance to the company.

The Management Board submitted monthly written reports to the Supervisory Board concerning economic developments, ElringKlinger's business performance, order intake, order backlog, revenue and earnings (in each case comparing targeted and prior-year figures), significant new orders, the employment situation of the Group, of ElringKlinger AG with its divisions and of the subsidiaries as well as liquidity.

The Supervisory Board convened for four scheduled meetings in 2013. At these meetings, the Management Board provided a detailed review of business developments in respect of the most recent part of the year, including all key indicators as well as comparisons with prior-year figures and targets for the Group, for ElringKlinger AG with its divisions and for the subsidiaries. It also looked ahead at figures for the annual period as a whole and assessed the economic, market and competitive environment. In addition, the Management Board supplied information on the current risk situation, the status of any significant legal disputes and other matters of critical importance on a regular basis. The issues were presented and discussed in detail during the sessions of the full Supervisory Board.

Aside from the aforementioned regular reports and topics, the Supervisory Board addressed the following subjects at its scheduled meetings:

- The meeting of March 22, 2013, was devoted to the Management Board's explanation of the 2012 annual financial statements of ElringKlinger AG and the Group. It also dealt with the report of the auditing firm PricewaterhouseCoopers AG, Wirtschaftsprüfungsgesellschaft, the authorization and approval of the financial statements of ElringKlinger AG and the consolidated financial statements, as well as the resolution on the Management Board's proposal for the appropriation of profit. Furthermore, the Supervisory Board was furnished with information relating to strategic projects, such as, in particular, newly constructed plants or extensions and possible acquisitions.

- At the Supervisory Board meeting directly following the Annual General Meeting on May 16, 2013, the Supervisory Board chairperson and his deputy were elected in accordance with the provisions set out in the Articles of Association of ElringKlinger AG. Mr. Walter H. Lechler was elected Chairman and Mr. Markus Siegers was elected Deputy Chairman of the Supervisory Board. Mr. Klaus Eberhardt was elected to the Audit Committee as its Chairman, as the Supervisory Board tenure of Mr. Karl-Uwe van Husen had come to an end on conclusion of the Annual General Meeting. Other

Walter Herwarth Lechler
Chairman of the Supervisory Board

items on the agenda of the Supervisory Board meeting included the Annual General Meeting that had taken place immediately prior to the Supervisory Board meeting as well as strategic projects and potential acquisitions.

- At the request of the Supervisory Board, the meeting of September 27, 2013, was convened in Switzerland. Having discussed the items on the agenda, the Supervisory Board visited the operating facility of Hug Engineering AG in Elsau and attended a presentation by this company's management covering the product portfolio, the business performance and the strategic positioning of ElringKlinger AG's subsidiary.

- The agenda defined for the Supervisory Board meeting on December 4, 2013, included the budget for 2014 and medium-term planning for the period from 2014 to 2018. At the last scheduled meeting of the financial year, as is customary, the Management Board reported to the Supervisory Board on the results of internal audits in 2013 and the plans for internal audits in 2014. It also reported in particular detail on the current risk assessment and relevant precautionary measures. The report also included details relating to compliance within the company, although there was nothing of significance to disclose in this regard. The Chairman of the Audit Committee also commented on the aforementioned issues and reported on the outcome of consultations within the Audit Committee.

The scheduled meetings were attended by all of the Supervisory Board members. There were no separate meetings of the Supervisory Board's employee and shareholder representatives for the purpose of preparing the scheduled meetings. Such meetings were deemed unnecessary, not least in view of the extensive documents and information made available in advance with regard to the scheduled Supervisory Board meetings. No extraordinary meetings of the Supervisory Board were convened in the period under review, as no such meetings were necessary. The Audit Committee convened on two occasions during the year under review. The March meeting was devoted to in-depth discussion relating to the auditor's report on the annual financial statements. In November, the meeting focussed on the audit of the annual financial statements for 2013 with the auditor, which included in particular the task of defining the focal points of the audit. The CEO reported regularly to the Chairman of the Audit Committee on the results of internal audits and subsequent measures to be introduced. No meetings of the Personnel Committee or Mediation Committee were necessary in the reporting period.

There were no conflicts of interest in 2013 between Supervisory Board members and the company.

At the meeting of December 4, 2013, the Declaration of Conformity by the Supervisory Board and the Management Board pursuant to Section 161 of the German Stock Corporation Act (AktG) and regarding the German Corporate Governance Code in the version of May 13, 2013, was approved unanimously and published on the same day on the company's website.

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

The Management Board liaised with the Supervisory Board in good time with regard to all transactions requiring approval, furnishing it with clear and detailed information. The Supervisory Board granted its approval in all cases.

At the Annual General Meeting held on May 16, 2013, Mr. Klaus Eberhardt was elected to the Supervisory Board as a shareholder representative. The election was necessary as Mr. Karl-Uwe van Husen had stepped down from the Supervisory Board on grounds of age at the end of the Annual General Meeting. Mr. van Husen had served the company for a total of 42 years, initially within the Lechler Group, then Elring GmbH and finally the ElringKlinger Group. The Supervisory Board is deeply indebted to Mr. van Husen for the tremendous contribution made during his time with the company. Effective from December 31, 2013, Dr. Thomas Klinger-Lohr stepped down from the Supervisory Board, citing personal reasons. In approving the merger between Elring GmbH and the automotive division of Klinger GmbH in 1994, Dr. Klinger-Lohr was instrumental in establishing the foundation for today's success of the ElringKlinger Group. The Supervisory Board also owes an immense debt of gratitude to Dr. Klinger-Lohr. On March 12, 2014, Ms. Gabriele Sons was appointed by the court as

a member of the Supervisory Board to replace Dr. Klinger-Lohr. The appointment is temporary and will remain valid until the next General Meeting of Shareholders. Ms. Sons is a member of the Management Board of ThyssenKrupp Elevator AG.

At the end of 2013, the Supervisory Board, as stipulated by the German Corporate Governance Code, again evaluated the effectiveness of its work relating to the previous financial year on the basis of a questionnaire issued to all members. This covered issues such as the openness of communication at Supervisory Board meetings and the involvement of all members in discussions. The results of the questionnaire were positive in all instances. On this basis, there is no necessity for changes to procedures within the Supervisory Board.

The separate and consolidated financial statements of ElringKlinger AG and the combined management report as presented by the Management Board were audited by the auditors Ernst & Young GmbH. The audit mandate was issued by the Supervisory Board in accordance with the appointment of the auditor by the Annual General Meeting on May 16, 2013. In accordance with Section 315a of the German Commercial Code (HGB), the consolidated financial statements of ElringKlinger AG were prepared on the basis of International Financial Reporting Standards (IFRS). The auditing firm issued unqualified audit opinions for the separate and consolidated financial statements of ElringKlinger AG and the combined management report for the financial year 2013. The Supervisory Board was in possession of the documents relating to the financial and consolidated financial statements together with the Management Board's proposal for the appropriation of profits, as well as the two audit reports compiled by the auditor. The aforementioned documents were studied in depth by the Audit Committee and the Supervisory Board as a whole before being discussed at length and examined in consultation with the competent auditors. The Supervisory Board concurred with the outcome of the audit. No objections were raised. At its meeting on March 24, 2014, the Supervisory Board approved the separate and consolidated financial statements of ElringKlinger AG and the combined management report. The financial statements have thus been ratified. At the same meeting, the Supervisory Board approved the Management Board's proposal for the appropriation of profit.

The Supervisory Board would like to thank the Management Board and all members of staff at ElringKlinger AG and its subsidiaries in Germany and abroad for their successful efforts in the financial year 2013.

Stuttgart, March 24, 2014
On behalf of the Supervisory Board

Walter Herwarth Lechler
Chairman of the Supervisory Board

STAYING MOBILE IN THE FACE OF CLIMATE CHANGE

TOMORROW'S AUTOMOBILE IN THE EYES OF THE YOUNGER GENERATION

The CEO of ElringKlinger AG, Dr. Stefan Wolf, in a discussion with students from the graduating class of Münsingen High School in Baden-Württemberg on the significance of the car for today's youth, alternative drive technologies, and what is expected from environmental politics.

The latest cylinder-head gasket from ElringKlinger passes through a lot of hands

Wolf: When I finished high school, it was very important for me to own my own car. Is that still the case for teens today?

Student: Right now, a car isn't even an issue for me personally. After I finish high school, I'm going to study in a large city where I will be using public transportation. But later in life, especially if you move out into the country, you'll need to have your own car.

Wolf: In a large city, you can definitely rely on car sharing if you need to. You can simply book the car over the Internet using a membership card or a code and later just park it in any parking spot available.

Student: Sure, but this only works in metropolitan areas. A car is also a slice of individual mobility, especially later if you have a family.

Wolf: When I talk with young people in emerging countries such as India, China, or Brazil, the car is a very important status symbol. Is that still true in Germany? Aren't young people more interested in iPads and other technological gadgets than in cars?

Student: All I can say is that I would love to have a trendy car with a rolled-down window, and music so loud that my ears ring. Among young people, whoever drives an awesome car is still admired.

Student: That might be true for some teens, but many are more pragmatic when it comes to the subject of cars. For a lot of teens, it's simply a matter of getting from A to B.

Student: I think the main reason a car is important for most people is mobility. In my opinion, having a car as a status symbol is more important for people like managers or politicians. For a majority of people, this is playing less and less of a role.

Wolf: If you consider environmental protection and the risks of climate change, what kind of drive technology would you buy? Could you see yourself buying an electric car or a hybrid car?

Student: If I were to buy a car, then I would choose a hybrid vehicle. A purely electric car just doesn't have a far enough range for me. If I am on the road and the power runs out, then I can drive the rest of the way using the combustion engine. But, the hybrid car should really be affordable for everyone.

Wolf: At ElringKlinger, we are already mass producing cell contact systems that are used for lithium-ion batteries. These are then installed into purely electric vehicles.

Student: I've already talked to my family about it. We can only imagine having an electric car as a second car because of its limited range. But the cars are still too expensive for this. A second car should actually cost less than the main car.

Student: Another problem is the infrastructure. I live in the Swabian Alb and there are not very many charging stations for electric cars. I'm sure more people would buy electric cars if the infrastructure was further along and if charging the car would be less expensive.

"For price reasons alone, cars with combustion engines are still important today."

Wolf: That's the problem we are having today with alternative drive concepts. They are still too expensive. Suppose you had the choice between a car with an alternative drive that emits far less CO_2 and other pollutants, but is about 5,000 euros more expensive, or a normal vehicle with a conventional combustion engine that is optimized for consumption but still causes somewhat more pollution. Which car would you choose?

Student: I would take the car with the conventional combustion engine. Right now, price is a major factor for me and modern combustion engines also need a lot less fuel than the previous engines.

Student: Even though environmental protection is definitely an important issue for me, 5,000 euros is a lot of money in any case.

Student: That's exactly the point. I must honestly admit that the question of cost plays an important role for me. This is true for many young people my age and certainly for many people with low incomes. Cars with combustion engines are indispensable because they are cheaper.

Student: Despite their problems, alternative drives are an important topic for our future because oil is becoming increasingly scarce.

Wolf: That's true, but the point in time when this will occur is still being disputed. I can still distinctly remember the oil crisis in 1972. At that time, there were car-free Sundays for several weeks in Germany. I thought this was a great idea because you could ride your bike on the freeway. In the magazines, there was talk of an end to the oil reserves in 40 years. This number "40" has stubbornly stuck around until today – only the period has now been postponed by 40 years. Regardless, the fact is oil production has become more expensive. This is why ElringKlinger and other companies are working diligently to reduce fuel consumption, so that driving a car is less harmful to the environment but still remains affordable.

Student: From a global perspective, the auto industry is expected to have tremendous growth over the next several years, particularly in China and India. This is the reason we need energy-saving and low-emission vehicles right away. And it's not just the cars that emit CO_2. I am talking about the industry in general, and ships – they are also powered with diesel.

Wolf: I agree. In fact, it falls short to place just the automotive industry at the heart of all our energy-saving efforts. There is also a considerable amount of potential for reducing emissions in other industries and, in some of these industries the effects would be even greater. The environmental platform "atmosfair.de," for example, has calculated that a nine-day trip with a cruise ship releases around 2,370 kg of CO_2 per passenger. This is more than one driver produces in a whole year. Pollutants, like particulates and nitrogen oxides, are also often blown freely into the air.

Student: Someone should write to the cruise ship operators and complain about the high level of pollution. Then, maybe they would start to use alternative drive technologies and exhaust filters more often in the future.

Student: Aren't there any technological solutions to these problems?

Wolf: There are. By using exhaust aftertreatment systems, such as particulate filters, you can achieve a lot in this area. We've worked hard over the last 15 years to reduce the emissions of nitrogen oxides, hydrocarbons and particulates in automobiles and trucks through the use of catalytic converters, SCR systems, and particulate filters, especially in Europe. Not just the shipping industry, but also other industries still have to catch up. This is why ElringKlinger is strongly committed to the field of filter technology for ships.

"Electric cars make sense only if the electricity comes from renewable sources."

Student: I think it's a good idea that the car industry is taking a leading role in energy efficiency. Maybe then, at some point, other industries will follow.

Student: I am also a little skeptical when it comes to the use of clean energy for electric cars. Today, this energy often comes from coal-fired power plants. Electric cars only make sense when the electricity comes from renewable sources.

Wolf: In evaluating the environmental impact, it's always crucial to consider the overall energy balance. In the production of electric cars, higher energy input is often needed and this also means more CO_2. From an ecological point of view, it might make more sense to drive a car with an efficient combustion engine.

Wolf: What is your general impression of the automotive manufacturers and of the supplier industry: Is there enough being done to reduce pollutants? How do you see the future role of the automotive industry in Germany?

Student: The automotive industry is extremely important to our economy. The development of new technologies offers Germany tremendous opportunities as a location. There are a lot of people working in the automotive industry.

Wolf: That's correct. In fact, there are more than 750,000 people employed at automotive manufacturers and suppliers.

"If you want to see a change in climate protection happen, you really have to start with yourself."

Student: This is the reason we should continue to support the automotive industry. When new ideas and technologies that support sustainability come from this industry, the entire economy benefits and more jobs are created. This is especially important for young people.

Wolf: If it's worthwhile to develop and implement an environmentally sustainable concept, then politics should set the right tone.

Student: Even though we're doing a lot for economic development, we're still not doing enough to protect the environment. My suggestion for the automotive industry and for politics: Young people under the age of 25 should receive an environmental bonus when buying a car with an alternative drive, or when purchasing one with very low CO_2 emissions. This bonus should compensate for the price difference compared to vehicles with a traditional combustion engine or at least lower the difference.

Student: Another politically-related idea: The government could build charging stations, buy electric cars, and offer these cars at a discounted price for leasing or as rental cars.

Student: Generally, I wish that there was a better plan in place for the energy revolution. We're lacking the right concepts. For instance, if the wind energy produced in the north doesn't reach the south because the power lines are missing, then that's really a reason to feel annoyed.

Student: Climate protection can only be carried out on a global basis anyway. It's great if we can introduce environmental zones in the cities of Germany, but if, at the same time, coal-fired power plants are still being built in China, then, in the end, not much will have been achieved for the sake of the climate.

Wolf: That's exactly how I see it. We must keep the global perspective in mind. It's great if Germany is thinking ahead in terms of technology, but when other countries don't follow its lead towards environmental protection, we have a problem. Fortunately, there are many countries making considerable progress. There are now not only stringent emission standards in China, but also in countries like Indonesia, the Philippines, Malaysia, and Thailand. What's important is that reducing emissions is tackled across industries.

Student: Everyone should start with themselves and lead by example. Even without electric or hybrid cars, you can do a lot to protect the climate. For example, you could start going by foot or use public transportation instead of taking your car on your own for every little drive.

Wolf: Let's dare to take a look at the future. Which type of drive will dominate Europe's roads 10 years from now? The electric car, the fuel cell, or an optimized combustion engine?

Student: In large cities, I think there will be a lot of electric cars since the infrastructure will be better in those areas. Outside of the metropolitan areas and in the countryside, I think they will tend to have more hybrid cars and fuel-efficient combustion engines. And, if we end up having a lot of bad luck with the climate, then we'll turn to boats.

A relaxed atmosphere – even though they weren't always of the same opinion

Student: If electric and hybrid cars don't become much less expensive and the problem of range isn't solved, then I am a little skeptical when it comes to alternative drive technologies.

Wolf: Finally, I have a personal question for you: On a scale of 1 to 10, where 1 means very important and 10 means unimportant, how significant is the subject of climate protection for you?

Student: If I were asked, then I would answer with 1 or 2. But if I really thought about it, then I would have to say that, on an everyday basis, the level would be more between 5 or 6.

Student: Since I have little influence as an individual and don't really have the means to change anything, the importance of climate protection for me personally is between 5 and 6.

Student: The value would be between 6 and 7 for me. Companies often completely throw away parts of machinery or waste from production that is no longer needed. Consumer waste goes into an incinerator – forget about sorting. Why should I make the extra effort on my own?

Student: As a society, this attitude doesn't get us any further. If you are really interested in seeing a change in climate protection happen, you have to start with yourself.

Wolf: A fitting conclusion. Thank you for an honest and compelling discussion and for the suggestions you have given me along the way.

ElringKlinger and the Capital Markets

Equity markets continue to trend upwards in 2013

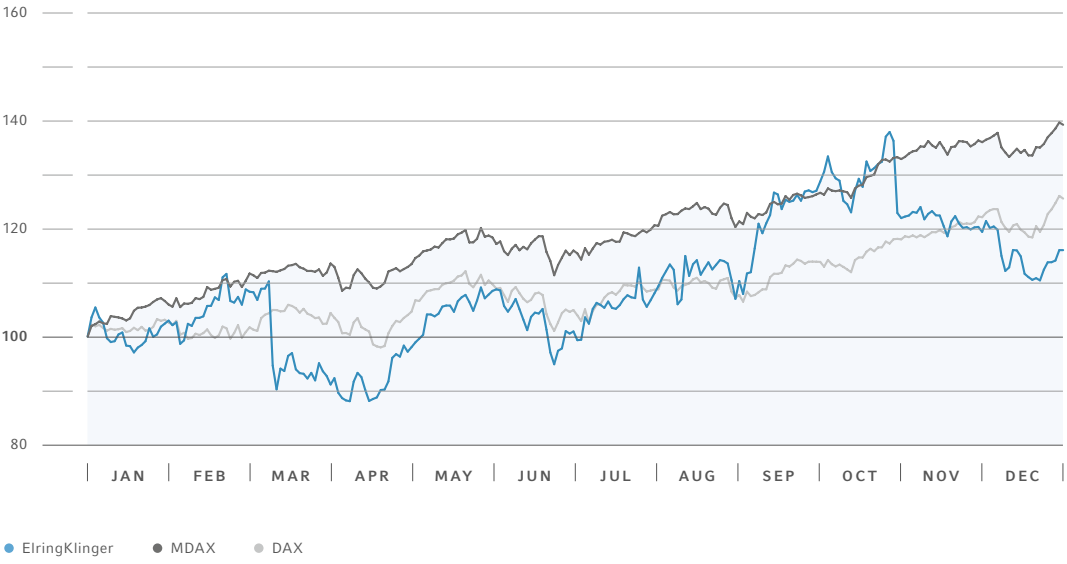
Despite various obstacles, including expectations that the U.S. Federal Reserve would begin to wind down its ultra-loose monetary policy, the ongoing conflict in Syria and signs of a slowdown in some emerging markets, international equity indices nevertheless weathered a series of fluctuations to end the year in firmer shape. After a stuttering start to 2013, markets were driven up on the back of liquidity provided by the ECB and central banks in the United States and Japan.

Investors were unsettled by the continued recovery in the U.S. job market and the Federal Reserve's announcement towards the end of the year that it intended to taper its multi-billion dollar bond-buying policy. However, with improved growth prospects in the established industrialized countries and interest rates still at historically low levels, the Dow and the Nikkei ended the year close to their annual highs.

European equity markets, especially the DAX in Germany, benefited from a surge of interest among major international investors increasingly persuaded that Western Europe was on the brink of economic recovery.

Accordingly, the DAX recorded its second very strong annual performance in a row, comfortably passing its previous all-time high of 8,151 points back in 2007. By the end of 2013, it had gained as much as 25%. The MDAX rose by an even greater margin of 39%.

ELRINGKLINGER'S SHARE PRICE PERFORMANCE (XETRA) SINCE JANUARY 1, 2013
compared with the MDAX and DAX



ElringKlinger shares set new record

Following a massive 33% increase to EUR 25.50 in 2012, shares in ElringKlinger fell back to EUR 22.46 in the period up to mid-April 2013 as a result of slightly lower than expected results for the year 2012.

From the beginning of May onwards, buoyed by generally positive market sentiment, cyclical stocks (in particular automotive suppliers) were showing a considerable improvement. Shares in ElringKlinger were given an extra boost by a robust set of half-year results, a marked improvement in the profitability of Group acquisitions and signs of growing stability in Europe's automobile markets. Around the time of the International Motor Show in Frankfurt, the company's share price passed the previous all-time high of EUR 29.00 reached at the end of 2007. This took the stock through a key technical barrier, subsequently allowing it to make some impressive gains. By the end of October, the shares were trading at their high for the year of EUR 35.14, taking the company's market capitalization well above the two billion euro mark. In the third quarter alone, the stock gained almost 30% to outperform its benchmark index, the MDAX. As the year progressed, however, the price slipped back to just below EUR 28 as a result of profit-taking. Towards the end of the year, with signs of market recovery and greater interest in the stock from international pension funds, the price climbed back up to close at EUR 29.57, 11.1% down over the final quarter.

Over 2013 as a whole, shares in ElringKlinger rose 16.0%, giving shareholders an overall return (including the dividend payment) of 17.9%. While this may not have matched the performance of the DAX (25.5%) and the MDAX (39.1%), investors nevertheless benefited from a second consecutive year of high double-digit capital growth.

KEY INDICATORS FOR ELRINGKLINGER'S STOCK

	2013	2012
Earnings per share IFRS (after non-controlling interests, in EUR)	1.66	1.35
Shareholders' equity per share (in EUR)[1]	11.12	10.14
High (in EUR)[2]	35.14	25.77
Low (in EUR)[2]	22.46	17.51
Closing price on December 31 (in EUR)[2]	29.57	25.50
P/E (price to earnings ratio)[1]	17.81	18.9
Dividend per share (in EUR)	0.50[3]	0.45
Average daily trading volume (German stock exchanges; no. of shares traded)	91,000	127,600
Average daily trading value (German stock exchanges; in EUR)	2,525,100	2,805,100
Market capitalization as of December 31 (in EUR millions)[2]	1,873.6	1,615.7

[1] as of December 31
[2] Xetra trading
[3] Proposal to 2014 AGM

Overall trading volume down on German stock exchanges

The average daily value of ElringKlinger shares traded in 2013 was EUR 2.5 (2.8) million. Although this was below the figure for 2012, the stock is nevertheless comparatively liquid and easily tradable within the small- and mid-cap segment, even for larger institutional investors. The average daily number of shares traded in 2013 was 91,000, compared with 127,600 in 2012. To a large extent, this decline was due to the higher average share price.

The fall in trading volume also reflected a more general trend on the equity markets. At the same time, a growing proportion of the company's shares were bought and sold on alternative stock exchanges and trading platforms. In 2013, for the most part, these accounted for more than half of all trading in ElringKlinger stock.

It should also be noted that a significant proportion of free-float shares are held by investment companies (e.g. insurance companies and pension funds) with a long-term approach.

On the road: communicating with the capital markets at road shows and local venues

As in previous years, in 2013 ElringKlinger's investor relations activities again focused on maintaining a culture of proactive and ongoing dialog with the capital markets. Although the number of road shows was slightly down on the previous year, ElringKlinger extended its presence at international capital market conferences, not least for reasons of efficiency. The company held presentations at 14 international conferences and organized a total of eight road shows in Germany and elsewhere.

Within Europe, these events took the company to Austria, Switzerland, Belgium and France. ElringKlinger attended its first ever Eastern European capital market conference in Warsaw.

The main focus of investor relations work in 2013 was on the key Anglo-American capital markets. In this context, ElringKlinger held road shows in London, Dublin and Edinburgh and took part in several conferences. Investors showed a good deal of interest in the company, above all at road shows in the United States and Canada.

The company also dealt with a large number of requests to visit the Group's headquarters in Dettingen/Erms and its local subsidiaries. By way of example, ElringKlinger's subsidiaries in Japan and China hosted groups of investors keen to assess the company's position and its potential for growth in these markets. In Germany, visitors were particularly interested in the company's new factory for lightweight plastic housing modules in Dettingen/Erms, the manufacture of cylinder-head and turbocharger gaskets and the E-Mobility division's new new production facilities for battery components. At nearly 40 visits, the total was again well up on the previous year.

Alongside its annual analysts' conference in Frankfurt, ElringKlinger holds regular telephone conferences throughout the year, following publication of the quarterly results or other significant events, to report on the company's performance, acquisitions and any particularly important technical developments. In 2013, ElringKlinger also broadcast its telephone conferences live via its website at **www.elringklinger.com***. By increasing the range of its investor relations services, ElringKlinger aims to make them more easily accessible to a wider audience of potential investors in line with the principle that all investor groups and others with an interest in the company should be informed promptly, at the same time and in a transparent fashion.

*Internetlink

Investor Relations at the 2013 International Motor Show

At this year's 2013 International Motor Show in Frankfurt/Main, the company held several well-attended events for the media and investors at its redesigned trade show booth under the key slogan "It's all about Emissions." There were opportunities for visitors to find out more about current technological challenges and trends, familiarize themselves at first hand with the Group's latest product developments and gain some idea of their future potential. The company also gave a presentation to an audience of international analysts and investors at the accompanying capital market conference organized by a major German bank.

Spotlight on ElringKlinger as investor interest remains buoyant

Over 2013 as a whole, ElringKlinger was covered regularly by a total of 23 financial analysts. Four others issued regular reports on the company, albeit at irregular intervals. As such, interest in ElringKlinger remained at a consistently high level. An up-to-date list of banks and brokers that report regularly on ElringKlinger can be found together with their latest stock recommendations on the company's website under the heading Investor Relations/Stock/Analysts.

Focus on private investors – Live chat with the CEO

Retail investors hold nearly 20% of the free float in ElringKlinger. From the company's perspective, that makes them an important group of investors. Accordingly, ElringKlinger places a great deal of importance here, too, on personal contact. The company's telephone hotline +49 (0) 7123 724 631 was again very busy in 2013. Shareholders can call the hotline to discuss any questions they may have about ElringKlinger with the Investor Relations team. The company's website at **www.elringklinger.com*** contains a wide range of information, including up-to-date news about the stock, important events and forthcoming publication dates. ElringKlinger expanded its social media activities in 2013, and the Investor Relations team frequently announces interesting news about the company and the stock on Twitter **(www.twitter.com/elringklingerAG)*** and Facebook **(www.facebook.com/elringklinger)***.

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In October 2013, private shareholders again had their own opportunity to chat in person with CEO Dr. Stefan Wolf on the website. During the 30-minute live chat, investors can put questions directly to the CEO and discuss a whole range of issues with him online. This means that shareholders can obtain answers to their questions immediately and at first hand. A large number of private investors took advantage of this chance to engage in a dialog with the Group's top management through this forum in addition to the platform offered by the Annual General Meeting. Fortunately, besides drawing attention to ElringKlinger's new investor communications format, several financial news organizations took the opportunity to report extensively on the company. Given the tremendous response, the CEO online chat will again feature in the calendar for 2014. The query form in the Investor Relations section of the website allows investors to submit questions at any time. These are then answered during the next CEO chat. The date of the next session is published in advance on the website at **www.elringklinger.de/de/chat-mit-dem-ceo***.

*Internetlink

ElringKlinger's active membership of the Baden-Württemberg Small Caps initiative (BWSC: **www.bwsc.de***) underlines the importance it attaches to retail investors. As part of the initiative, ElringKlinger and eight other companies from the region (all listed in the Prime Standard segment) organize regular events that are primarily directed at private investors and regional asset managers. After the series of presentations, participants are able to meet and talk to company representatives. In April 2013, for example, ElringKlinger gave a presentation to an audience of investors at a BWSC event held in collaboration with the Stuttgart Stock Exchange.

Two silver awards for ElringKlinger 2012 Annual Report

Although ElringKlinger does not regard winning awards as an end in itself in terms of their investor relations work, it is particularly delightful that the company gained high-caliber recognition for the quality of its financial communications on multiple occasions in 2013.

The company's 2012 Annual Report earned a prestigious silver award in the "Automobiles & Components" category of the renowned LACP Vision Awards. The League of American Communications Professionals (LACP) gave the report 97 out of a possible 100 points. Judging for the high-profile design award, which is presented each year in recognition of outstanding performance in the area of financial communications, is based on a wide range of criteria. These include the initial visual impression, cover image, writing style, creativity and the transparency and accessibility of the information.

ElringKlinger designed its 2012 report in a multimedia format. As an example, the printed report contained QR codes that could be used to launch video clips. The report is also available online and as a downloadable app.

At the ARC Awards (Annual Reports Competition) in 2012, organized by the U.S. agency MerComm, Inc., ElringKlinger's 2012 Annual Report took silver in the category "Non-Traditional Annual Report: Automotive Parts." The ARC Awards attract submissions from companies and agencies based in over 60 countries, making this one of the biggest and best established competitions for annual reports. The annual event was held for the 27th time in 2013.

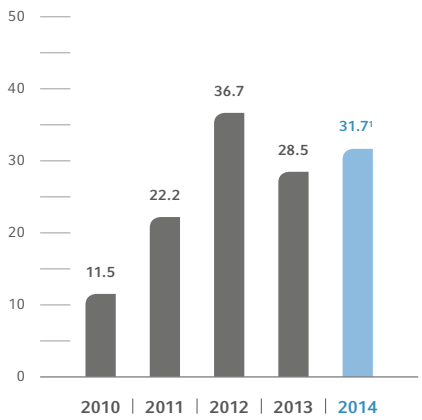
ElringKlinger's 2012 Annual Report won the "Good Design Award" for the first time. This particular award has been conferred every year since 1950 by the "Chicago Athenaeum Museum of Architecture and Design" and the "European Centre for Architecture Art Design and Urban Studies" in recognition of design excellence. The report beat several thousand submissions from over 48 countries and was one of just 700 product and graphic designs from all over the world to be commended by the jury in 2013.

In the yearly rankings published by the German business journal "manager magazin", ElringKlinger's 2012 Annual Report came in 19th place in the MDAX segment. In collaboration with the Baetge Chair of Economics at the University of Münster, manager magazin analyzes the financial reports published by DAX, MDAX, SDAX and TecDAX companies. ElringKlinger's management report for 2012 was classed as "Good" on the basis of its quality.

ELRINGKLINGER AG STOCK MARKET DATA

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

TOTAL DIVIDEND PAYMENTS
in EUR million



[1] Proposal to 2014 AGM

2013 AGM approves increase in regular dividend – Klaus Eberhardt appointed to Supervisory Board

The 108th Annual General Meeting of ElringKlinger AG was held at the Liederhalle Cultural and Congress Center in Stuttgart on May 16, 2013. Speaking to an audience of around 600 shareholders and guests, CEO Dr. Stefan Wolf reported on a successful fiscal year 2012.

The shareholders passed a resolution, with 99.99% in favor, to increase the regular dividend to EUR 0.45 (0.40) per share. Shareholders participated in the company's success with a total dividend payout of EUR 28.5 million. Calculated on the basis of ElringKlinger AG's applicable net income of EUR 56.5 million, the dividend ratio for fiscal 2012 stood at 50.4%. The fundamental objective of ElringKlinger AG's dividend policy is to offer shareholders an appropriate and sustainable return on their investment that reflects the company's success by distributing between 40% and 60% of its annual net income. The Management Board and Supervisory Board intend to propose a dividend of EUR 0.50 per share to the 2014 Annual General Meeting for the fiscal year 2013.

The 2013 AGM also decided on a successor to Karl Uwe van Husen, who stepped down from the Supervisory Board for reasons of age at the end of the meeting. Former Rheinmetall AG CEO Klaus Eberhardt was appointed by the AGM to succeed Mr. van Husen.

Shareholder structure increasingly defined by institutional and international investors

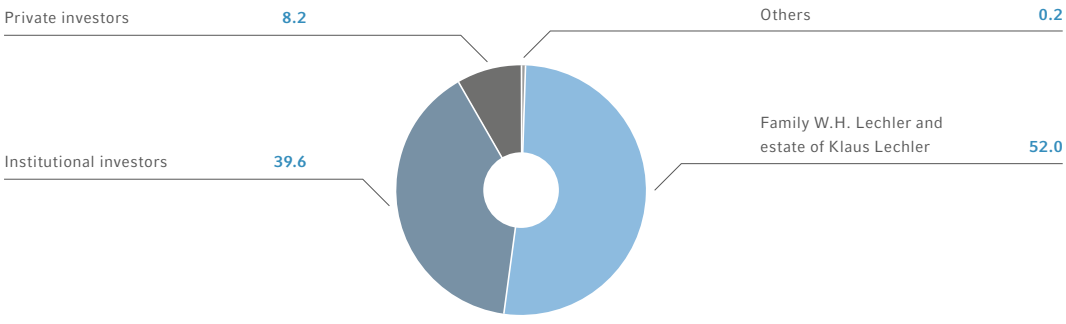
As of December 31, 2013, ElringKlinger AG's free float accounted for 48.0% of the total number of shares. The Walter H. Lechler Family and the estate of Klaus Lechler held a total interest of 52.0%.

Within the free float, major institutional investors (e.g. banks, insurance companies and pension funds) make up the largest group of shareholders. Beyond that, it includes smaller and medium-sized asset management companies. As of December 31, 2013, these groups held 39.6% (38.4%) of the company's capital stock. This represents a considerable increase over the year in the proportion of the free float held by institutional investors. In the third quarter alone, two international funds exceeded the 3% disclosure threshold. There was another increase of international investors. Large investment companies from North America, the UK and Scandinavia increased their shareholdings in ElringKlinger. In regional terms, the biggest share of the free float is held by North America followed by the United Kingdom.

There was a decline in the number of private investors in 2013. This was partly due to the fact that the stock reached new highs, leading to a round of profit-taking, but also reflects a continued and widespread lack of public willingness to invest in equities. At the same time, there was an increase in the size of the average holding. The number of private investors holding shares in ElringKlinger AG as of December 31, 2013, stood at 6,275 (7,778). Overall, this group held 8.2% (9.5%) of the shares outstanding.

SHAREHOLDER STRUCTURE*

in %



* Based on information available to the company as of December 18, 2013

Growing role of sustainability funds

In 2013, ElringKlinger attracted new shareholders looking to invest in companies with a good sustainability profile. The sustainable investment segment has seen steady growth. Over the last few years, sustainability funds have consistently attracted above-average inflows of capital. This is a promising development for ElringKlinger, which was the first automotive supplier to join the Carbon Disclosure Project as early as 2007 with products that make an important contribution to the reduction of greenhouse gases and other pollutants. ElringKlinger is now assessed at regular intervals by the sustainability rating agencies Oekom, EIRIS and Sustainalytics. The company has been listed in the DAXglobal® Sarasin Sustainability Germany Index since 2010. For the last three years in a row (2011, 2012 and 2013), it has been awarded the quality mark for sustainability by DZ Bank. Further details of ElringKlinger's commitment to sustainability can be found under the heading **"Sustainability."*** In response to this trend, ElringKlinger again published its own CSR report in 2013. The report attracted a good deal of interest from the capital markets and from both customers and the general public. We were delighted by the extremely positive response to ElringKlinger's environmental report from rating agencies, the media, specialized sustainability funds and private investors.

* *Cf. page 107*

Outlook 2014

Reflecting a business model that aims to generate added value over the long term and a strong portfolio of products centered around the key issues of CO_2 reduction, exhaust gas purification and alternative drive technologies, the "sustainable investment" segment is of increasing importance to ElringKlinger. The company is keen to attract an even greater proportion of long-term investors.

ElringKlinger plans to adopt an even more international focus to its investor relations work in 2014 and to attract investors particularly in those regions where it is well-placed to achieve the strongest growth. In the medium term, in addition to North America, this will include the Asian capital markets. There are already early signs of interest from Asian investors.

In view of the positive response we had to our events at the International Motor Show, ElringKlinger plans to hold an on-site event at one of the Group's subsidiaries in the second half of 2014 as part of a Capital Markets Day. The aim is to improve the way we communicate with investors on specific technology issues and to highlight the potential of the products in our pipeline.

In collaboration with the BWSC (Baden-Württemberg Small Caps) initiative, ElringKlinger plans to hold further regional events for private investors in 2014. A number of events are already on the calendar for 2014. Please refer to our website or call our hotline for the latest details.

Corporate Governance Report

The joint report issued by the Management Board and the Supervisory Board of ElringKlinger AG with regard to corporate governance, including the Declaration of Conformity passed on December 4, 2013, in respect of the Code, has been published online at **www.ElringKlinger.de/en/company/corporate-governance*** in accordance with Section 3.10 of the German Corporate Governance Code in connection with the Corporate Governance Statement.

* *Internetlink*

ElringKlinger AG Combined Management Report

for the Financial Year 2013

CONTENTS

Overview of ElringKlinger's Activities and Structure

Profile

As an automotive supplier with an international profile, ElringKlinger can look back on a successful history spanning more than 130 years. Around 90% of the Group's revenue is generated from sales to the vehicle industry and from the independent aftermarket sector. As an independent development partner and original equipment manufacturer, ElringKlinger develops and produces cylinder-head and specialty gaskets, plastic housing modules, thermal and acoustic shielding parts for engine, transmission and exhaust tract applications, complete exhaust gas purification systems and components for **lithium-ion batteries*** and **fuel cells***. This portfolio is complemented by products made of the high-performance plastic **PTFE*** supplied by ElringKlinger Kunststofftechnik GmbH. These are marketed to a wide range of industries, including those operating beyond the vehicle manufacturing sector. Alongside the majority of vehicle and engine manufacturers around the globe, the Group's customer base now includes numerous automotive suppliers, particularly in the field of turbochargers, exhaust technology and transmission engineering. Additionally, the ElringKlinger Group supplies the independent aftermarket, the main focus being on flat metal-based gaskets and complete gasket sets. ElringKlinger employs some 6,700 people at 42 sites worldwide (**Employees***).

* *Cf. glossary*
* *Cf. glossary*
* *Cf. page 105*

Business model, core competencies and market position

ElringKlinger has consistently geared its product range towards the key issues facing today's automotive industry. Almost its entire product range is focused on reducing fuel consumption and emissions (CO_2, particulates, hydrocarbons and nitrogen oxides) and on the development of alternative drive technologies. Today, it is one of the few companies worldwide that supply high-tech components for every type of drive system – from the traditional combustion engine to electric drives.

The ElringKlinger Group's core competencies lie in the combination of high-precision metal processing (stamping, embossing and forming) with coating technologies and plastics engineering. It applies its expertise in the field of tooling technology to metal working and complex plastic injection-molding processes. ElringKlinger designs and produces nearly all the tools it needs for manufacturing purposes in-house. Thanks to the materials and production know-how it has acquired over many years, the Group has established a crucial competitive advantage. In this context, the barriers to market entry for potential competitors can be regarded as substantial.

ElringKlinger combines technology leadership with cost leadership in terms of production. The company's aim is to provide vehicle and engine manufacturers with high-volume, just-in-time supplies of consistently high-quality components. In the aftermarket business, delivery is often required within 24 hours. This means that the company has to keep a larger stock than is the case in the OEM business.

As a general principle, ElringKlinger aims to be one of the three biggest suppliers in each of its market segments. It is the global market leader in the field of cylinder-head gaskets. The Group is also ranked among the top three suppliers worldwide in the respective fields of Specialty Gaskets, Shielding Technology and Plastic Housing Modules. In order to maintain its competitive position, ElringKlinger invests in research and development (**R&D***) at a rate that is above the industry average. The company has a firmly established culture of innovation and ensures that new ideas are given systematic backing and support. The company's ground-breaking portfolio includes brand new designs as well as new applications for existing technologies. At the same time, ElringKlinger makes a point of developing products for technologically sophisticated niche markets, e.g. in the field of turbochargers, high-performance automatic transmissions and thermal management.

* *Cf. page 59*

Economic and legal factors

One factor that shapes demand for the components made by ElringKlinger is the current state of the international vehicle markets. The main parameter here is the level of global vehicle production, which as experience has shown is closely linked to the macroeconomic situation and employment levels. A review of developments in the wider economy and in ElringKlinger's own industry over the last financial year can be found on page 74 et seq. The prospects for 2014 are outlined on page 136 et seq.

Thanks to its global profile and broad customer base, the Group is not significantly dependent on individual markets or manufacturers. This allows ElringKlinger to compensate, at least in part, for temporary shortfalls in demand in individual regions, such as Europe in recent years, by exploiting the more favorable performance of other world markets.

At the same time, the Group's diverse portfolio also permits a certain amount of decoupling from wider market developments. Several of the company's business divisions – in particular Specialty Gaskets, Plastic Housing Modules and Shielding Technology – benefit from structural growth. This means that ElringKlinger can increase its share of the total revenue generated by each vehicle and thus continue to grow even in a relatively stagnant market environment.

On the expenditure side, the Group's financial performance is primarily affected by material and staff costs, which account for 61.6% and 24.0% respectively of the Group's cost of sales. Increases in these cost groups can have a significant impact on ElringKlinger's business performance at Group level. The risks associated with material and labor costs are explained in the Report on **Opportunities and Risks***.

* Cf. page 122 et seqq.

With regard to the legislative environment, the main factor for ElringKlinger is environmental regulation to reduce emissions. Alongside strict limits on CO_2, the industry is seeing a global trend towards ever more demanding standards that aim to cut harmful emissions such as hydrocarbons, nitrogen oxides and particulates. One particularly important example is the new Euro 6 standards for passenger cars and the **Euro VI regulations for heavy trucks***. Given the Group's precise strategic focus on these issues, this trend represents a tremendous opportunity for ElringKlinger (**Report on Opportunities and Risks***).

* Cf. glossary

* Cf. page 117 et seqq.

Group structure and organization as well as legal structure

Headquartered in Dettingen/Erms, Germany, ElringKlinger AG as the parent company handles all the fundamental management tasks and assumes responsibility for Group-wide functions, e.g. in the areas of purchasing, IT, communications, legal affairs and human resources. As of December 31, 2013, in addition to the parent company, the ElringKlinger Group included 36 fully consolidated subsidiaries, one of which was a joint venture (also fully consolidated since December 31, 2013) with a total of five companies, as well as one investee.

ElringKlinger AG holds 100% of the interests in most of its subsidiaries (**Schedule of Shareholdings***). As a general principle, in the context of its equity investment strategy, ElringKlinger AG aims to scale back the shareholdings of non-controlling interests in the Group. In 2013, ElringKlinger increased its holdings in various subsidiaries (**Significant Events***)

* Cf. page 164

* Cf. page 78

ElringKlinger AG is entered in the Commercial Register of the Stuttgart District Court under HRB 361242. The registered address is ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany. The applicable Articles of Association are those dated June 13, 2012. They can be accessed on the company's website at **www.elringklinger.de***.

* Internetlink

Locations and markets

The ElringKlinger Group has established a global presence. At the end of 2013, it operated with 42 sites in 21 countries. Of these sites, 29 are production facilities, while nine are sales offices. There is also one company that operates solely within the area of aftermarket sales. The other locations belong to the Services and Industrial Parks segments.

The following table lists all the Group's operating companies together with their respective worldwide locations. The ten largest plants (on the basis of revenue) are printed in bold.

ELRINGKLINGER INTERNATIONAL LOCATIONS

Company	Location
Germany	
ElringKlinger AG	■ **Dettingen/Erms** ■ Geretsried-Gelting ■ **Langenzenn** ■ Lenningen ■ **Runkel** ■ Thale ■ Idstein
ElringKlinger Kunststofftechnik GmbH	■ **Bietigheim-Bissingen** ■ Heidenheim
Elring Klinger Motortechnik GmbH	■ Idstein ■ Bietigheim-Bissingen
ElringKlinger Logistic Service GmbH	■ Rottenburg/Neckar
Hug Engineering GmbH	■ Magdeburg
Rest of Europe	
ElringKlinger Abschirmtechnik (Schweiz) AG	■ **Sevelen (Switzerland)**
Hug Engineering AG	■ **Elsau (Switzerland)**
Elring Klinger, S.A.U.	■ Reus (Spain)
ElringKlinger Meillor SAS	■ Nantiat (France) ■ Chamborêt (France) ■ Poissy (France)
Elring Klinger (Great Britain) Ltd.	■ Redcar (Great Britain)
Elring Parts Ltd.[1]	■ Gateshead (Great Britain)
Technik-Park Heliport Kft.	■ Kecskemét-Kádafalva (Hungary)
Hug Engineering S.p.A.	■ Milan (Italy)
ElringKlinger Italia Srl	■ Settimo Torinese (Italy)
Codinox Beheer B.V.	■ Enschede (Netherlands)
HURO Supermold S.R.L.	■ Timisoara (Romania)
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	■ Bursa (Turkey)
South America	
Elring Klinger do Brasil Ltda.	■ **Piracicaba (Brazil)**
North America	
ElringKlinger Canada, Inc.	■ Leamington (Canada)
Elring Klinger México, S.A. de C.V.	■ **Toluca (Mexico)**
ElringKlinger North America, Inc.	■ Plymouth/Michigan (USA)
ElringKlinger USA, Inc.	■ **Buford/Georgia (USA)**
Hug Engineering Inc.	■ Austin/Texas (USA)
ElringKlinger Engineered Plastics North America, Inc.	■ Buford/Georgia (USA)
Asia	
Changchun ElringKlinger Ltd.	■ **Changchun (China)**
ElringKlinger China, Ltd.	■ Suzhou (China)
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.	■ Qingdao (China)
ElringKlinger Automotive Components (India) Pvt. Ltd.	■ Ranjangaon (India)
ElringKlinger Marusan Corporation	■ Tokyo (Japan) ■ Saitama (Japan)
ElringKlinger Korea Co., Ltd.	■ Gumi[2] (South Korea) ■ Gwangmyeong (South Korea)
PT. ElringKlinger Indonesia	■ Karawang (Indonesia)
ElringKlinger (Thailand) Co.	■ Bangkok (Thailand)
Africa	
ElringKlinger South Africa (Pty) Ltd.	■ Johannesburg (South Africa)

[1] Aftermarket sales
[2] Gumi: New Production site of ElringKlinger Korea Co., Ltd. as of February 2014

The sites of the ten plants generating the highest revenue are printed in bold

■ production company ■ distribution/sales ■ services/industrial park

In addition to the established markets of Europe, North America and Japan, ElringKlinger serves the consistently buoyant emerging markets of Asia and South America, where the Group also has its own production sites. The first of these to cover the ASEAN region began operation at the beginning of 2013 in Indonesia, where the company produces heat shields and specialty gaskets. In 2013, ElringKlinger also set up a new sales company in Thailand and built a new, state-of the-art factory in South Korea following its complete takeover of the local joint venture.

* Cf. page 79 et seqq.

In 2013 around 70% of total Group revenue was generated outside Germany. A breakdown of sales by region can be found in the section **Sales and Earnings Performance***.

The Group's global production network allows it to remain in close proximity to its customers. In this context, Group companies compete with each other for individual projects. The final decision on where to produce specific components depends primarily on a range of factors including customer proximity, cost structures, internal value chains and the reduction of exposure to currency and other risks.

Segments and divisions

* Cf. glossary

The Group's operating business is divided into five segments. These constitute the reportable segments under **IFRS***.

ELRINGKLINGER GROUP SEGMENTS

Segment	Proportion of revenue*	Main customer groups
Original Equipment	80.9%	Car, truck and engine manufacturers, automotive suppliers
Aftermarket	10.2%	Independent aftermarket business
Engineered Plastics	7.8%	Vehicle industry, mechanical engineering, medical technology
Services	0.7%	Vehicle manufacturers and suppliers
Industrial Parks	0.4%	Unspecified industries

* Adjusted for effects of consolidation

The **Original Equipment** segment develops, produces and sells parts and assemblies for vehicle engines, transmission units and exhaust systems as well as components for lithium-ion batteries and fuel cells. The client base includes nearly all the world's vehicle and engine manufacturers, and the Group operates in all the major vehicle markets. The Swiss subsidiary Hug Engineering AG, which forms part of the Original Equipment segment, develops and manufactures complete exhaust gas purification systems, predominantly for applications in trucks, buses, ships, construction and agricultural machinery and power stations. This segment also includes the former Hummel-Formen GmbH, a specialist die and tool maker that was merged into ElringKlinger AG in 2013.

In the **Aftermarket** segment, ElringKlinger supplies a range of spare parts consisting mainly of cylinder-head gaskets and complete gasket sets. These are marketed under the "Elring – Das Original" brand. Supplied in OEM quality, the parts are used primarily for repairs to engines, gearboxes and exhaust systems. The Group's Aftermarket products are primarily sold in Western and Eastern Europe, the Middle East and North Africa. ElringKlinger is currently scaling up its operations in North America while expanding its portfolio of products, especially for the French and Italian aftermarket. As well as independent wholesalers, the segment's customer base also includes the major group purchasing organizations.

The **Engineered Plastics** segment comprises ElringKlinger Kunststofftechnik GmbH, which develops, manufactures and sells products made of the high-performance plastic PTFE. Around two-thirds of the revenue from this segment is generated outside the automotive industry. Within Europe, ElringKlinger Kunststofftechnik has emerged as one of the three leading suppliers of products for PTFE applications. To date, the segment has focused heavily on Europe but is now taking steps to adopt a more international profile. To this end, it has already established its first production line for the Asian market at ElringKlinger's existing plant in Suzhou, China. A sales company was set up in 2013 to access the US market.

The **Services** segment is made up of Elring Klinger Motortechnik GmbH and ElringKlinger Logistic Service GmbH. Elring Klinger Motortechnik GmbH provides development services for engines, transmissions and the exhaust tract using cutting-edge testing and measurement facilities. The segment's customer base includes both vehicle manufacturers and automotive suppliers. As a result, ElringKlinger has established close links with its customers' development units. ElringKlinger Logistic Service GmbH provides logistics services, both within the Group and to outside customers.

The **Industrial Parks** segment encompasses the Group's industrial parks in Idstein near Frankfurt, Germany, and in Kecskemét, Hungary. The purpose of the business is to lease and administer land and buildings.

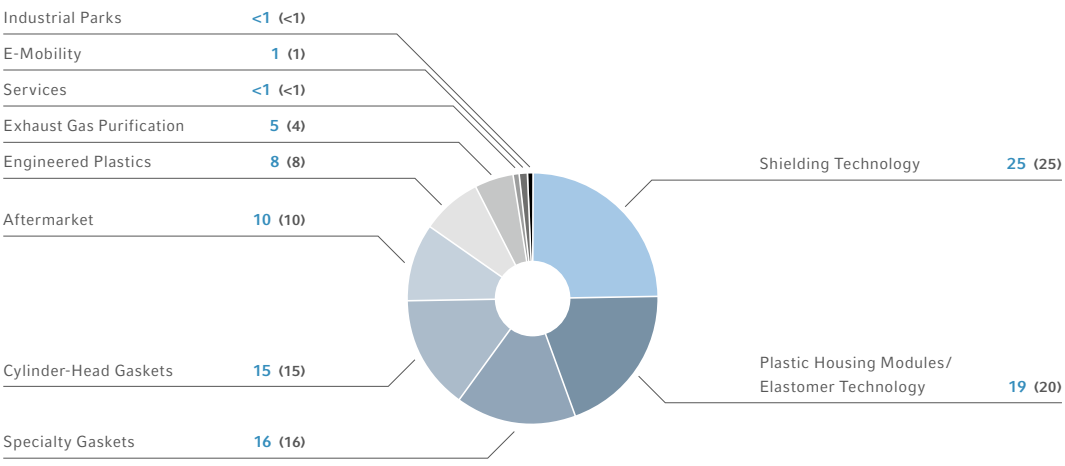
The segments are further divided into a total of eleven divisions. Seven of these belong to the Original Equipment segment, which at roughly 80% contributes the largest share of total Group revenue. Each of the four remaining segments (Aftermarket, Engineered Plastics, Services and Industrial Parks) also constitutes a separate division.

ElringKlinger is the world's leading supplier of **cylinder-head gaskets**. The market is characterized by an oligopoly. ElringKlinger's two main competitors are US conglomerates that do not actually specialize in gasket solutions. Some of the local markets include smaller, regional competitors.

The **Specialty Gaskets** division focuses mainly on metal flat gaskets for high-temperature applications relating to engines, turbochargers, transmissions and exhaust systems. The competitive situation is very similar to that of the Cylinder-head Gaskets division. ElringKlinger is a leading player in the field of metal specialty gaskets and is ranked as one of the three largest suppliers worldwide. The Specialty Gaskets division has benefited from ever-higher demands on sealing technology and a growing number of potential applications.

SALES REVENUE BY DIVISION IN 2013

(prior year) in %



The **Shielding Technology** division specializes in combined thermal and acoustic shielding solutions. ElringKlinger is one of the few suppliers in the world to offer complete shielding packages for both the engine and the underbody. Of all the Group's divisions, Shielding Technology accounts for the biggest share of total Group sales. Here, too, ElringKlinger is one of the world's top three suppliers. The Shielding Technology division also benefits from structural growth, since the number of shielding components required in each vehicle is set to rise over the coming years. The market is more differentiated than in the area of gaskets/seals. ElringKlinger's main competitor is a US company.

The **Plastic Housing Modules/Elastomer Technology** division develops and manufactures lightweight components made of polyamide plastics and fiber-reinforced **organo sheets***, e.g. cam covers and oil suction pipe modules. The number of potential applications in vehicles is increasing at a steady pace. At the same time, there is a growing trend away from heavy metal components towards lightweight plastics, even in the truck sector. Other key products for this division include high-performance metal-elastomer gaskets for commercial vehicles. The market is more fragmented than in the case of other divisions.

* Cf. glossary

The **E-Mobility** division was formed in 2010 and has since expanded rapidly. The division's core product are **cell contact systems*** for lithium-ion batteries. These products are used in both pure electric vehicles and hybrids. ElringKlinger began producing cell contact systems in large volumes in 2011. At the end of 2013, it launched series production for the first electric car to be made by a premium German manufacturer. In terms of revenue, the division stands to benefit substantially as this order is ramped up. Cell contact systems are an entirely new product, and the group of suppliers within this area is small.

* Cf. glossary

The **Exhaust Gas Purification** division was created in 2013 following ElringKlinger's acquisition of a majority interest in the Swiss Hug Group in 2011. Besides Hug's own factory in Switzerland, the division operates a production site in Thale, Germany. The focus of production at the new site in Thale (in the German federal state of Saxony-Anhalt) is on metal housings and the canning of exhaust gas filters.

Tooling Technology is one of the Group's core fields of expertise. Accordingly, ElringKlinger has established a dedicated division that encompasses internal tool manufacturing at the site in Dettingen/Erms and the former Hummel-Formen GmbH, Lenningen, which was acquired by ElringKlinger in 2011.

In general, new activities are transferred to dedicated divisions as soon as they generate their first contribution to revenue at series production level. Until that point, they are pooled under the heading **New Business Areas**. At present, this category mainly includes ongoing projects relating to fuel cell technology (**Research and Development***).

* Cf. page 59 et seqq.

Internal Control Criteria

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

Financial control criteria

The financial control criteria are primarily based on the sales and earnings performance of ElringKlinger AG and its subsidiaries. The principal Group indicators used are revenue, earnings before interest and taxes (EBIT*) and earnings before taxes (EBT). All internal control criteria are planned, calculated and continually monitored for the five segments reportable under IFRS as well as for individual business divisions.

* Cf. glossary

Return on capital employed (ROCE) is considered to be of particular importance; ROCE measures a company's efficiency with which its capital is employed. This indicator is used to calculate and evaluate the success of the entire ElringKlinger Group and the individual Group entities. At ElringKlinger, capital employed includes shareholders' equity, financial liabilities, provisions for pensions and non-current provisions such as anniversary and partial-retirement provisions.

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

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

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

A detailed explanation of the various elements of the financial management system, and the associated risks, is contained in the **"Report on Opportunities and Risks"***.

* Cf. page 117 et seqq.

KEY FINANCIAL CONTROL CRITERIA OF THE ELRINGKLINGER GROUP

	Target 2013	Actual 2013	2012[4]	2011	2010	2009	2008	2007
Sales revenue *(in EUR million)*	1,183 to 1,206	1,175.2 (1,195.0)[1]	1,127.2	1,032.8	795.7	579.3	657.8	607.8
EBIT *(in EUR million)*	150 to 155	144.7[2]	135.8	126.0[5]	106.7	63.3	71.5	121.0
Earnings before taxes *(in EUR million)*	–	131.6[3]	123.6	113.9[5]	94.0	49.4	60.0	114.9
Return on capital employed (ROCE)	20%	14.4%[2]	13.3%	14.2%[5]	15.2%	8.8%	13.6%	30.3%
Net cash from operating activities *(in EUR million)*	positive	120.0	112.3	74.5	126.2	148.8	98.2	99.3
Equity ratio	>40%	50.5%	50.6%	50.1%	52.7%	41.2%	37.7%	49.1%

[1] Adjusted for the effects of exchange rate movements and effects of changes to the scope of consolidation
[2] Adjusted for non-recurring effects
[3] Adjusted for one-time gain from full consolidation of ElringKlinger Marusan Corporation, Japan, as of December 31, 2013
[4] Data for 2012 adjusted for the effects of application of IAS19R
[5] Adjusted for one-time gain of EUR 22.7 million from sale of Ludwigsburg industrial park

Non-financial control criteria

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

- Number of employees and change in headcount
- Average number of staff on sick leave
- Staff turnover rate
- Industrial accidents
- Energy consumption levels and emissions (especially CO_2)
- Quality indicators/assessments and reject rates

In addition, ElringKlinger publishes a range of non-financial control criteria in order to offer the best possible level of transparency with regard to its activities in the field of sustainability. For more information on this topic, please refer to the chapters entitled “Sustainability”, “Research and Development” and “Employees”.

Company-specific early indicators

Information relating to order intake and backlog is reported on a regular basis and provides reliable indications of likely capacity utilization and revenue performance for the months ahead. Therefore, this data plays an important role as an early indicator that is specific to the company.

The Group's budget is based on planned quantities requested by customers as part of their scheduling and respective agreed product prices, less a safety margin. Regardless of this, the Management Board continuously tracks statistics and forecasts relating to global vehicle demand and production as well as the general economic situation. These early indicators can provide important pointers regarding the plausibility of planning; in this way, necessary adjustments can be identified in a timely manner and suitable measures can be implemented in good time.

Strategy: commitment to sustained earnings-driven growth

ElringKlinger performs benchmark analyses on a regular basis for the purpose of assessing its own business performance in comparison with that of the industry as a whole. In this context, all key indicators are compared to other, mostly listed, companies in the automobile and automotive supply sectors and subsequently evaluated.

The ElringKlinger Group uses off-balance-sheet financing arrangements to a negligible degree in the area of leasing (e.g. in connection with company cars and office equipment).

Financial instruments are also only utilized in the normal scope of business. They are monitored both centrally and by the various specialist areas. The principles governing the use of derivative financial instruments are described in the Report on Opportunities and Risks under the heading **"Use of derivative instruments"*** . The nature and scope of derivative instruments held as of December 31, 2013, are set out in the Notes under **"Hedging policy and financial instruments"*** .

* *Cf. page 129*
* *Cf. page 202 et seqq.*

ElringKlinger pursues a strategy of sustained forward momentum, with a focus on organic growth that is profitable over the long term. In this context, the company aims to achieve above-average profitability compared to the industry as a whole, measured on the basis of its EBIT margin.

Research and Development

At ElringKlinger, tradition and innovation go hand in hand

Sustainable research and development activities (R&D) and the culture of innovation embraced by the company are the most important building blocks for the long-term success of the ElringKlinger Group in its pursuit of technological leadership. It is the company's goal to constantly maintain and systematically extend a development edge of several years over the competition.

Fundamentally, as soon as a new development has been launched on the market ElringKlinger categorizes it in-house as an established product. From this point onwards the company works on concepts for the next generation of the product. It was this philosophy that in 2013 enabled the ElringKlinger Group to yet again improve its lead over its competitors in the race to innovate.

Process and material expertise as pillars of innovation

When developing new products the company relies primarily on its core competences in three areas:

- ultra-precision metal stamping, embossing and forming processes,
- coating processes for metals and ceramics and
- plastics technology.

The above techniques, combined with the company's process engineering expertise, provide the ElringKlinger Group with a repertoire that in this particular configuration is matched by only very few automotive suppliers worldwide.

Core competence tooling technology

The company's unique process engineering capabilities are underpinned by corresponding tooling technology and special material know-how in metals and alloys for high-temperature applications. The company's own tool-making department develops and builds most of the necessary tools and dies in-house, focusing on high-precision stamping and embossing tools. Through its acquisition of the Hummel-Formen Group in 2011, ElringKlinger has also built up valuable expertise in tooling technology for plastic injection molding processes and is thus increasingly in tune with the trend towards lightweight design. This specialized tool technology gives ElringKlinger a significant competitive edge and in 2013 formed the basis for a large number of developments which it was then possible to carry through to serial production. The tooling technology is crucial for the growing number of plastic components made using lightweight construction techniques to replace heavy and expensive metal parts.

Increasing pressure on development services

Particularly in the area of drive technology, which is what most of ElringKlinger's product range is geared to, the automotive industry is experiencing a period of radical change and there is significant pressure to develop innovations. The focus is on making vehicles more fuel-efficient to meet the stringent requirements of CO_2 legislation in Europe, the USA and many emerging economies in Asia. Failure to do so may result in considerable penalties and diminishing acceptance on the part of car buyers. Increasingly, vehicle taxes are also being aligned to emission values and/or fuel consumption.

The ongoing increase in the R&D ratio of automotive suppliers reflects the trend for them to carry out more and more comprehensive development work on behalf of car manufacturers. For technology suppliers such as ElringKlinger this means taking on a greater number of research and development projects. This work can only be done by companies with the necessary development and manufacturing expertise and the financial resources to underpin it. OEMs are very keen to work with automotive suppliers offering know-how in all drive technologies and support through specialized solutions. In this context, it is no surprise that the automotive value creation attributable to suppliers has risen to more than 70% in the meanwhile.

* Cf. glossary

As well as optimizing the combustion engine by **downsizing***, one of the top priorities for automotive customers is hybridization, i.e. combining a fuel-efficient combustion engine with an electric drive unit. At the same time, efforts to refine battery-based all-electric drive units are continuing. Fuel cell technology also continues to be part of the race to develop the drive technology of the future. It received a notable impetus in 2013, with several car makers announcing concrete serial production projects.

ElringKlinger focuses on downsizing and reducing exhaust gas emissions

The ElringKlinger Group's R&D activities are fully geared to optimizing the combustion engine, enhancing exhaust gas reduction technology and developing new e-mobility products.

In 2013, ElringKlinger pressed forward with the development of new applications for all traditional product groups (metal gaskets, shielding parts and plastic housing modules). Existing applications were further improved and at the same time numerous new products were developed. Many of these solutions contribute directly or indirectly to reducing fuel consumption and/or cutting CO_2 emissions or other categories of pollutants.

In the Exhaust Gas Purification and E-Mobility divisions, completely new concepts and processes were developed; some of them have already resulted in marketable new products.

Many customers are currently focusing on hybrids as a bridging solution, with the number of hybrid models coming onto the market set to rise again in 2014. ElringKlinger is benefiting from this trend: on top of the components for combustion engines it has been providing to date, the company is now also able to offer new products from the Battery Technology division. This results in a substantial increase in the level of revenue per vehicle that the company can potentially generate.

In 2013 the company yet again made substantial upfront investments in the New Business Areas and E-Mobility divisions. Although this initially reduces the operating margin by 0.8 to 1.0 percentage points, it does mean that ElringKlinger is already in a position today to supply tomorrow's drive technology.

ElringKlinger expanded its development and production capacities in battery technology in 2013. At the same time, work continued on bringing the largely long-term fuel cell technology projects to market readiness.

High R&D expenditure ratio secures competitive edge and long-term growth

To meet the above requirements, ElringKlinger raised its factor input for R&D in 2013, spending EUR 6.1 million more than in the previous year. A total of EUR 63.4 (57.3) million went into the development of new products. As systematic amortization of capitalized research and development costs are recognized in cost of sales as from fiscal 2013, the R&D expense item in the income statement fell slightly to EUR 57.1 (57.3) million. Accordingly, the Group also increased its personnel capacity in R&D-related departments, with the number of people employed in R&D areas rising by 17.2% to 498 (425). This is reflected in the product portfolio: more than 30% of ElringKlinger products are less than three years old.

	2013*	2012	2011	2010	2009
R&D expenditure *(in million EUR)*	57.1	57.3	49.9	40.6	35.7
R&D ratio	4.9%	5.1%	4.8%	5.1%	6.2%
Capitalization ratio	15.8%	14.7%	13.4%	14.1%	12.9%

*Amortization of capitalized R&D expenses (2013: EUR 6.3 million) are recognized in cost of sales since January 1, 2013

ElringKlinger is also a research-intensive company compared with others in the sector. With an R&D ratio of 4.9% (5.1%) as a percentage of sales revenue, ElringKlinger yet again spent more than most of its competitors in 2013. This does not take account of expenditure on applications technology and developing variants of existing products, which would have made R&D expenditure as a percentage of Group sales even higher.

In 2013, R&D expenditure was allocated mostly to the company's traditional business areas and to Exhaust Gas Purification, with a further focus on E-Mobility. Relative to the still low volumes of sales in this area, the highest proportion of R&D was in E-Mobility.

The majority of Group investments in new products and technologies were attributable to the site of the parent company in Dettingen/Erms, Germany.

Centers of excellence and patent pool protect technology know-how

To retain the competitive edge in development and process engineering, the internal patent department protects the company's technological expertise and intellectual property rights, registering another 80 (78) patents and industrial property rights in 2013.

Increasingly, German car manufacturers are establishing new local capacities for car production and in some cases also for engine manufacturing in the rapidly expanding emerging markets. At the same time, ElringKlinger acquired new customers in these regions, as reflected in a growing number of development projects with local manufacturers. As a result, the Group also expanded its development capacities at its international subsidiaries in 2013, for example in China.

Nevertheless, the majority of R&D capacities are concentrated at the Group's German sites and the technology centers of ElringKlinger Abschirmtechnik (Schweiz) AG and at Hug Engineering AG in Switzerland. This structure is designed to help ElringKlinger limit the risk of know-how outflow as much as possible.

Core competence in providing solutions for lower CO_2 emissions and reducing pollutants

In the current decade, and probably the decade thereafter, the traditional combustion engine will remain the dominant type of drive unit. Rising fuel prices and increasingly stringent exhaust gas regulations worldwide are factors that will spur the further development of engine technology. At the same time, alternative drive technologies are growing in significance, although at present there is still no question of a steep rise in demand for purely battery-driven vehicles or fuel cells.

In acquiring Swiss exhaust gas specialist Hug and establishing a dedicated Exhaust Gas Purification division, ElringKlinger has extended its activities within its core field of business. Hug focuses on the treatment of exhaust gas from combustion engines.

* Cf. glossary

Almost all car manufacturers are working intensely on reducing fuel consumption, which will in turn cut greenhouse gas emissions, through **downsizing concepts***. With the new generation of compact, downsized engines with turbocharging, fuel consumption can be further reduced by 20 to 25%. The improved efficiency of this engine technology is associated with higher fuel injection pressures. Peak temperatures rise in the combustion chamber, and ultimately in the entire engine compartment.

This results in a noticeable increase in the performance specifications for the cylinder-head and specialty gaskets newly developed for these applications. At the same time, the number of vehicles being fitted with turbochargers and thermal shielding components continues to rise.

As well as CO_2 reduction, increasingly sophisticated exhaust gas cleaning technology is being developed to ensure that the engines emit fewer harmful soot particles, **hydrocarbons and nitrogen oxides***. The Euro 6 standard for cars and Euro VI standard for trucks will raise the bar even further. It is perfectly possible that the particulate filters used exclusively in diesel engines to date might also be installed in petrol engines in future.

* Cf. glossary

In this context, it is not surprising that in 2013 the by far largest proportion of development contracts were related to optimizing the combustion engine.

Higher performance standards for cylinder-head and exhaust gaskets

The trend towards engine downsizing described above is placing increasingly stringent demands on the design of cylinder-head gaskets. In the Cylinder-head Gaskets division, rising ignition pressures and higher thermal loads on the sealing system were the focus of development work in 2013.

In the case of new developments there were more projects for compact but turbocharged petrol engines with direct fuel injection.

Thanks to the further development of cylinder-head gaskets, the development teams achieved further improvements in durability and service life. The stability of coating materials under extreme conditions was also optimized yet again.

In 2013 the number of serial development projects in the Cylinder-head Gasket division reached a record 294 (274).

The more stringent exhaust gas regulations taking effect in many Asian countries and the associated higher technical requirements for engine components caused a particularly strong increase in development projects with vehicle and engine manufacturers in this region. In the case of Chinese customers this had a positive effect on demand. This was also not affected by the delayed introduction of Euro 5 in China. ElringKlinger was also able to gain a stronger foothold among Japanese manufacturers in 2013.

For the Specialty Gaskets division, which also develops and produces high-temperature-resistant metal gaskets, the development focus in 2013 was on the increasing complexity of the exhaust system, turbocharging and multi-stage automatic transmissions. Around two thirds of current R&D projects relate to hot gas applications. The widespread use of turbocharging and/or exhaust gas recirculation in new engine designs imposes more stringent requirements on the sealing technology in the entire exhaust gas system.

In recent years, ElringKlinger has established a strong market position as an expert in hot gas applications thanks to its know-how relating to exceptionally temperature-resistant alloy materials, known as "super alloys". The **turbocharger*** and its immediate vicinity are exposed to extremely high temperatures of up to 1,000 °C.

* Cf. glossary

Nowadays, the company designs and supplies complete sealing systems for turbochargers, from inlet seals and boost pressure valve flaps to v-ring seals and outlet seals. In addition, the Shielding Technology division offers thermal shielding products. In the meantime, all major turbocharger manufacturers are customers of ElringKlinger. In 2013 the Specialty Gaskets division developed new applications for sophisticated v-ring gaskets used in the center of the turbocharger and also worked on projects for disk springs and oil return gaskets in the turbocharger.

The proportion of cars fitted with turbochargers and the number of turbochargers used per vehicle increased again in 2013, especially in European markets. With more than 20 million turbochargers installed worldwide in 2011, more than 50 million turbochargers are likely to be installed by 2020. High growth rates are expected particularly in the USA and China.

The exhaust gas system continues to grow in complexity. Additional points need to be sealed under high-temperature conditions. For example, the introduction of Euro 6 for cars and Euro VI for trucks (cf. **"Euro standards"***) has seen additional demand for hot gas seals at the separating points in the exhaust system. In 2013 the Specialty Gaskets division developed a large number of new exhaust gas seals for these areas of application.

* Cf. glossary

In addition, the division's R&D department worked on new and more effective concepts for elastomer-coated control plates in automatic and dual-clutch transmissions. The leakage currents in the transmission were substantially reduced by the patented gasket design.

The significantly higher pressures in the new generation of automatic transmission systems meant that particularly durable coating materials had to be developed. In cooperation with the Cylinder-head Gasket division pioneering progress was also made in this area. The new reinforced screen printing media are already being used on a large scale.

The establishment of a development and application center at the site in Changchun, China, has already started to bear fruit. The proportion of development contracts acquired in Asia but also in North America by this division, which until now has focused mainly on Europe, has risen considerably.

Complete shielding systems: thermal management combined with soundproofing

For the Shielding Technology division, development activities in 2013 were driven by downsizing and more complex exhaust aftertreatment systems. Increasingly, stationary engines and the off-road sector are also facing these challenges. At the same time, acoustic shielding is also gaining in importance. In some European markets legislation has already been passed to protect vehicle occupants from noise. Currently, EU committees are discussing significantly reduced limit values for new cars that will become binding from 2019.

For years, ElringKlinger has been working on suitable shielding systems to reduce noise in the car interior. Customers are increasingly requesting the development of noise and vibration damping systems.

High ambient temperatures are caused by the limited installation space in the new compact engines, turbocharging and catalytic converters. Electronics, sensors and plastic hoses have to be protected from excessive heat with thermal shielding components: the number of heat shields required in the car is increasing.

ElringKlinger Abschirmtechnik (Schweiz) AG has the all-round expertise to develop complete shielding packages from the engine and underbody to the exhaust system. This is what sets it apart from most of the company's competitors.

A further focus of development work was on systems to prevent heat losses. Radiation losses can be substantially reduced by means of direct shielding on the component using thermal insulation systems. The faster heat-up times and higher operating temperatures achieved within this area result in improved functioning of catalytic converters, for example.

In the year under review many development projects related to heat shield applications for turbochargers and exhaust systems. Clients included **Tier 1 suppliers***, e.g. manufacturers of exhaust components and complete systems.

* Cf. glossary

In 2013, new concepts were elaborated primarily for underbody protection and engine compartment encapsulation. With its thermoformed components in plastomer composite materials ElringKlinger brought highly robust solutions to the market that combine the benefits of durability, reduced weight and noise reduction. The materials used range from foams to non-wovens and special composite materials.

Many of the development contracts received in 2013 specified the combination of heat and noise protection. For these applications ElringKlinger designed new combined thermal-acoustic multi-layer composite materials. A fundamental goal of thermal and acoustic shielding components is to save weight. With this in mind, ElringKlinger developed **special organo materials*** that incorporate heat-resistant fibers. The necessary tools and production processes were also developed within the Group.

* Cf. glossary

The number of projects relating to truck applications increased noticeably in 2013, and this is set to continue in the future. The division's development engineers worked for example on complete tube housings and combined thermal/acoustic shielding components.

A cross-divisional approach to exploiting new market potential also brought encouraging results. Working closely with Hug Engineering AG, ElringKlinger Abschirmtechnik (Schweiz) AG designed components and housings that are needed for thermal shielding in Hug's exhaust gas purification systems.

New market segment: jacketed marine diesel engines

Demand for heat shielding is not just limited to motor vehicle applications. Working with the Exhaust Gas Purification division, ElringKlinger Abschirmtechnik developed a particularly robust multilayer jacket for the full heat shielding of marine diesel engines. This development was also driven by legislation: the SOLAS (Safety of Life at Sea) regulations require temperatures on the outside of the engine to reach a maximum of 200°C for fire prevention reasons. Initial tests under real-life conditions have already successfully taken place.

Plastic housing modules: lightweight construction expertise for CO_2 reduction

The Plastic Housing Modules division's development activities in 2013 centered mainly on lightweight construction concepts. Using state-of-the-art plastic injection molding processes, heavy metal components are being replaced by much lighter and less expensive plastic modules made of polyamides and new fiber-reinforced organo sheets.

Following the integration of the Hummel-Formen Group, ElringKlinger AG now has the necessary tooling expertise within the Group to produce complex component geometries out of highly durable, polyamide-based material combinations.

Lightweight components in trucks: new concepts for oil circuit and drive train

A top priority for the Plastic Housing Modules division in 2013 was to develop additional components for truck applications. As part of the transition to Euro VI, many manufacturers are focusing on weight-reduced cam covers and polyamide oil pans. Apart from new oil pan modules and cam covers, the development engineers also designed charge air ducts for high-temperature applications in the truck intake system, oil intake pipes, exhaust manifold modules and complete oil tank modules in plastic. Some of these innovations are already in serial production.

Newly developed parts in 2013 included components for the drive train such as timing belt and cam gear drive covers, which will reduce weight in passenger cars and heavy trucks.

For cars too, new cam cover modules have been designed that feature fully integrated functions like oil separating system, pressure control valve, vacuum reservoir, thermal shielding, gasket and decoupling elements.

A new highly efficient plastic oil separation module for truck engines offers considerable market potential. The oil separation rates are much higher than in conventional systems. Thanks to its contribution to efficiency, this development project qualified for funding from the German Environment Ministry's energy efficiency program.

With its plastic resonators for reducing noise in turbochargers the Plastic Housing Modules division has designed another product with good prospects for growth in the coming years.

Embracing lightweight construction for car body and chassis: pioneering polymer-metal hybrid technology

ElringKlinger is working with a premium manufacturer on novel polymer-metal hybrid components (**PMH***) and specially developed the necessary tooling technology for this purpose. A new type of tool combines the hydroforming process (cf. **"Hydroforming"***) and plastic injection molding in just one process step. It will be used in future to produce lightweight components such as cockpit cross-car beams, front end carriers and front end adapters. This new process combines high rigidity with a weight reduction of around 25%. It offers considerable potential for structural components with a wide range of geometries. The first components will go into serial production as early as the start of 2015 and will make encouraging revenue contributions in years to come.

* Cf. glossary
* Cf. glossary

Local application technology center in China

In Asian markets too, more stringent CO_2 regulations are behind the increased interest in lightweight plastic parts. To reflect the increased number of development projects from Asian car makers, the Plastic Housing Modules division has established a development center in Suzhou focusing on application technology. Since 2013, local projects have been mainly handled on site.

Exhaust technology: new systems for US trucks, marine diesel engines and natural gas engines

The Hug Group brings exhaust gas cleaning components and complete systems to the ElringKlinger product range. The Swiss company is technologically one of the leading vendors of exhaust gas purification systems for stationary engines and off-road applications such as construction machinery, locomotives or ships. Hug develops and produces in-house all key components like ceramic substrates, catalytic coatings and housings. As part of the ElringKlinger Group, Hug will also target the development and serial production of parts for commercial vehicles.

Hug-developed diesel particulate filters are based on a ceramic honeycomb structure. The exhaust gas flows through its porous walls. The ceramic filters all particle sizes, including particularly fine PM10 particles, from the flow of exhaust gas at a rate of more than 99%. This is all the more important as very fine particulate matter is being targeted in emissions legislation. To assist with soot burnoff, the filter substrates are coated, depending on the area of application, with ElringKlinger's **CleanCoat™*** coating material, which does not contain any precious or heavy metals. This environmentally compatible silicate-based coating material enables catalytic regeneration of the filter even at low temperature levels. Thanks to shorter regeneration cycles, extra fuel injection and thus CO_2 emissions

* Cf. glossary

are reduced considerably. The field tests and long-term trials of CleanCoat™ already carried out in trucks and buses produced consistently convincing results. In the meantime, larger unit volumes of systems coated with CleanCoat™ are already starting to be used in construction machines and truck engines.

In addition, Hug is developing ceramic catalysts for the **catalytic oxidation of hydrocarbons and carbon monoxide*** as well as **SCR catalytic*** converters for the oxidation of nitrogen oxides.

* Cf. glossary

In the coming years, growing environmental awareness among the public and increasingly stringent international emission regulations such as EU Level III B will also make different configurations of waste gas aftertreatment systems absolutely essential in areas other than the automotive industry. When developing new applications in 2013 the Exhaust Gas Purification division focused for example on applications for commercial vehicles, gas engines and marine diesel engines.

In 2013 Hug worked on the further optimization of high-performance complete systems for stationary engines that combine the reduction of nitrogen oxides through SCR-DeNOx processes with the reduction of soot particles.

Recuperation catalytic converter for natural gas engines

In this era of **fracking***, the use of natural gas engines for power generation is becoming more and more widespread, especially in North America. Hug engineers developed the recuperation catalytic converter, which oxidizes the resulting methane, a much more aggressive greenhouse gas than CO_2, especially for the high-performance natural gas engines used as lean engines in large power plants for electricity generation.

* Cf. glossary

Applications for commercial vehicles

In 2013 ElringKlinger presented the developments of Hug exhaust technology to OEM customers in the commercial vehicle sector. The coming into effect of Euro VI legislation for truck emissions in 2014 has raised new issues, above all with a view to reducing nitrogen oxides. Accordingly, the Exhaust Gas Purification division has also designed solutions for Original Equipment and supplied corresponding samples to interested customers from the automobile industry.

Efforts to develop even more efficient and cost-effective substrate materials for both diesel particulate filters and oxidation and SCR catalysts were also stepped up in 2013.

Market leader in CARB systems in the USA

The increasingly strict limits for soot particle emissions worldwide are generally also being applied to existing vehicles, resulting in interesting potential for retrofit solutions in many markets.

For example, after the newly developed Hug filter system mobiclean™ R was accredited by the Californian Air Resources Board **CARB***, ElringKlinger exhaust technology gained access to the significant US retrofit market. CARB accreditation also means that Hug technology qualifies for the US EPA's (Environmental Protection Agency) National Diesel Retrofit Program. In California, buses and trucks with a gross vehicle weight rating of more than 6.34 metric tons have to be retrofitted with diesel particulate filters to use Californian roads. The Hug retrofit system for CARB requirements consists of an oxidation catalyst and diesel particulate filter with non-precious metal CleanCoat™ coating. In 2013 alone, 1,500 retrofit systems were ordered by US customers. They are distributed primarily via the dealer network of a leading US truck manufacturer. Systems for retrofitting stationary diesel engines in the USA were already in the development pipeline in 2013.

* Cf. glossary

Soot-free emissions on the high seas: particulate filters for engines using heavy fuel oil

Exhaust cleaning systems are becoming increasingly important in the shipping sector too. Whereas vessels using inland waterways are generally already subject to emission regulations, sea-going vessels have, to date, only had to install desulfurization technology.

Nevertheless, there is likely to be great demand for systems for sea-going vessels in the coming years, against the background of greater awareness by environmental associations and the public, as well as forthcoming legislative measures. The considerable emission volumes of both nitrogen oxides and soot particles and hydrocarbons constitute a significant lever for emissions reduction. In particular, marine diesel engines that are often operated with heavy fuel oil make quite a substantial contribution to the soot particulate and nitrogen oxide emissions produced worldwide. The EU Commission announced at the end of 2012, for example, that it was establishing a system for monitoring and reviewing emissions from marine shipping.

Building on its long-standing experience in retrofitting sea-going yachts or river cruise ships, Hug also designed special exhaust cleaning systems in 2013 that can be fitted modularly into the confined engine compartments of sea-going vessels.

One of the development projects dealt with the problem of filtering out soot particles in marine diesel engines using heavy fuel oil. The high ash content had always meant that there were technical limitations to reducing soot with ceramic filters. In 2013 Hug also made crucial progress in this area. A new type of filtering process that achieves separation rates of more than 95%, even where heavy fuel oil is used, proved effective in laboratory tests and has been registered as a patent.

E-Mobility: series production of battery cell contact systems

The E-Mobility division, which was established as recently as 2010, was expanded again in 2013. Just under 100 (90) people work here in development, prototyping and production. In 2013 there was still substantial upfront investment in R&D for battery technology.

By expanding battery technology, the company is tapping into additional sales potential in the growing market segment for hybrids and all-electric cars, which will come to fruition in the medium term. In the course of 2013 in Western Europe, sales of all-electric cars, which had still not really taken off, doubled to almost 40,000 units.

Contact systems for prismatic cell structures

ElringKlinger has developed especially powerful and stable connectors for lithium-ion cells and modules in high-energy batteries. The resulting cell contact systems are used in full and plug-in hybrids and in all-electric vehicles (BEV, Battery Electric Vehicle). The embossed cell connectors have excellent thermal and mechanical stability. With the help of a patented design they balance out relative movements between the lithium-ion cells in the battery caused by temperature fluctuations. The Battery Technology division at ElringKlinger was able to draw on existing material know-how and process engineering in the production of high-quality metal and plastic components when developing this new technology.

Apart from solutions for cylindrical cell structures, cell connectors for space-saving prismatic cell structures in high-voltage batteries were developed, tested and brought to serial production readiness. The sensor system for measuring and monitoring voltage and temperature has been integrated into a control interface.

In 2013 development engineers were already working on second-generation cell contact systems with a view to enhancing the performance of the connecting technology and reducing costs. Substantial improvements were achieved by using new materials and cell connector geometries.

In 2013 a key task for the Battery Technology division was to launch the serial production of three newly developed cell contact systems. Important factors for the successful start of serial production were not just product development but also the design of the special production technology and the planning of production processes. The production line was designed to be highly flexible, so that it can produce systems for cylindrical cells and also the new generation for space-saving prismatic structures. In the course of 2013 production processes were further networked and automated.

Towards the end of 2013, the focus was on the launch of serial production for an all-electric car manufactured in relatively large quantities by one of Germany's premium car makers. ElringKlinger is supplying the cell contact system for the prismatic lithium-ion batteries.

ElringKlinger is currently holding discussions with two other European car makers regarding the development of cell contacting solutions for high-voltage batteries.

Second product line "cell housing" designed

ElringKlinger is a development partner within Industrieverbund Kompetenznetzwerk Lithium-Ionen-Batterien e.V. (KLiB), an industry association in which companies from various sectors are paving the way for the manufacture of standardized large lithium-ion batteries. The company is also a member of the user group of the research production facility for lithium-ion cells at the Baden-Württemberg Center for Solar Energy and Hydrogen Research (ZSW). In this context, ElringKlinger expanded the product range for E-Mobility in 2013 and will contribute to the manufacture of lithium-ion cells in future with new kinds of cell housings as well. These consist of a functional cell lid with electric contacting and the PTFE seal and feature particularly low-loss power transfer and integrated safety functions.

As well as cell connectors and cell housing modules, work continued on pressure equalization systems for emergency degassing and venting of high-voltage batteries. The associated technology is based on PTFE membranes from ElringKlinger Kunststofftechnik GmbH.

However, the development teams in Battery Technology also carried out research on new concepts outside the automotive market, concentrating on scalable battery storage solutions for niche applications such as forklifts. This looks set to be an interesting field of application for high-voltage batteries in the coming years.

With successful development projects and the start of serial production for the first large-scale project in 2013, ElringKlinger's Battery Technology division established a strong position in the market for components for lithium-ion batteries and other high-energy storage concepts.

The company therefore considers itself to be in a promising position to take advantage of electrification and above all the increasing number of hybrid concepts in the coming years.

Fuel cell technology: first systems used in practice

ElringKlinger's New Business Areas division has already been working on fuel cell technology for almost 15 years. In 2013 the generally long-term projects made further progress on their route to market introduction.

In 2013 as in previous years, ElringKlinger made upfront investments in this promising business area. As expected, sales revenue contributed by this area was nevertheless still low. Several development projects qualified for public funding for alternative drive technologies and improved energy efficiency. These grants helped to cover part of the expenditure in this development-intensive area.

In 2013 the company was able to register several interesting patents and intellectual property rights that allow simplified production of metal bipolar plates for fuel cell stacks. This is a crucial precondition to lower manufacturing costs, which at present are still preventing a widespread market launch of fuel cell technology. A clear goal of development work and applications technology in this sector in 2013 was to deploy the material and process know-how built up in more than a decade to develop existing laboratory solutions and prototypes to product concepts suitable for commercialization.

Bipolar plates and complete fuel cell stacks for PEM and SOFC

* Cf. glossary
* Cf. glossary

ElringKlinger develops and produces bipolar plates for both **PEM*** (Proton Exchange Membrane) fuel cells and what are known as high-temperature **SOFCs*** (Solid Oxide Fuel Cells). These key components are needed in large quantities in the fuel cell stack. The company is already producing bipolar plates in large volumes, while complete stacks are being fabricated on equipment approaching serial production readiness. ElringKlinger is using high-precision stamping/embossing in progressive tooling technology as well as laser welding processes. In 2013 development activities focused on optimizing the plate design, new sealing methods and the use of new materials designed to improve performance and at the same time reduce costs.

SOFC stacks for on-board power supply in trucks

In 2013 ElringKlinger continued to work with two of its partners on an SOFC fuel cell unit designed for applications in commercial vehicles.

With the introduction of the anti-idling law, US legislation has opened up an interesting market for auxiliary systems in trucks. In most US states it is now illegal to leave a truck's engine running when stationary to provide on-board power and/or air conditioning. As a result, there was great demand for auxiliary systems to perform these functions without the engine running.

ElringKlinger's solution converts energy carriers like diesel or natural gas into electrical energy with a high level of efficiency. The environmentally compatible fuel cells are designed to replace the combustion-engine-based retrofit units currently installed. The new fuel cells are exceptionally efficient, much quieter in operation and produce significantly fewer harmful emissions.

Thanks to a new stack design, ElringKlinger achieved the required output values of up to 3.5 kW in 2013. The first demonstration systems have already been produced. The necessary service life is currently being demonstrated in extensive test runs.

Fuel cells for distributed energy supply

In the course of 2013 the company's fuel cell development engineers also pursued the concept of a lightweight SOFC stack to be used for decentralized power and heat supply in family homes and residential apartment blocks. Various fuels can be used as energy carriers, but natural gas is preferred. The steep rise in electricity prices will help make this technology increasingly competitive compared with conventional energy supply methods. The service life of this application was significantly improved in 2013. Work is currently being carried out on demonstrators with outputs of 1 to 1.5 kW. Field tests are set to start in one to two years.

PEM fuel cell system for fleet operation

Already in use is a purely hydrogen-powered fuel cell stack that ElringKlinger has been developing since 2012. It is deployed in the energy cell of forklift trucks, where it is replacing the battery previously used.

As part of this project, ElringKlinger has teamed up with a company from the power electronics sector, a leading forklift manufacturer and a large international logistics group.

In combination with a lithium-ion battery that functions as an output buffer, the stack becomes a powerful energy cell that works without any emissions whatsoever. Depending on the drive output required, the system can draw just a few watts up to 11 kW over the entire operating time. The energy cell can be refueled in just three minutes, a crucial advantage over battery-only systems especially in multi-shift operation in a logistics center. The establishment of the necessary hydrogen infrastructure already makes economic sense for large forklift fleets in these centers.

ElringKlinger successfully completed the comprehensive testing and verification processes in 2013, and the first systems have already been produced in small volumes.

Well-filled product pipeline heralds exceptional sales growth

Due to the ongoing development of additional applications for existing concepts and processes, and the substantial upfront investments for new products in the alternative drive technology sector, the ElringKlinger Group is well positioned to continue to outpace growth in the automotive market in the coming years. New developments in exhaust gas purification technology from Hug also offer additional growth opportunities, which include areas other than the automotive sector.

Macroeconomic Conditions and Sector Environment

Global economy gathers pace during 2013 – Marked regional differences persist

Despite the smoldering international debt crisis, the global economy managed to gain some forward momentum in 2013. Having said that, the overall performance was influenced by significant regional disparities within the eurozone on the one hand and in Asia and North America on the other. Ultimately, the world economy grew by 3.0% (3.1%) in the period under review.

The eurozone gradually managed to edge its way out of recession over the course of 2013. In the fourth quarter, its gross domestic product (GDP) rose slightly for the first time in a long while, buoyed by the monetary policies adopted by the European Central Bank. Towards the end of the year the eurozone showed signs of a return to marginal growth. In spite of this, GDP was down significantly in 2013 as a whole. Not even Germany was able to isolate itself completely from the malaise afflicting the wider European economy. Supported by an upturn in domestic demand and exports to Asia and North America, however, the German economy nevertheless succeeded in remaining on track for growth.

The US saw its economy gather pace in 2013. Despite an increase in levies at the beginning of the year and a reduction in government spending, together with the effects of a lingering budget crisis, the labor market showed signs of visible recovery. In conjunction with the policy of low interest rates adopted by the Fed, this trend helped to drive the economy forward. In Brazil, meanwhile, GDP growth proved volatile over the course of 2013 and began to wane towards the end of the year. On the whole, however, South America's largest economy recorded relatively solid growth in 2013.

The emerging markets in Asia remained the driving force behind economic expansion. China, for instance, succeeded in maintaining its dynamic rate of GDP growth. The ASEAN member states also generated significant forward momentum, while the Indian economy recorded disappointing growth rates despite the gains made over the course of the year. Supported by a very loose monetary policy and the continued weakness of the yen, the Japanese economy performed better than in the previous year.

GDP GROWTH RATES (Year-on-year change)

in %	2012	2013
World	3.1	3.0
Germany	0.9	0.5
Eurozone	-0.7	-0.4
United States	2.8	1.9
Brazil	1.0	2.3
China	7.7	7.7
India	3.2	4.4
Japan	1.4	1.7

Source: International Monetary Fund (January 2014)

European car markets stabilize in second half of the year – China and US remain growth drivers

The overall performance of the wider economy tends to be reflected in the general demand for cars and ultimately also vehicle production figures. Correspondingly, the world's automobile markets displayed considerable divergence in 2013.

Up to mid-2013, crisis-plagued Europe saw new car registrations plunge to levels not recorded since 1995. Moving from this extremely weak base, the car market showed signs of bottoming out in the second half of the year. As a result, the decline in new car registrations in the full year was less pronounced than originally expected. Particularly the final month of the year, December, threw up a surprise by producing relatively strong gains. In this period the volume of passenger cars sold in Western Europe grew in double figures (12.7%) for the first time in four years. Despite this performance, Europe's vehicle markets were still far away from substantial recovery. Even Germany, with its more solid economy, had to contend with a downturn in demand from potential car buyers, as a result of which new vehicle registrations fell short of the previous year's figure. However, exports by German car makers, particularly those destined for Asia and North America, continued to rise (1.7%). Benefiting from this trend, domestic car production climbed to a record level of 5.4 million units.

Brazil, Russia and India, as representatives of the BRIC states, saw a significant downturn in the number of cars sold, thus dashing hopes held by industry experts at the beginning of the year.

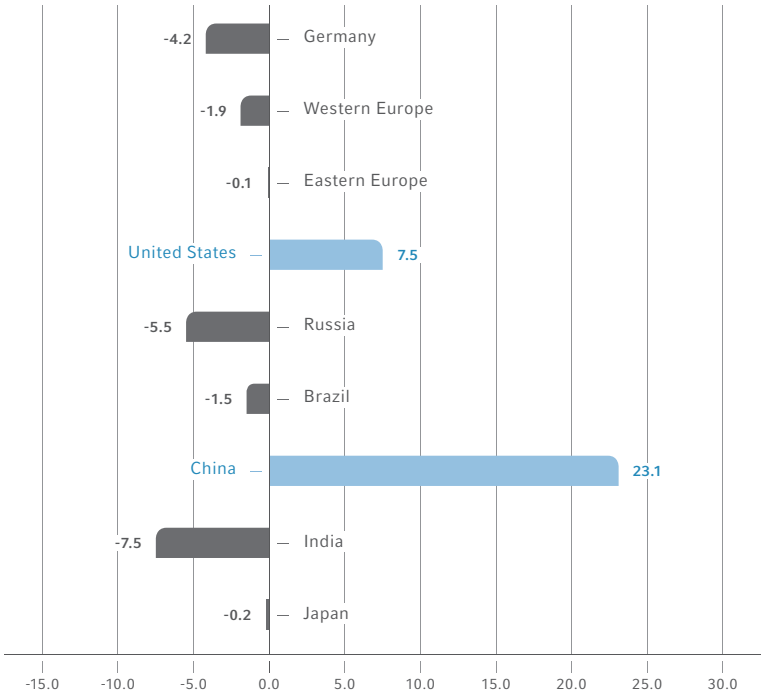
By contrast, vehicle markets in China and the United States maintained their pattern of growth in 2013. In China, which has now established itself as the world's single largest car market, the automotive industry continued to advance at pace. What is more, the United States put in a surprisingly solid performance. Thanks to favorable financing terms and a rise in the number of replacement purchases, driven by the significant average age of vehicles, the volume of cars and light trucks sold reached close to 15.6 million units. This was comparable to the level seen in the pre-crisis year of 2007.

Overall, the favorable direction taken by Asia and the United States was sufficient to offset extremely sluggish demand in Europe and some of the emerging markets. On this basis, global car sales rose by 3.5% in 2013. In the same period, car makers saw global production output grow by 3.1% compared to the previous year.

ElringKlinger performed well within this market environment. Benefiting from the rollout of a substantial number of new products as well as from structural growth achieved by many of its divisions, such as Specialty Gaskets and Plastic Housing Modules, the ElringKlinger Group again managed to grow at a faster pace than the market as a whole.

NEW CAR REGISTRATIONS 2013

Year-on-year change (in %)



Source: VDA, ACEA, Automotive News Data Center (January 2014)

The company was able to cushion the effects of severely depressed sales in European car markets. First, ElringKlinger is very well represented in the booming markets of the emerging regions (**"Locations and markets", Overview of ElringKlinger's Activities and Structure***). The proportion of revenue attributable to sales in Asia, for example, rose to 16.1% (15.9%) in 2013. Including exports, ElringKlinger already generates more than 50% of its Original Equipment revenue from sales in the NAFTA region and Asia. Details of Group sales by region can be found in the section **"Sales and Earnings Performance"***. Secondly, the Group generates around 25% of its Original Equipment revenue from sales to German premium-class manufacturers and Tier 1 suppliers, who have been benefiting in particular from buoyant demand in China and the United States. Therefore, ElringKlinger has also been profiting indirectly from the positive performance of these regions.

* *Cf. page 50*

* *Cf. page 79 et seqq.*

Advance truck purchases in Europe in response to introduction of Euro VI – Downturn in US commercial vehicle market

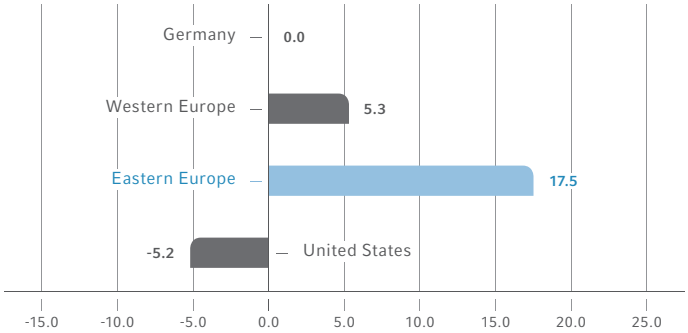
The prevailing economic climate was even more clearly reflected in the situation of the commercial vehicle market than that of the passenger car segment. Indeed, the state of the economy and, ultimately, freight volumes are seen as a key criterion for freight forwarders when deciding on the purchase of new trucks.

Against this background, Western Europe's commercial vehicle markets were particularly fragile in the first six months of 2013. It took until the second half of the year for the industry to pick up in response to a significant boost in demand. In December the market finally moved into top gear. These developments were driven mainly by advance purchases of new trucks in reaction to the introduction of the Euro VI emission standard scheduled for January 1, 2014. In many cases, fleet operators opted for Euro V vehicles, which were available at much more favorable prices than the next generation of trucks. Thanks to this year-end rally, the eurozone saw an unexpected gain in the number of new registrations of mid-sized and heavy trucks in 2013. In 2013, Eastern Europe recorded a year-on-year increase in the sale of mid-sized and heavy trucks. Russia, by contrast, saw a downturn in truck sales by more than one-quarter compared to the figures recorded in 2012, while new truck registrations in Germany were unchanged on the low level seen in the previous year.

In the United States, meanwhile, there was evidence to suggest an upturn in the commercial vehicle markets towards the end of 2013 on the back of a relatively weak overall performance in the preceding months. In December 2013, sales of Class 8 trucks were up by almost 9%. In spite of this, truck sales in 2013 as a whole were still well within negative territory. By contrast, the market for heavy goods vehicles in Brazil was robust. In 2013, sales of heavy trucks were up by almost 20% compared to the previous year.

The truck segment is becoming increasingly important for ElringKlinger: in 2013 the proportion of Original Equipment revenue from truck-related parts increased to around 15% (13%). Benefiting from a number of new products in the area of plastic housing modules, such as cam covers, oil pans and charge air ducts, ElringKlinger now generates much more revenue per vehicle in new Euro VI trucks.

NEW REGISTRATIONS OF MID-SIZED AND HEAVY TRUCKS 2013
Year-on-year change (in %)



Source: ACEA, Automotive News Data Center (January 2014)

Significant Events

It is the declared aim of ElringKlinger AG to scale back non-controlling interests within the Group to the largest extent possible. With this in mind, in 2013 ElringKlinger AG acquired an additional 24.99% of the interests in exhaust gas purification specialist Hug Engineering AG from the former owner family and one other partner in the company. The acquisition was transacted with economic effect as of January 1, 2013. ElringKlinger thus holds 93.67% of the interests in the Swiss subsidiary, the majority acquisition of which took place back in May 2011. Hug forms the newly created Exhaust Gas Purification division within the Group (**Overview of ElringKlinger's Activities and Structure***).

* Cf. page 55

The earnings situation of the Hug Group improved significantly in 2013, with sales revenue rising to EUR 57.6 (36.6) million and earnings before taxes totaling EUR 12.9 (-3.5) million. The purchase price payable for the additional ownership interest was around EUR 4.6 million.

The expansion of its ownership interest has helped to strengthen ElringKlinger's position in the rapidly growing segment of exhaust gas purification technology, the objective being to introduce technical innovations to the market even faster, open up new fields of application and move into previously untapped regions.

Within the context of strategic business development, ElringKlinger transacted the full acquisition of the South Korean joint venture ElringKlinger Korea Co., Ltd. in 2013. In 2013, the Korean company generated sales of EUR 10.3 million. ElringKlinger acquired the remaining 50% interest from the co-owner family for a purchase consideration of around EUR 4.3 million. Having previously been included in the Group's accounts on a proportionate basis, the subsidiary has been fully consolidated since February 1, 2013.

The facility in South Korea produces cylinder-head and specialty gaskets as well as heat shields and plastic housing modules. Following the full takeover, ElringKlinger built a new plant at its site in Gumi, South Korea, the objective being to further expand its position in the Asian market and strengthen its business relationship with Korean vehicle manufacturers.

As part of its expansion plans for Asia, effective from December 31, 2013, ElringKlinger AG also concluded a contractual agreement with its Japanese joint venture partner covering the exercise of control over the 50:50 joint venture ElringKlinger Marusan Corporation, Japan. Under IFRS, the assumption of control necessitates full inclusion of the entity within the scope of consolidation of the ElringKlinger Group. This resulted in one-time gain of EUR 17.6 million. Having previously been included in the Group's scope of consolidation at a proportionate rate of 50%, the joint venture is to be fully consolidated effective from December 31, 2013.

The Japanese joint venture is of particular importance to the Asian strategy adopted by the ElringKlinger Group, especially in the rapidly expanding ASEAN region. Including exports, ElringKlinger already generates around 25% of its revenue within the Original Equipment segment in Asia, a trend that is rising.

Committed to gradually scaling back non-controlling interests, ElringKlinger AG acquired the remaining 10% interest in Elring Parts Ltd., United Kingdom, in the financial year 2013 for around EUR 0.7 million. Additionally, ElringKlinger AG acquired the remaining 49% interest in ElringKlinger South Africa (Pty) Ltd., South Africa, for approx. EUR 0.6 million. Thus, ElringKlinger became the sole owner of the two aforementioned subsidiaries.

In 2013, tool specialist Hummel-Formen GmbH, Lenningen, was merged into ElringKlinger AG for the purpose of optimizing Group structures. Since then, the Lenningen site has been managed as a plant of ElringKlinger AG, complementing the existing toolmaking operations of the ElringKlinger Group as a center of excellence for injection-molding tools.

Sales and Earnings Performance

Record sales despite extreme market weakness in Europe and foreign exchange effects

In spite of the difficult market situation in Europe, the ElringKlinger Group in 2013 managed to grow at a faster rate than the global vehicle markets.

New product roll-outs and strong demand in North America and Asia more than compensated for an extremely poor set of market figures for car sales in Western Europe.

Group sales revenue rose by 4.3% to EUR 1,175.2 (1,127.2) million.

Exchange-rate movements in the US dollar as well as the Brazilian real, the Indian rupee and the other Asian currencies had a significant impact on Group sales, particularly in the second half of the year. Around 40% of sales were generated outside the eurozone. In 2013, the dilutive effect of translating revenues into the Group currency – euro – was equivalent to EUR 24.7 million. If exchange rates had remained unchanged, revenue growth for the Group would have been 6.4%.

The company's full takeover of the joint venture ElringKlinger Korea Co., Ltd., Gumi, South Korea, as of February 1, 2013, contributed an additional EUR 4.7 million to the Group's total revenue. The transition to full consolidation resulted in one-off, non-cash gain of EUR 1.4 million. As a result of additional costs for the move to the newly built factory in Gumi, the company's contribution to Group earnings was marginally negative.

Despite unfavorable exchange rate movements, growth picked up slightly in the fourth quarter. Over this period, the ElringKlinger Group expanded its sales revenue by 4.9% to EUR 291.1 (277.6) million. If exchange rates had remained unchanged, growth would have been 7.9%.

Sales target for 2013 achieved – EBIT held back by exchange rates and E-Mobility start-up costs

The Group achieved its annual target of 5-7% organic revenue growth in 2013, i.e. after adjusting for exchange-rate differences and excluding the impact of acquisitions. On an adjusted basis, the Group's sales revenue was 6.0% higher.

The Group had originally forecast that, after adjusting for non-recurring items, earnings before interest and taxes (EBIT) would rise to between EUR 150 and EUR 155 million, i.e. at a faster rate than sales. The actual figure achieved was just below this range at EUR 144.7 million, mainly as a result of unexpectedly high exchange-rate losses and further start-up losses in the new E-mobility division.

Nevertheless, the Group once again achieved its medium-term target of boosting adjusted EBIT at a faster rate than sales. After adjusting for non-recurring items, the EBIT margin rose accordingly from 12.0% to 12.3%.

Performance by acquired companies: exhaust gas specialist Hug sees turnaround with substantial increase in sales

Buoyed up by strong demand in its US retrofitting business for heavy trucks, by new projects for inland waterway vessels and by its exhaust gas purification systems for natural gas power plants, sales at the Hug Group in 2013 rose to EUR 57.6 (36.6) million. One of the key products fueling this forward momentum was Hug's diesel particulate filter system "mobiclean™ R". Under rules established by the California Air Resources Board (CARB), on-road vehicles over 6.34 metric tons have to be retrofitted with a diesel particulate filter. In combination with CleanCoat™, a high-performance catalytic coating material free of precious metals, ElringKlinger now has an extremely effective system. In 2013, Hug Engineering Inc., Austin, USA, secured several fleet orders, including one from the US Postal Service. ElringKlinger's subsidiary Hug now has an impressive 30%-plus share of the CARB retrofitting business.

Following a loss before taxes of EUR 3.5 million in 2012, fiscal 2013 produced earnings before taxes of EUR 12.9 million. This figure included a negative effect of EUR 1.3 (-1.9) million attributable to the original purchase price allocation. As a result, Hug was able to match and even exceed ElringKlinger's aggregate Group profit margin.

Thanks largely to a series of restructuring measures and the introduction of state-of-the-art production technology, the Hug Group has seen a turnaround and a gradual improvement in its earnings performance. Capacity utilization has also been improved by the launch of several new products.

Acquired in 2012 and merged into ElringKlinger AG, Hug supplier ThaWa GmbH, Thale, Germany, was integrated into ElringKlinger AG as a production site. In the first half of 2013, ThaWa began operating a new facility designed for precision welding, the canning of diesel particulate filters and the production of housings for complete exhaust gas purification systems. The process of migrating elements of production and logistics from Hug's sites in Switzerland was also finalized. Production has now commenced and is helping to reduce costs and exchange-rate risks in the Exhaust Gas Purification division.

Restructuring at ElringKlinger Meillor SAS shows success

With new car registrations down by a further 5.7% in 2013, ongoing weakness in the French vehicle market undermined sales at ElringKlinger Meillor SAS, Nantiat, France, a former Freudenberg Group company. Overall, however, sales revenue generated by all the former Freudenberg sites showed a moderate increase to EUR 50.4 (49.8) million. A very positive performance came from the Gelting site in Germany, merged into ElringKlinger AG in 2011, where sales were driven by strong demand for exhaust and turbocharger gaskets.

Whereas earnings at the two former Freudenberg sites in Gelting, Germany, and Settimo Torinese, Italy, were well within positive territory, earnings before taxes at the French subsidiary ElringKlinger Meillor SAS remained negative in 2013.

In the first quarter of 2013, ElringKlinger implemented a series of restructuring measures at the site in Nantiat, France, and downsized the local workforce in order to adapt capacity levels to the weak market situation. This entailed non-recurring expenses of EUR 1.8 million. This was the main reason for the pre-tax loss of EUR 2.5 million posted by ElringKlinger Meillor SAS for the year as a whole. By contrast, the French company's fourth-quarter earnings were well into positive territory.

Overall, the earnings contribution made by the former Freudenberg Group companies rose from EUR 0.1 million in 2012 to EUR 2.1 million in the financial year 2013. In this context, the earnings situation improved gradually as the year progressed.

One-time gain of around EUR 18 million from assumption of control over Japanese joint venture

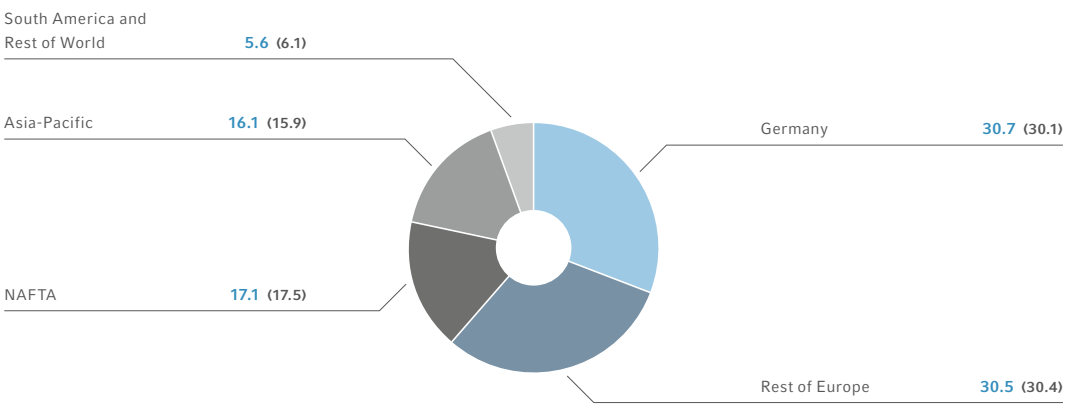
The Japanese joint venture ElringKlinger Marusan Corporation is a key element of the ElringKlinger Group's Asia strategy, especially in light of rapid growth in the ASEAN region.

ElringKlinger AG signed a contractual agreement with its joint venture partner covering the exercise of control over the 50:50 joint venture ElringKlinger Marusan Corporation. Under the terms of the agreement, which took effect on December 31, 2013, ElringKlinger AG now has economic control over the Marusan Group with a total of five units. Under IFRS, the assumption of control necessitates full inclusion of the entity within the scope of consolidation of the ElringKlinger Group. These circumstances and the result of deconsolidation produced net non-recurring income of EUR 17.6 million. This had no impact on the ElringKlinger Group's sales revenue in 2013 (see **Notes***).

* *Cf. page 167*

Having previously been included in the Group's scope of consolidation at a proportionate rate of 50%, the joint venture was fully consolidated as of December 31, 2013. This is expected to boost the Group's total sales in financial year 2014 by around EUR 25 million and earnings before taxes by approx. 1.5 million. In 2014, however, the amortization of intangible assets resulting from purchase price allocation will have the opposite impact equivalent to around EUR 2.2 million.

GROUP SALES BY REGION IN 2013
(prior year) in %



Solid growth in Asia while business in Europe outperforms wider market

In Germany, new car production rose by a very modest 1% in 2013. By contrast, Group revenue in Germany was up 6.5% on the previous year at EUR 360.8 (338.9) million. This substantial increase compared with the wider market was mainly due to the launch of several new products and a substantial share of total sales attributable to business with German premium-range car makers and suppliers. The latter saw their production activities in Germany boosted by the continued strength of overseas demand from Asia and North America. In fact, just over three out of every four cars produced in Germany were subsequently exported to other countries. Ultimately, strong growth in vehicle demand from the end user markets of Asia and North America also contributed significantly to increases in production at the ElringKlinger Group's German companies.

In 2013, the percentage share of domestic sales in relation to total Group revenue rose accordingly to 30.7% (30.1%). As such, Germany remained the ElringKlinger Group's single largest market.

Although new car registrations for 2013 reached a 25-year low in Western European markets, the ElringKlinger Group managed to lift sales in the Rest of Europe by 4.7% to EUR 358.8 (342.7) million. Here, too, it is important to note that a large proportion of the engines, transmissions and vehicles that are made in this region and for which ElringKlinger supplies parts were subsequently exported to Asia and North America.

Group revenue in North America rose to EUR 200.6 (197.8) million. Although the Group's revenue fell slightly in the first half of 2013 due to product mix factors in Canada, strong demand at the US subsidiaries, especially in the second half of the year, helped to grow the overall sales figure for the region by 1.4%.

In South America, the Group's sales were hit by the depreciation of the Brazilian real against the euro. While in local currency the percentage growth in sales achieved by Group subsidiary Elring Klinger do Brasil Ltda. was in the high single digits, the loss on conversion into euros was EUR 6.4 million. In

total, sales revenue for "South America and Others" ended the year 4.6% lower at EUR 65.7 (68.9) million.

The company can report another increase in sales within the Asian markets. The lion's share of this growth was attributable to the Group's Chinese subsidiaries. In response to a consistently buoyant order intake, ElringKlinger again expanded its production capacity, primarily at the site in Suzhou, China.

Despite the general weakness of the Indian vehicle market, ElringKlinger Automotive Components (India) Pvt. Ltd. recorded a significant increase in sales revenue.

The main hub for supplies to the booming ASEAN region is the new plant at PT. ElringKlinger Indonesia, Karawang, Indonesia, which was formed in 2012 and operates as a subsidiary of the Japanese joint venture ElringKlinger Marusan Corporation. Unfortunately, sales growth at ElringKlinger Marusan Corporation was held back considerably by the weakness of the yen.

Effective from February 1, 2013, the Group strengthened its position in Korea by completely taking over the joint venture ElringKlinger Korea Co., Ltd. (**Significant Events***) and intensified its links with Korean manufacturers.

* *Cf. page 78*

Overall, the ElringKlinger Group saw sales revenue grow to EUR 189.5 (178.9) million in Asia. This represents an increase of 5.9% on the previous year. Over the course of 2013 Asia as a region once again demonstrated its growing importance to the ElringKlinger Group in terms of sales. The share of total Group sales generated by the Asia-Pacific region in 2013 rose to 16.1% (15.9%). If we factor in the positive impact of exports for ElringKlinger AG, as discussed earlier, Original Equipment revenue from sales in Asia accounted for around 25% of Group revenue.

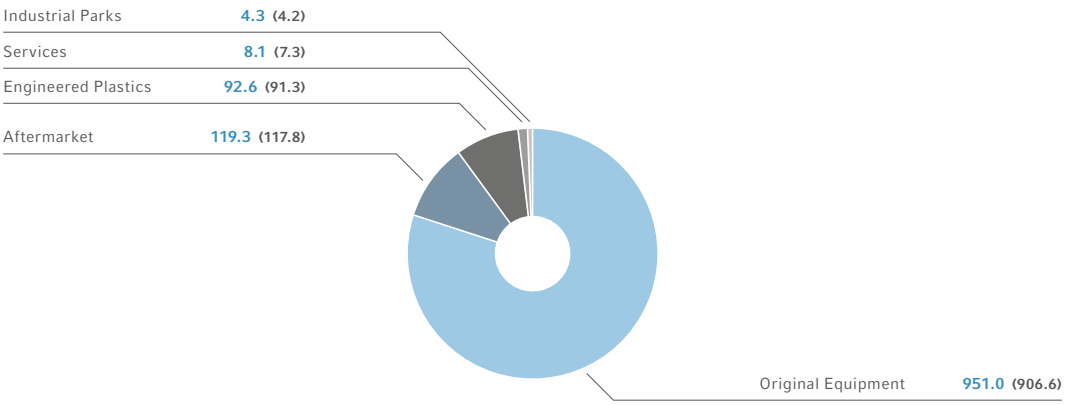
Overall, the percentage share of foreign sales in relation to total Group revenue declined to 69.3% (69.9%); however, this was mainly due to the fact that ElringKlinger AG in Germany accounts for a large proportion of the products sold in other countries.

Importance of international Group companies is increasing

In recent years, the growth rates achieved by ElringKlinger's international subsidiaries in percentage terms have been much higher than those of the parent company. In 2013, however, ElringKlinger AG's sales growth in percentage terms was largely on a par with that achieved by the international subsidiaries. While the contribution to Group revenue made by ElringKlinger's international companies in 2013 rose by 5.1% to EUR 630.3 (599.7) million, the figure for the parent company ElringKlinger AG was 5.5% higher at EUR 449.9 (426.4) million.

As noted above, ElringKlinger AG benefited substantially from the strength of its German and European customers' exports to Asia and North America. Sales at ElringKlinger AG were also boosted in 2013 by the merger with Hummel-Formen GmbH. Unlike ElringKlinger AG, which issues nearly all its invoices in euros, sales revenue at most of the subsidiaries was negatively affected in 2013 by exchange rate movements.

SALES REVENUE BY SEGMENT IN 2013
(prior year) in € million



In absolute terms, however, the sales revenue generated by the Group's international entities was much higher than that of ElringKlinger AG. Indeed, the contribution made by the foreign Group companies to total Group revenue rose to 53.6% (53.2%).

In terms of earnings, the foreign subsidiaries also developed in a positive way. Overall, their earnings before taxes for 2013 reached EUR 60.8 (57.3) million, an increase of 6.1% on the previous year.

Original Equipment remains predominant growth driver

In 2013, the Group's revenue growth was again driven primarily by increases in its largest segment, Original Equipment.

Despite the contrary effects from foreign currency translation, ElringKlinger more than compensated for the distinct weakness of vehicle markets in Western Europe and the BRIC markets. In 2013, the Group expanded its Original Equipment sales revenue by 4.9% to EUR 951.0 (906.6) million. This was made possible by a series of new product roll-outs and consistently strong demand from both Asia and North America. Besides boosting the revenue of individual country subsidiaries, this also benefited the parent company in terms of revenue performance due to the high level of exports.

At a structural level, Original Equipment sales were driven by growing customer demand for turbocharger gaskets, automatic transmission components, shielding parts and lightweight plastic modules. The number of components from these product groups fitted into new vehicles continues to grow rapidly. Growth was also driven by new product roll-outs and more expansive sales in the field of exhaust gas purification systems.

In 2013, almost every division in the Original Equipment segment recorded an increase in sales. In percentage terms, the top performing divisions were Specialty Gaskets, Exhaust Gas Purification and, albeit from a lower base, E-Mobility.

Nearly all customers have now adopted downsizing and turbocharging as the core technologies that can help to reduce consumption. The Specialty Gaskets division in particular contributed many new product designs, while benefiting from the larger number of turbochargers fitted to vehicles and increasingly complex exhaust systems.

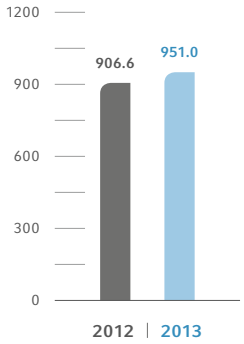
While demand for lightweight plastic modules for cars increased sharply in the Plastic Housing Modules/Elastomer Technology division, the truck business was hit by the postponement of Euro VI. As a result, sales of new cam cover, oil pan and oil suction pipe modules for trucks, all of which offer a significant weight saving, remained well behind expectations.

Sales revenue in the Shielding Technology division was also up, despite weak demand from Western European car makers that make up a large part of its customer base. Given the growing importance of thermal management for engine and exhaust applications as well as the greater relevance of acoustic protection solutions in this context, the division is well positioned as a supplier of combined end-to-end solutions.

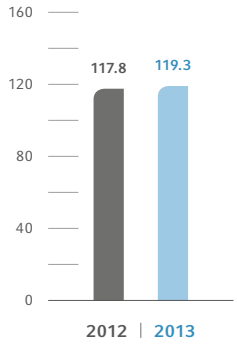
With a range of projects in the pipeline, the new E-Mobility division was still gearing up for full-scale operation in 2013. Revenue from products in the field of Battery Technology rose by 27.3% to EUR 8.4 (6.6) million. Earnings were held back by the high level of up-front investment required for new developments and by the cost of scaling up to series production. With sales as yet low, the figure for earnings remained in negative territory. The E-Mobility division's loss before taxes stood at EUR 7.3 million in 2013.

Earnings before taxes for the Original Equipment segment as a whole were reduced noticeably in 2013 by the negative impact of exchange-rate movements and by start-up costs in the E-Mobility division. By contrast, substantial earnings growth at the Hug Group made a positive contribution to the Original Equipment segment's results.

SALES IN THE ORIGINAL EQUIPMENT SEGMENT
in € million



SALES IN THE AFTERMARKET SEGMENT
in € million



In this context, it should be noted that this segment also benefited from the entire non-recurring income generated by the assumption of control of the Japanese joint venture. In total, earnings before taxes in the Original Equipment segment rose to EUR 109.7 (82.6). After adjusting for the above-mentioned non-recurring income, the segment's earnings before taxes were up by 11.5% at EUR 92.1 million.

One-off expense burdens Aftermarket results

After a relatively weak first half, revenue in the Aftermarket segment picked up slightly in the second six months of the year. Overall, sales grew by 1.3% to EUR 119.3 (117.8) million in the Aftermarket segment.

In this context, the segment's sales performance was impacted by economic weakness and continued high unemployment affecting most of the countries in Southern and Western Europe. Car owners frequently postponed repairs for as long as possible in response to the tense economic situation. Furthermore, the average age of vehicles in the small-car segment was still relatively low as a result of scrappage programs introduced by many European countries in 2009 as a purchase incentive. This also meant that fewer repairs were needed. In turn, revenues have been stagnating in the region of Western Europe. In acquiring the metallic flat gaskets unit from the Freudenberg Group in 2011, ElringKlinger has added to its portfolio of cylinder-head and specialty gaskets for the French and Italian markets. Over the medium term, thanks to its expanded portfolio, ElringKlinger should now be able to exploit additional sales potential in these two major countries within the aftermarket business.

While the segment achieved solid growth in the export markets of Eastern Europe and in Africa, sales in the Middle East declined slightly, albeit from a high level.

The Aftermarket segment incurred one-off expenses of EUR 1.5 million in the third quarter of 2013 as a result of measures to penetrate new markets. Together with a shift in business relating to the product mix, these were the main reasons for the downturn in the segment's pre-tax earnings. In total, the segment saw its earnings before taxes fall to EUR 21.2 (23.2) million in 2013.

Engineered Plastics segment achieves modest rise in sales revenue

* Cf. glossary

ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Germany, develops and manufactures products made of the high-performance plastic PTFE* (polytetrafluoroethylene). These are supplied to a wide range of industries, including those operating beyond the automotive sector. The mechanical engineering, medical technology and electronics industries now make up an increasingly important part of the segment's customer base.

Demand from customers in Western Europe's mechanical engineering sector was below expectations and remained weak. On the other hand, buoyant sales to the automotive and medical technology industries helped to boost the segment's revenue. Thanks, among other things, to new product roll-outs of guides and gaskets for diesel injection systems and turbochargers, automotive applications accounted for an increased share of the Engineered Plastics division's total sales.

The segment made strenuous efforts to put its business on a more international footing and thus expand beyond its more established Central European focus. The first production facilities in Suzhou, China, began operations. Several projects were successfully launched and made an initial contribution to the segment's 2013 sales figures.

Business picked up considerably in the fourth quarter of 2013 compared with the same period in 2012. In spite of the difficult market situation in Western Europe, sales revenue for 2013 as a whole rose by 1.4% to EUR 92.6 (91.3) million.

The task of building up a sales infrastructure in the US and ongoing measures to open up the world's largest market for PTFE applications necessitated initial outlays. This led to an overall increase in the segment's costs in 2013. Thanks to strict cost management, however, earnings before taxes in the Engineered Plastics segment nevertheless slightly exceeded the figure for 2012, up by 3.2% to EUR 15.9 (15.4) million.

Industrial Parks unchanged year on year

Rental income from premises at the Group's industrial parks in Idstein, Germany, and Kecskemét-Kádafalva, Hungary, was slightly up on the previous year at EUR 4.3 (4.2) million. Earnings before taxes stood at EUR 0.1 (0.2) million.

Demand for engineering services remains high

In the Services segment, Elring Klinger Motortechnik GmbH, Idstein, Germany, provides development services to vehicle manufacturers and other suppliers. The main focus here is on measures to cut nitrogen oxide emissions through exhaust gas recirculation and the use of **SCR*** (selective catalytic reduction) technology, on exhaust gas recirculation as well as on the measurement of particulates in diesel exhaust filters.

* *Cf. glossary*

Increasingly strict vehicle emissions legislation (e.g. Euro 6 for cars and Euro VI for trucks) again pushed up demand for engine, transmission and exhaust testing services among customers in the automotive industry and other suppliers. ElringKlinger Logistic Service GmbH, Rottenburg/Neckar, Germany, another Group company in the Services segment, provides logistics services such as sorting and packaging both within the Group and to outside customers. 2013 brought a slight fall in revenue from these operations. Overall, sales in the Services segment grew by 11.0% to EUR 8.1 (7.3) million.

Earnings before taxes were almost unchanged at EUR 2.3 (2.2) million.

Gross profit margin shows slight improvement

Despite continued market weakness in Western Europe, exchange rate losses and substantial up-front costs in the E-Mobility division, the Group's earnings were generally solid in the financial year 2013.

At EUR 846.2 (815.0) million, the total cost of sales was up by 3.8%, slightly below the rate of growth in sales. The gross profit margin rose accordingly to 28.0% (27.7%), despite the continued dilutive effect of the former Freudenberg companies, which were as yet unable to match the gross profit margin of the rest of the ElringKlinger Group.

In 2013, the scheduled amortization of capitalized development costs was recognized for the first time under cost of sales (previously under R&D costs). This reduced the Group's gross profit by EUR 6.3 million. Otherwise the gross profit margin for 2013 would have been around 28.5% compared to 27.7% in the previous year.

A salary increase of 3.4% for employees in Germany took effect in July 2013. This had a significant impact on staff costs, most of which are reflected in the cost of sales. A profit-share bonus of EUR 1,300 (1,150) per person was paid in respect of the previous year to employees at ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH and Elring Klinger Motortechnik GmbH. This generated expenses of EUR 3.7 (3.3) million.

At the same time, the overall number of employees within the ElringKlinger Group as of December 31, 2013, was 7.2% higher at 6,716 (6,263). Thereof, a total of 134 employees resulted from the step acquisition of ElringKlinger Korea Co., Ltd. early in 2013 and the assumption of control of the Japanese joint venture ElringKlinger Marusan Corporation with effect from December 31, 2013. Excluding these effects of consolidation, the rise in the ElringKlinger Group's headcount was 5.1% or 319 employees, i.e. slightly below the rate of organic growth in sales.

Prices for the main raw materials used by ElringKlinger (e.g. carbon-steel, aluminum and alloy surcharges for high-grade steel) remained stable and in some cases actually fell by a small margin in 2013. Material prices for the polymer granules needed in increasing volumes by the Group remained relatively high. By contrast, there was a sharp decline in the proceeds generated from sales of metal stamping waste. Overall, intra-year commodity price fluctuations had no significant impact on the cost of sales.

Research and development ratio remains high

In absolute terms, the Group's research and development costs in 2013 were almost unchanged at EUR 57.1 (57.3) million. The R&D ratio fell slightly to 4.9% (5.1%). From fiscal 2013 onwards, as outlined earlier, scheduled amortization of capitalized development costs is shown under cost of sales rather than research and development costs. After adjusting for this change, research and development costs in 2013 would have been 10.6% higher at EUR 63.4 (57.3) million (**Research and Development***).

* *Cf. page 59*

At EUR 9.0 (8.4) million, capitalized development costs were partly offset by scheduled amortization of EUR 6.3 (5.6) million. The resulting positive effect on earnings was equivalent to EUR 2.7 (2.8) million.

The ElringKlinger Group received a total of EUR 7.3 (4.0) million in government grants over the course of 2013. Most of these grants went to support projects in the areas of fuel cell technology, battery development and lightweight designs. In parallel, however, the company incurred expenses at a comparable level for development work and prototyping.

Selling expenses rose by 5.5%. Higher personnel expenses were the main factor behind the increase. In fiscal 2013, the ElringKlinger Group invested heavily in the expansion of its sales infrastructure in Asia in order to strengthen its links with Asian and locally based international manufacturers. Over the next few years, this region in particular is expected to generate a very substantial increase in the number of projects up for tender. In Thailand, a new sales company was formed in Bangkok – ElringKlinger (Thailand) Co., Ltd. – in response to the growing importance of the ASEAN region. The Group also strengthened its sales teams across local markets in China, India and Korea. General and administrative expenses rose by 3.9%, i.e. at a less pronounced rate than sales. Again, this rise was mainly due to higher staff costs.

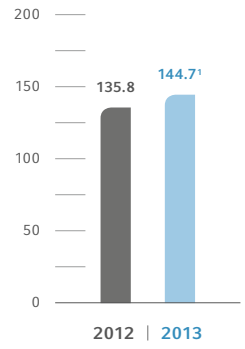
The marked increase in other operating income was largely attributable to non-recurring items, as outlined above, created by the full consolidation of ElringKlinger Marusan Corporation and by the step acquisition of the former joint venture ElringKlinger Korea Co., Ltd. In net terms, these two transactions resulted in non-recurring income of EUR 19.0 million in total, all of which was recognized under other operating income.

Overall, other operating expenses rose to EUR 10.3 (7.8) million. This figure includes exceptional expenses of EUR 1.5 million in relation to market penetration measures in the Aftermarket segment.

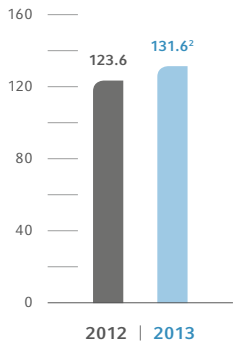
Adjusted operating result up 8% – EBIT impacted by exchange rate losses

The consolidated figure for earnings before interest, taxes, depreciation and amortization (EBITDA), which includes exchange rate losses – primarily linked to financing measures –, showed a year-on-year increase of 9.8%. In addition to exchange-rate losses totaling EUR 4.6 million, it includes the following one-off items: non-recurring restructuring expenses for the French site in Nantiat (EUR 1.8 million) and an exceptional expense in relation to market penetration measures in the aftermarket business (EUR 1.5 million) had an adverse effect. By contrast, non-recurring gains from the step acquisition of the Korean joint venture ElringKlinger Korea Co., Ltd. (EUR 1.4 million) and, as detailed above, income from the assumption of control of ElringKlinger Marusan Corporation (EUR 17.6 million) had a positive impact. After adjusting for these items, the figure for EBITDA amounted to EUR 220.6 (215.2) million.

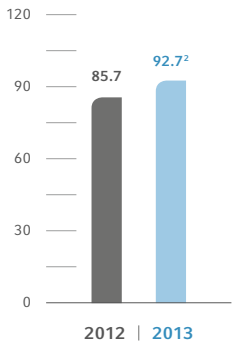
EBIT
in € million



EARNINGS BEFORE TAXES
in € million



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF ELRINGKLINGER AG
in € million



[1] Adjusted for one-time effects
[2] Adjusted for one-time gain from assumption of control of ElringKlinger Marusan Corporation as of December 31, 2013

Total depreciation and amortization was slightly down on 2012 at EUR 76.0 (79.4) million. This was mainly due to a lower figure for depreciation on tools. Additionally, a rather substantial proportion of capital expenditure was attributable to the purchase of buildings and land, which are either depreciated over a longer period of time or not at all.

The ElringKlinger Group's operating result rose by 19.0% to EUR 164.9 (138.6) million in 2013. After adjusting for the above-mentioned non-recurring items, the figure came to EUR 149.2 (138.6) million, an increase of 7.6%. The adjusted operating margin climbed to 12.7% (12.3%), but was unable to progress further due to the dilutive effect of negative contribution by the Group's French subsidiary ElringKlinger Meillor SAS in the year as a whole and to high up-front expenses in the E-Mobility division. Poor capacity utilization at the new plant in Dettingen, Germany, following the postponement of Euro VI also acted as a drag on the operating margin. This plant was specifically designed to produce plastic housing modules for trucks. The ElringKlinger Group nevertheless delivered another increase in its adjusted operating margin in 2013.

In contrast to the operating result, earnings before income and taxes (EBIT) reflected unexpectedly high foreign exchange losses totaling EUR 4.6 (2.9) million. These were mainly caused by the depreciation of the Brazilian real, the Indian rupee and the other Asian currencies relative to the euro. As a result, EBIT lagged behind the operating result at EUR 160.4 (135.8) million. Adjusted EBIT before non-recurring items stood at EUR 144.7 (135.8) million and therefore grew at a faster rate than sales in percentage terms. Again after adjusting for non-recurring items, the adjusted EBIT margin reached 12.3% compared with 12.0% in 2012.

Up by EUR 1.7 million, net foreign exchange losses were higher than in the previous year and outweighed the improvement in interest income. Accordingly, net finance costs rose to EUR 15.7 (15.0) million in 2013.

Against this backdrop, the ElringKlinger Group saw its earnings before taxes expand by 20.7% to EUR 149.2 (123.6) million. Even after adjusting for the assumption of control of ElringKlinger Marusan Corporation, the Group achieved an increase of 6.5% to EUR 131.6 million.

Tax expenses rose at a less pronounced rate than earnings before taxes, up 10.5% to EUR 38.0 (34.4) million. Correspondingly, the tax rate of the ElringKlinger Group fell to 25.5% (27.8%), which was attributable primarily to the positive effect of assumption of control and the associated transition to full consolidation of ElringKlinger Marusan Corporation. This non-tax effect was partially offset by adjustments to the carrying amount for tax loss carryforwards recognized by the Group.

New record for net income

On this basis, the ElringKlinger Group's net income for 2013 climbed to EUR 111.2 (89.2) million. After adjusting for the non-recurring contribution to earnings generated by the assumption of control at ElringKlinger Marusan Corporation, net income was up 10.4% at EUR 98.5 (89.2) million.

Net income after non-controlling interests stood at EUR 105.4 (85.7) million. Excluding one-time income from the assumption of control at the Group's Japanese subsidiary, net income after non-controlling interests for the period was 8.2% higher at EUR 92.7 (85.7) million.

As a result, earnings per share for 2013 reached EUR 1.66 (1.35). After adjusting for the non-recurring effect of assumption of control, the figure came to EUR 1.46 (1.35). As of December 31, 2013, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Dividend to rise by 11%

ElringKlinger AG is committed to a consistent dividend policy that reflects current earnings performance and allows shareholders to participate accordingly in the company's success. In light of this policy, the Management Board and Supervisory Board will propose to the Annual General Meeting scheduled for May 16, 2014, a dividend of EUR 0.50 (0.45) per share.

Compared with the dividend paid out for the previous year, the proposal represents an increase of 11.2%. The total dividend payout for fiscal 2013 stands at EUR 31.7 million, up from EUR 28.5 million. Based on adjusted net income attributable to shareholders of ElringKlinger AG, the payout ratio is 34.2% compared with 33.3% for fiscal 2012.

Financial Position

With an equity ratio of 50.5% (50.6%), the ElringKlinger Group remained solid as of December 31, 2013, in terms of its financial position.

Total assets grow to EUR 1,395 million

As of December 31, 2013, total assets were up by 10.0% at EUR 1,395.3 (1,268.6) million. The year-on-year increase in total assets reflects the forward momentum generated by the Group in the period under review. It is also attributable to non-recurring factors associated with the full consolidation of ElringKlinger Marusan Corporation, Japan, which had previously been accounted for in the scope of consolidation on a proportionate basis, and the full acquisition of former joint venture ElringKlinger Korea Co., Ltd.

In aggregate, the aforementioned effects of consolidation added around EUR 70 million to total assets. The largest proportion was attributable to ElringKlinger Marusan Corporation. Excluding these effects, total assets would have expanded by 4.5%. This compares with acquisition-adjusted growth of 3.8% for the ElringKlinger Group.

The growth-induced increase in total assets was mainly due to higher working capital (inventories and trade receivables) as well as an expansion of property, plant and equipment on the back of larger investments. Investments in property, plant and equipment as well as intangible assets, which were ramped up in the fourth quarter in particular, totaled EUR 127.2 (114.4) million and were thus well in excess of depreciation and amortization of EUR 76.0 (79.4) million. The share of property, plant and equipment in total assets fell slightly from 44.5% to 43.9%, whereas intangible assets rose to 12.7% (10.7%) of total assets, mainly due to the non-recurring effects of changes to the scope of consolidation.

Higher working capital

Compared to the previous year, inventories rose by EUR 27.8 million to EUR 257.4 (229.6) million as of December 31, 2013. This was attributable primarily to higher inventories of tools, which increased by EUR 21.9 million and related mainly to new production ramp-ups planned by the Group. Excluding these effects, capital tied up in inventories would have increased by just 2.6%, i.e. at a slower rate relative to revenue growth.

By contrast, the percentage increase in trade receivables compared to the previous year, was more pronounced than that of sales revenue up by 11.6% to EUR 207.5 (185.9) million. However, the rate of expansion with regard to receivables was reined back substantially over the course of the year. In the fourth quarter alone, receivables – as announced in the interim report as of September 30, 2013 – were scaled back by EUR 12.5 million. This was achieved despite the effects of full consolidation of ElringKlinger Marusan Corporation.

Equity ratio remains above 50%

As of December 31, 2013, equity accounted for by the ElringKlinger Group rose to EUR 704.6 (642.2) million. The equity ratio remained largely unchanged on the previous year at a solid 50.5% (50.6%). This is attributable mainly to an increase in revenue reserves by EUR 76.9 million as a result of higher appropriations from net income. The contraction in other reserves, down to EUR -5.9 (4.9) million mainly as a result of foreign exchange translation differences recognized in this item, had a contrary effect.

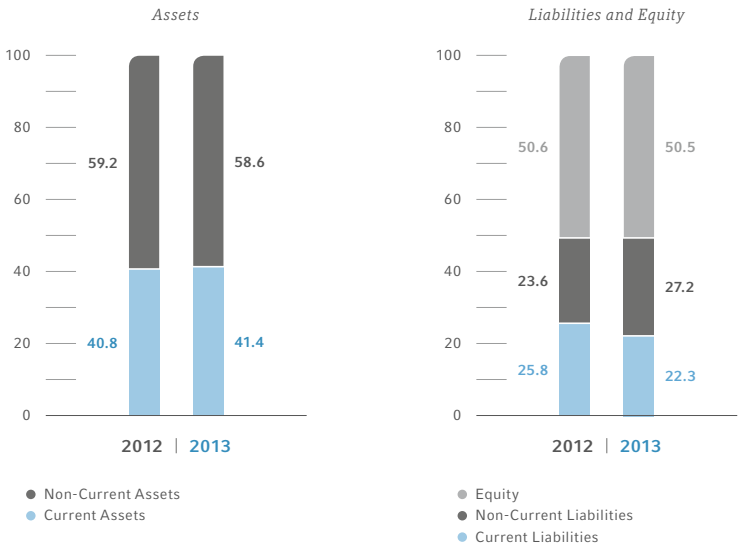
Lower pension provisions

An increase in the actuarial interest rate applied to the calculation of pension provisions produced actuarial gains, which in turn led to a reduction in the amount required for provisions. Consequently, pension provisions fell to EUR 92.3 (99.6) million as of December 31, 2013. This adjustment had no impact on earnings performance, as it was accounted for directly in equity without affecting profit or loss.

Net debt at EUR 295 million

The Group's financing requirements were covered in part by cash flow from operating activities and beyond that by taking on bank borrowings and other loans. Current financial liabilities were restructured into non-current financial liabilities in order to avoid a possible rise in interest rates at the short end of the interest rate spectrum. Therefore, there was a significant shift within financial liabilities towards longer maturities (1 to 5 years). While non-current financial liabilities were expanded to EUR 237.3 (131.0) million, current financial liabilities were scaled back from EUR 183.7 million to EUR 120.9 million.

BALANCE SHEET STRUCTURE ELRINGKLINGER GROUP
in % of Balance Sheet Total



As a result, the Group's net debt (non-current and current financial liabilities less cash) rose to EUR 295.3 (260.4) million.

Trade payables rose by 18.1% to EUR 68.6 (58.1) million as of December 31, 2013. This was attributable primarily to the significant expansion in revenue from sales in Asia as well as invoices received for construction work, e.g. for the new plant in Thale, Germany.

In total, other current and non-current liabilities amounted to EUR 94.6 (66.2) million at the end of 2013. This significant year-on-year increase was mainly due to the contractual agreement on the assumption of control over ElringKlinger Marusan Corporation. In this context, the Group secured the option to acquire in full the remaining interests in ElringKlinger Marusan Corporation at a later stage. The future purchase price obligation with regard to 50% of the interests, amounting to EUR 37.1 million, was recognized at its fair value as a liability.

Cash Flows

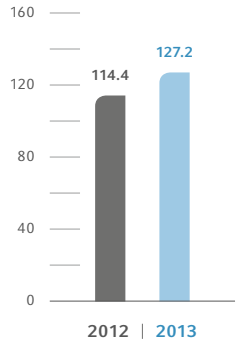
Cash flow from operating activities up 7% on the previous year

In 2013, the ElringKlinger Group generated net cash from operating activities of EUR 120.0 (112.3) million. Relative to sales revenue, this corresponds to a rate of 10.2% (10.0%). In this context, it should be noted that non-recurring exceptional items relating to the step acquisition of ElringKlinger Korea Co., Ltd. and the assumption of control over Japanese joint venture ElringKlinger Marusan Corporation in the financial year under review were non-cash in nature and thus had no influence on cash flow.

Earnings before taxes, which include the exceptional items outlined above, rose to EUR 149.2 million, up from EUR 123.6 million in the previous year. In the Group statement of cash flows these non-recurring gains were eliminated in other non-cash expenses and income, the net total of which amounted to EUR -14.1 (1.7) million.

At EUR 76.0 (79.4) million, depreciation, amortization and write-downs were slightly lower than in the previous year. This decline was partly due to a reduction in depreciation of tools. By contrast, other depreciation, amortization relating to intangible assets and property, plant and equipment (without tools) increased in the period under review. It should also be taken into consideration that a substantial proportion of cash outflows for investments in property, plant and equipment and investment property was attributable to land and buildings. After a total increase in Group provisions by EUR 4.7 million in 2012, an amount of EUR 1.3 million attributable to the reversal or use of provisions was deducted in 2013 when determining cash flow from operating activities. The reduction is mainly due to lower other provisions.

PAYMENTS FOR INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS
in € million



Overall, the change in working capital* had a negative effect on operating cash flow equivalent to EUR 54.5 million. This was less pronounced than in the previous year (EUR -57.4 million).

The marked increase in inventories, trade receivables and other assets not attributable to investing or financing activities by EUR 51.6 (22.4) million in total was primarily the result of a cash-effective increase in tool inventories, up by EUR 21.9 million, and an expansion of trade receivables by EUR 21.8 million. By contrast, the increase in inventories (without tools) was less pronounced in percentage terms than the level of growth in sales revenue, which was the result of active inventory management.

Despite higher production volumes, trade payables as well as other liabilities not attributable to investing or financing activities were scaled back by EUR 2.9 million in total, compared to a reduction by EUR 35.0 million in the previous year. This was attributable to tapered deferrals and the reduction in receivables from tool-related revenue, whereas trade payables expanded slightly.

Substantial rise in capex for investments in second half

At EUR 115.6 million, payments relating to investments in property, plant and equipment and investment property were in excess of last year's figure of EUR 103.1 million. They were also higher than the original target of around EUR 100 million. In addition, investments in intangible assets amounted to EUR 11.6 (11.3) million. In the fourth quarter of 2013, investments totaled EUR 45.2 million, compared to an average of EUR 27.3 million in the first three quarters of the year. Consequently, the investment ratio (investments as a percentage of sales revenue) for the ElringKlinger Group rose to 10.8% (10.1%).

* Change in inventories, trade receivables and other assets not attributable to investing or financing activities plus change in trade payables as well as other liabilities not attributable to investing or financing activities

The largest proportion of investments made over the course of 2013 was attributable to the establishment or expansion of manufacturing capacity in preparation for new series production. The focus was on the international subsidiaries. As several investment measures were initiated as late as the fourth quarter, these items have been accounted for as property, plant and equipment under construction in the statement of financial position.

Among the largest individual investments within the Group were the purchase of land and the erection of an additional production building at the site in Sevelen, Switzerland, operated by ElringKlinger Abschirmtechnik (Schweiz) AG. Production machinery was purchased for new, larger-scale projects centered around thermal and acoustic shielding components.

The volume of investments directed at the subsidiaries in Asia reflects the growing importance of the Group's Asian business in the coming years. The Chinese sites in Suzhou and Changchun saw additional land purchases and a significant expansion of production, which included the procurement of additional new machinery and equipment. A substantial proportion of payments for investments relating to property, plant and equipment was attributable to capital expenditure on machinery and equipment for the Shielding Technology and Plastic Housing Modules/Elastomer Technology divisions.

Notable expansion investments were also made in the form of a newly constructed plant at ElringKlinger Korea Co., Ltd. In the fourth quarter of 2013 alone payments attributable to this site were in excess of EUR 6.0 million.

ElringKlinger also anticipates significant growth in the majority of its divisions on the North American continent in the coming years. The US subsidiary ElringKlinger USA, Inc. in Buford bought additional land to expand its site and built an additional production and warehouse facility. Committed to improving profitability, the Group is conducting an extensive automation program at this site, for which most of the cash outflows also occurred in the fourth quarter of 2013. Machine assets were extended to include new, highly efficient punching systems. Elsewhere, Elring Klinger México, S.A. de C.V. saw the introduction of a production line for plastic housing modules, totaling almost EUR 7.0 million. At the Toluca site, 2014 will – among other things – mark the start of production of a new lightweight cam cover for a US-based car manufacturer.

Payments for the acquisition of subsidiaries (less cash) amounted to EUR 3.2 (4.1) million and were attributable to the purchase of the remaining 50% interest in former South Korean joint venture ElringKlinger Korea Co., Ltd. In the previous year, this item had mainly included the takeover of former ThaWa GmbH, Germany, and the associated entity AGD Group Entwicklungs- und Vertriebs GmbH, Germany.

As a result of the visible increase in the Group's investment volume, particularly in the fourth quarter of 2013, net cash used in investing activities totaled EUR 128.0 (108.2) million in 2013. As a consequence, free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions) was in slightly negative territory at EUR -4.8 million, compared to positive free cash flow of EUR 8.2 million in the previous year.

Increased funding requirements reflected in cash flow from financing activities

In 2013, payouts to shareholders and non-controlling interests of ElringKlinger AG fell to EUR 29.7 (37.9) million. This was attributable primarily to the lower dividend distribution by ElringKlinger AG, as the dividend payout for the previous year had included a one-time bonus in respect of the sale of the Ludwigsburg industrial park in 2011.

The acquisition of an additional 25% interest in Swiss exhaust gas specialist Hug in the third quarter of 2013 as well as the full takeover of ElringKlinger South Africa (Pty) Ltd., Johannesburg, and Elring Parts Ltd., Gateshead, United Kingdom, produced an outflow of EUR 5.9 (0.7) million in total with regard to payments made to non-controlling interests.

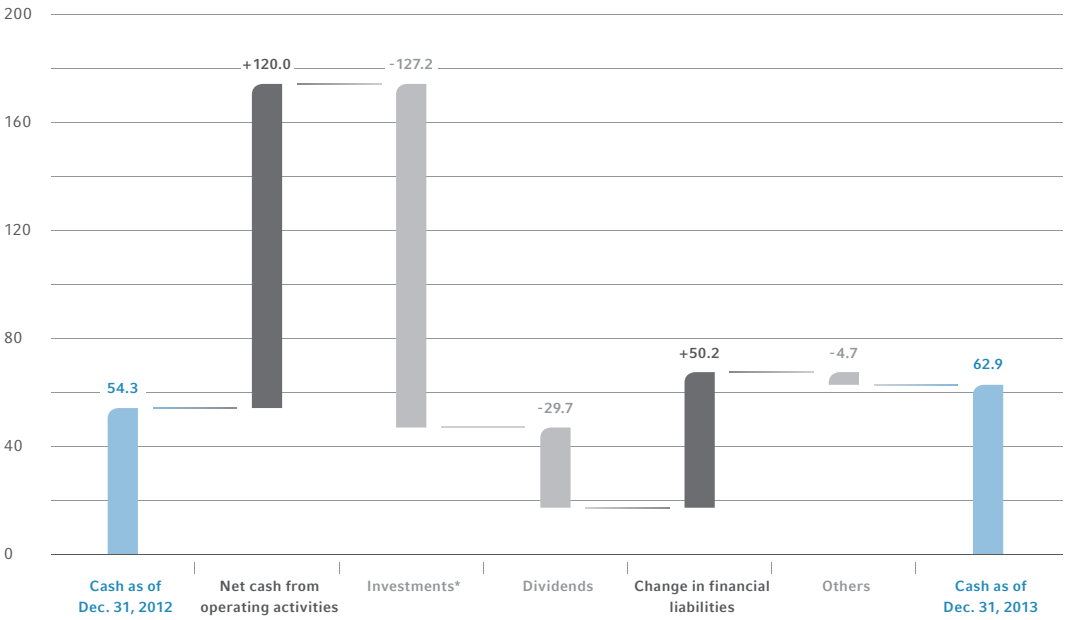
The ElringKlinger Group took on financial liabilities that resulted in a cash inflow of EUR 152.0 (68.7) million. In parallel, loan repayments of EUR 101.8 (43.7) million were made in the period under review. In net terms, financial liabilities rose by EUR 50.2 (25.0) million.

Net cash from financing activities amounted to EUR 14.6 (-13.3) million.

As of December 31, 2013, cash held by the ElringKlinger Group amounted to EUR 62.9 (54.3) million.

CHANGE IN CASH 2013

in € million



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

Financial Performance, Net Assets and Cash Flows of ElringKlinger AG

In 2013, the Group management report and the management report of ElringKlinger AG have been brought together in a combined format. The business performance for ElringKlinger AG, as outlined below, is based on its annual financial statements, which have been prepared in accordance with the provisions set out in the Commercial Code (Handelsgesetzbuch) and the Stock Corporation Act (Aktiengesetz).

Sales and Earnings Performance of ElringKlinger AG

Strong revenue growth despite 25-year low for car sales in Western Europe

Sales at ElringKlinger AG showed a further increase in 2013 as global vehicle production gathered pace and a number of new products were introduced to the market. As in the previous year, the company managed to offset the adverse effects of a sluggish Western European car market by drawing on its broad customer base and taking advantage of the high proportion of sales it derives from supplying German premium car makers, with their strong record of exports. Sales rose by 7.9% to EUR 508.4 (471.1) million.

The merger of former Hummel-Formen GmbH, Lenningen, Germany, into ElringKlinger AG as of January 1, 2013, produced a revenue contribution of EUR 7.5 million. Eliminating the effects of acquisition, revenue growth amounted to 6.3%. This stands in contrast to a 0.1% decline in car production within the region of Western Europe, which is by far the most important sales market for ElringKlinger AG.

Domestic business benefits from strong export-driven demand

As in previous years, growth in global automobile production in 2013 was fueled by buoyant customer demand in North America and Asia. ElringKlinger AG itself is only represented to a small extent in these markets; the largest proportion of business in these regions is conducted by the various subsidiaries of ElringKlinger AG. However, as many of the vehicles and engines manufactured in Germany are exported to Asia and North America, ElringKlinger AG benefits indirectly – as does the domestic automotive industry as a whole – from the dynamic growth rates achieved in these markets.

Sales revenue generated by ElringKlinger AG domestically in 2013 rose by 10.4% to EUR 198.2 (179.6) million. Thus, the percentage share of domestic sales grew to 39.0% (38.1%). Owing to the protracted weakness in some of the export markets, ElringKlinger AG saw a dip in revenue growth abroad. Sales revenue generated in non-domestic markets rose by 6.4% to EUR 310.2 (291.5) million in the period under review. Correspondingly, the share of foreign sales as a percentage of total revenue generated by ElringKlinger AG fell to 61.0% (61.9%).

Original Equipment as growth driver

The lion's share of revenue growth at ElringKlinger AG in 2013 was attributable to Original Equipment. In this segment, sales revenue increased by 9.9% to EUR 398.3 (362.3) million. Correspondingly, in relation to total revenue the share of Original Equipment sales rose to 78.3% (76.9%). Growth within this area was attributable mainly to new product roll-outs and positive business development in the area of Exhaust Gas Purification. The Thale site operated by ElringKlinger AG was instrumental in expanding intragroup supplies to Hug Engineering AG, Switzerland, and Hug Engineering Inc., USA, by a considerable margin.

With the exception of Shielding Technology, all the divisions of ElringKlinger AG recorded an increase in sales revenue in 2013. The Specialty Gaskets, Plastic Housing Modules and Exhaust Gas Purification divisions all recorded double-digit growth rates, as did the new E-Mobility division, albeit from a low base.

Modest growth in Aftermarket segment on the back of sluggish economic performance in Europe

In contrast to Original Equipment, the Aftermarket segment saw its sales revenue grow at a much slower rate of 1.2% to EUR 109.6 (108.3) million. As a result, the share of this segment in total revenue generated by ElringKlinger AG declined to 21.6% (23.0%).

In response to the difficult economic situation and high levels of unemployment in some of the Southern and Western European countries, many car owners have postponed essential repairs to the largest extent possible. Additionally, the average age of vehicles in the small-car segment is still relatively low as a result of scrappage programs introduced by many European countries in 2009 as a purchase incentive. This also means that fewer repairs are needed. In turn, revenues have been stagnating in Western Europe. By contrast, the Aftermarket segment achieved solid growth in the key export markets of Eastern Europe and Africa.

Inventories driven up by tool stocks

Inventories of finished goods and work in progress rose by EUR 15.1 (9.2) million in the year under review. This was attributable primarily to a larger volume of tools.

Pay hike from collective bargaining leads to disproportionately large increase in personnel expenses

Over the course of 2013 the number of people employed at ElringKlinger AG rose by 242 or 11.8% to 2,301. In this context, the amalgamation of Hummel-Formen GmbH effective from January 1, 2013, added 121 employees to the workforce. The remainder was attributable to business expansion and efforts to strengthen the E-Mobility division. The annual average headcount rose by 10.1% to 2,240 (2,035).

In the period under review, personnel expenses rose by 13.0% in total to EUR 139.2 (123.2) million. This was attributable not only to higher staffing levels but also, in particular, to the wage increase of 3.4% agreed as from July 2013 in respect of workers covered by collective pay agreements. This led to a significant increase in costs at the sites operated by ElringKlinger AG.

Furthermore, the staff profit-sharing bonus agreed for the 2012 financial year, amounting to EUR 1,300 (1,150) per employee, produced additional expenses of EUR 2.9 (2.5) million.

Cost of materials increases slightly faster than revenue

Outpacing revenue growth slightly in the year under review, the cost of materials rose to EUR 244.5 (224.2) million in 2013. This was attributable mainly to more expansive tool stocks accounted for in inventories. By contrast, raw material prices remained relatively stable and therefore had no significant influence on the development of cost of materials.

Further reduction in depreciation and amortization

After the large-scale investments made in previous years, investment volumes relating to tangible fixed assets and intangible fixed assets returned to more normal levels again in 2013 and amounted to EUR 39.8 (50.6) million.

In total, amortization and depreciation of intangible fixed assets and tangible fixed assets fell by 7.1% to EUR 31.6 (34.0) million. Excluding the effect of diminishing depreciation of tools, other amortization and depreciation would have increased by 24.9% to EUR 21.1 (16.9) million.

Other operating income buoyed by write-ups

In total, other operating income rose substantially to EUR 37.8 (25.9) million. This figure includes write-ups of EUR 9.0 (5.5) million in respect of financial assets. They relate to the subsidiary Elring Klinger (Great Britain) Ltd., Redcar, United Kingdom, and are the result of a visible improvement in this company's sales and earnings performance. In the previous year, write-ups on financial assets had been accounted for in income from long-term equity investments. The comparable amounts for the preceding year have been adjusted appropriately.

Additionally, other operating income includes grants from government-funded programs amounting to EUR 7.0 (3.7) million, which are attributable primarily to ongoing research and development projects in the E-Mobility division. In parallel with this income, the company incurred related expenses for research and development activities.

At EUR 4.5 (0.7) million, income from insurance compensation also rose substantially year on year. At the same time, however, ElringKlinger AG incurred higher expenses relating to warranties, which have been recognized in other operating expenses.

Disproportionately large increase in other operating expenses

Other operating expenses rose to EUR 76.6 (63.6) million. This was attributable mainly to expenses for warranties amounting to EUR 5.3 (1.7) million, which are counterbalanced to a certain extent by income from insurance compensation of a similar amount.

Operating result before non-recurring items up 8%

The operating result of ElringKlinger AG (not including the write-ups on financial assets accounted for in other operating income) rose by 3.4% to EUR 60.9 (58.9) million in 2013.

Exceptional non-recurring items recognized in fiscal 2013 amounted to EUR -2.7 (0.0) million and include net foreign exchange losses of EUR 1.2 million and expenses of EUR 1.5 million associated with taping new markets in the Aftermarket segment. Adjusted for these non-recurring factors, the operating result of ElringKlinger AG rose by 8.0% to EUR 63.6 (58.9) million. This corresponds to a stable margin of 12.5% (12.5%).

Income from long-term equity investments benefits from lower write-downs

Current income from subsidiaries fell to EUR 16.9 (21.6) million. In parallel, however, write-downs relating to financial assets were considerably lower. In 2013, the carrying amount of the investment in HURO Supermold S.R.L., Romania, was adjusted by EUR 1.2 million, whereas write-downs accounted for in the previous year had totaled EUR 8.0 million.

By contrast, ElringKlinger AG performed write-ups of EUR 9.0 (5.5) million relating to financial assets (recognized in other operating income), which relate to the UK-based subsidiary. On balance, write-downs and write-ups produced a positive (previous year: negative) earnings effect of EUR 7.8 (-2.5) million.

In total, income from long-term equity investments thus improved by 29.3% year on year and stood at EUR 24.7 (19.1) million.

Further improvement in net interest result

Despite net debt rising to EUR 250.6 (220.2) million, lower interest rates led to a reduction in interest expenses, down to EUR 9.2 (9.9) million. In total, the net interest result improved to EUR -6.7 (-7.2) million.

Adjusted income from ordinary activities up by 15%

Due to improvements to the net interest result and income from long-term equity investments, income from ordinary activities grew at a more pronounced rate than the operating result. It improved by 11.4% to EUR 78.9 (70.8) million.

Adjusted for the non-recurring effects outlined above, income from ordinary activities was up by 15.3% in 2013 at EUR 81.6 (70.8) million.

Net income up 6.5%

Income taxes rose substantially in 2013, up from EUR 14.0 million to EUR 18.4 million. The tax rate for 2013 (income taxes in relation to income from ordinary activities) stood at 23.3% (19.8%).

Due to the higher tax rate, the increase in net income recognized by ElringKlinger AG is less pronounced than the increase in income from ordinary activities. Net income improved by 6.5% to EUR 60.2 (56.5) million.

Dividend increase of 11%

After allocating EUR 28.5 (28.0) million to other revenue reserves, the net retained earnings (i.e. distributable profit) of ElringKlinger AG, from which dividend payments are distributed, amounted to EUR 31.7 (28.5) million.

The Management Board and the Supervisory Board will propose to the Annual General Meeting scheduled for May 16, 2014, a dividend of EUR 0.50 (0.45) per share, which represents a year-on-year increase of 11.1%. The total dividend payout for fiscal 2013 stands at EUR 31.7 million, up from EUR 28.5 million. Calculated on the basis of net income of ElringKlinger AG, the payout ratio amounts to 52.7% (50.4%).

Net Assets of ElringKlinger AG

With an equity ratio of more than 50% and positive net cash from operating activities, ElringKlinger AG remained solid in terms of its financial position and cash flows as of December 31, 2013.

Total assets up 9%

The increase in total assets by 9.2% or EUR 76.5 million to EUR 912.4 (835.9) million reflects the level of growth generated by ElringKlinger AG. The increase in total assets was attributable to higher working capital as well as more expansive financial assets and tangible fixed assets. The merger of former Hummel-Formen GmbH into ElringKlinger AG as of January 1, 2013, added EUR 18.3 million to total assets.

Investments drive up fixed assets

Tangible fixed assets rose by EUR 18.2 million to EUR 260.7 (242.5) million in 2013. This was primarily due to the effects of the merger of former Hummel-Formen GmbH into ElringKlinger AG (EUR 12.1 million). In addition, investments of EUR 37.7 (49.0) million in tangible fixed assets were well in excess of the corresponding depreciation of EUR 30.3 (33.3) million. The majority of investments in tangible fixed assets are attributable to technical equipment and machinery as well as advance payments and assets under construction.

In 2013, financial assets rose by EUR 10.9 million in total to EUR 374.0 (363.1) million. This is attributable on the one hand to write-ups relating to the subsidiary Elring Klinger (Great Britain) Ltd., Redcar, United Kingdom, and on the other hand to the additional ownership interest acquired in Hug Engineering AG, Switzerland, and ElringKlinger Korea Co., Ltd., Gumi, Korea. By contrast, loans to affiliated companies were scaled back by EUR 14.0 million due to the repayment of a loan to ElringKlinger Abschirmtechnik (Schweiz) AG and the set-off of a loan to former Hummel-Formen GmbH.

The increase in intangible fixed assets by EUR 2.2 million is also attributable mainly to the effects of the merger of former Hummel-Formen GmbH into ElringKlinger AG and primarily relates to goodwill of EUR 1.4 million.

In total, fixed assets rose by 5.1% to EUR 640.8 (609.5) million as of December 31, 2013.

Growth-induced increase in working capital

At the end of 2013, inventories held by ElringKlinger AG stood at EUR 112.6 (93.3) million. The year-on-year increase is mainly due to changes in the way tools are accounted for by the company effective from 2011. Tool stock included in inventories rose by a further EUR 15.0 million. Excluding these effects, inventories would have increased at a less pronounced rate relative to sales.

Trade receivables and other assets increased by EUR 26.5 million in total and stood at EUR 158.3 (131.8) million as of December 31, 2013. Alongside higher trade receivables fueled by business expansion, ElringKlinger AG saw an increase in receivables from affiliated companies in particular.

Current assets totaled EUR 271.1 (225.9) million as of December 31, 2013, which corresponds to 29.7% (27.0%) of total assets.

Solid equity ratio of 53%

Following an allocation of EUR 28.5 million from net income, revenue reserves increased to EUR 269.1 (240.6) million in 2013. ElringKlinger AG's net retained earnings totaled EUR 31.7 million in 2013, compared to EUR 28.5 million in the previous year. In total, shareholders' equity at ElringKlinger AG rose to EUR 485.0 (453.3) million. Correspondingly, the equity ratio fell slightly to 53.2% (54.2%) but still remained at a solid level.

Provisions up slightly

Other provisions rose mainly as a result of higher provisioning for services outstanding with regard to tools. In combination with a slight rise in provisions for pensions, this led to an increase in provisions to EUR 93.7 (87.9) million in total.

Higher liabilities

Liabilities were up as of December 31, 2013, at EUR 323.8 (285.6) million. This corresponds to 35.5% (34.2%) of total equity and liabilities.

The year-on-year increase was mainly due to a rise in liabilities to banks to EUR 250.8 (221.0) million. This was attributable primarily to the growth-induced expansion of working capital and larger investments made in financial assets.

Cash Flows of ElringKlinger AG

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.

Year-on-year decline in cash flow from operating activities

Despite an improvement in net income, cash flow from operating activities fell to EUR 39.4 (61.1) million, as a significant proportion of the company's growth in profit was attributable to lower non-cash depreciation and higher write-ups relating to financial assets.

The year-on-year decline in net cash from operating activities was mainly the result of higher trade receivables, more expansive tool inventories and lower deprecitation for tools. This was only partially offset by higher depreciation relating to tangible fixed assets (without tools) and an increase in provisions.

Reduced outflow of cash for investing activities

Net cash used in investing activities fell to EUR 50.4 (56.8) million. Among the positive factors were a significant increase in proceeds from the disposal of financial assets, primarily due to the repayment of a loan granted to ElringKlinger Abschirmtechnik (Schweiz) AG. The lower outflow of cash for investments in tangible fixed assets (without tools), down to EUR 33.4 (46.0) million, also had a favorable impact.

Among the largest investments in 2013 were payments relating to construction work on the new plant in Thale. Additionally, ElringKlinger AG invested in the purchase of a building and land in preparation for a new center for the sizing and packing of spare part sets at the subsidiary ElringKlinger Logistic Service GmbH, based in Rottenburg/Neckar. Additionally, funds were invested in a milling machine for tool engineering at the site in Lenningen and in a new press at the plant in Runkel.

By contrast, cash flow was impacted by payments relating to investments in financial assets, which rose to EUR 25.2 (7.6) million in 2013. These payments are attributable mainly to additional interests acquired in Hug Engineering AG and in ElringKlinger Korea Co., Ltd.

Improvement in cash flow from financing activities

In 2013, the dividend payout to shareholders of ElringKlinger AG fell to EUR 28.5 (36.7) million. The prior-year dividend payment of EUR 0.58 per share had included a one-time bonus of EUR 0.18 per share in respect of the sale of the Ludwigsburg industrial park in 2011.

In 2013, the company recorded an outflow of EUR 38.6 million with regard to short-term bank borrowings, after an inflow of EUR 28.3 million in the previous year. By contrast, the net amount of long-term loans taken on by the company was EUR 62.1 (2.9) million.

In parallel, ElringKlinger AG took on loans and time deposits of EUR 11.8 (5.3) million from affiliated companies. The provision and repayment of loans and time deposits to affiliated companies produced a net inflow of EUR 0.8 (-3.6) million.

Thus, cash flow from financing activities improved from EUR -3.9 million a year ago to EUR 7.7 million in 2013.

Events after the Reporting Period

No significant events requiring disclosure occurred after the reporting period.

Employees

Staff numbers rise on sales growth and expansion in Asia

Production volumes for the Group continued to increase in 2013, while sales growth necessitated an expansion of capacity despite higher productivity. At the same time, to give one example, the production of completely new parts began in the E-Mobility division.

The overall number of employees within the ElringKlinger Group rose by 7.2% to 6,716 (6,263). As of December 31, 2013, the global headcount for the Group as a whole was up by 453 on the figure for the preceding year; the annual average number of employees was 6,543 (6,314) people at Group level.

The full incorporation of subsidiaries played a key role in the relatively large increase in employee numbers. The acquisition of all ownership interests in ElringKlinger Korea Co., Ltd. early in 2013 and the assumption of control relating to the Japanese joint venture ElringKlinger Marusan Corporation with effect from December 31, 2013, boosted the Group's headcount by 134. Disregarding these effects, the number of employees rose by 319 or 5.1%, marginally outpacing the increase in sales revenues.

Percentage share of domestic workforce suppressed by market factors

Whereas new car registrations increased steadily around the world, Western Europe and the German market sustained heavy losses. Despite this, the number of employees at the German sites of the ElringKlinger Group rose to 3,055 (2,918) as of December 31, 2013.

As of December 31, 2013, 2,301 (2,059) staff members were working at the sites of parent company ElringKlinger AG in Dettingen/Erms, Gelting, Runkel, Langenzenn, Lenningen and Thale. The merger of subsidiary Hummel-Formen GmbH into ElringKlinger AG was largely responsible for the 11.8% increase; the workforce of ElringKlinger AG increased by 115 as a result. By the end of the year, 602 (592) people worked for ElringKlinger Kunststofftechnik GmbH, the largest domestic subsidiary.

Owing to the market-driven rise in sales within the majority of international markets, the proportion of staff based in Germany declined to 45.5% (46.6%) in 2013. The Group thus continued to employ almost half of its workforce at home in 2013, even though the German market contributed only 30.7% of the Group's sales revenue.

Increasingly global profile

The focus of demand continued to shift towards the emerging markets during 2013, and ElringKlinger further expanded its production sites in Asia in particular to meet the local business requirements. Aside from increasing capacity at the Chinese plants in Changchun and Suzhou, ElringKlinger opened its first factory in the Indonesian city of Karawang in 2013. Most notably, employee numbers at the production sites in China rose by 11.0% to 575 (518). ElringKlinger also increased its staff capacity in Indonesia over the course of the year. The strong level of revenue growth achieved by the North American subsidiary ElringKlinger USA, Inc. in Buford was underpinned by a rise in the company's staffing level.

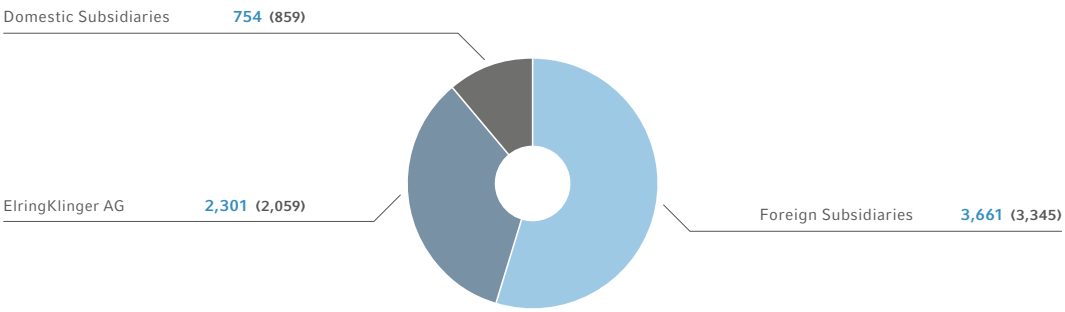
As a consequence, employee numbers abroad rose to 3,661 (3,345) as of December 31, 2013, equivalent to a proportion of 54.5% (53.4%) of the Group workforce.

While staffing levels increased in nearly all Group companies, integration measures and the poor demand situation in Western Europe resulted in staff downsizing at ElringKlinger Meillor SAS, which is based in the French town of Nantiat. The workforce at Canadian subsidiary ElringKlinger Canada, Inc. was also adjusted in response to changes in the overall product mix.

For more information on staff development and the HR policy of the ElringKlinger Group, with relevant key indicators, please refer to the subsequent section on "Sustainability".

ELRINGKLINGER GROUP EMPLOYEES WORLDWIDE

as at December 31, 2013 (prior year)



Sustainability

Sustainability is a key factor in the economic success of ElringKlinger AG. For the company, that involves systematically translating its business plans into sustainable actions, with a focus on both the environmental efficiency of all the Group's activities and on its social responsibility towards the workforce and society as a whole.

ElringKlinger publishes a separate Sustainability Report detailing its commitments in these areas. The second of these, published in 2013 under the heading "Shaping the Mobility of Tomorrow", can be found on the company's website at **www.elringklinger.de/en/sustainability/csr-report*** and is also available in printed form. The website also contains a wealth of information on the issue of sustainability.

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Capital markets target green investments

Companies with a "green" product range are increasingly attractive to a growing number of investors. In this context, the focus is more and more on sustainable business models and non-financial indicators. ElringKlinger is regularly assessed on these criteria by various rating agencies.

In 2007, it was one of the first automotive suppliers to sign up to the Carbon Disclosure Project, which is currently supported by more than 700 investors with total assets of around USD 87 trillion. In 2013 ElringKlinger was given a rating of 78C. Oekom Research, one of the leading sustainability rating agencies, again gave ElringKlinger "prime" investment status (C+). This puts the company in the top 25 percent, i.e. above the industry average. The prestigious rating agency Sustainalytics placed the Group 4th out of 58 in its 2013 "Automotive Components" ranking. As well as receiving a quality mark for sustainability by DZ Bank, ElringKlinger has been listed in the "DAXglobal Sarasin Sustainability Germany Index" for some years.

Shaping the future of mobility with products from ElringKlinger

As an automotive supplier, ElringKlinger believes its main focus should be on reducing emissions and promoting "green mobility" by developing a wide range of product solutions for the engine, transmission and exhaust system and for electric vehicles. Almost the entire product range has been designed with this goal in mind.

Detailed information on the extent to which ElringKlinger's products contribute directly and indirectly to environmental protection and to sustainable mobility can be found in the **"Research and Development"*** section of this report and on the company's website at **www.elringklinger.de/en/home*** under the heading "Products".

*Cf. page 59

Internetlink

Sustainable products require sustainable production processes. In order to make continuous improvements in these production processes, ElringKlinger AG's central Environmental Management unit regularly compiles a series of key Group-wide indicators that track the use of materials, energy consumption, emissions and waste. Following analysis of the results, action is taken to bring about improvements where required. This often has the effect of reducing costs over the long term.

High quality standards are a key element of any strategy to maximize the resource efficiency of production processes. In this context, with the exception of the new plant in Indonesia, all the ElringKlinger Group's production sites are certified in accordance with the automotive industry standard TS 16949 and/or ISO 9001. The factory in Indonesia is due to be certified in 2014. All the Group's production sites have implemented an environmental management system based on ISO 14001.

Increase in relative CO_2 emissions remains below currency-adjusted sales growth

ElringKlinger had set itself the target for 2013 of reducing its relative (in relation to sales revenue) direct and indirect CO_2 emissions by 3%. Direct CO_2 emissions are those attributable primarily to the procurement or consumption of gas and heating oil, the company's engine testing stations and ElringKlinger AG's own vehicle fleet. Indirect CO_2 emissions are those produced by electricity consumption and air travel.

Overall, the Group's direct CO_2 emissions rose by 2.6% to 23,300 (22,700) metric tons, while indirect CO_2 emissions were 11.7% higher at 65,000 (58,200) metric tons. Total direct and indirect CO_2 emissions stood at 88,300 (80,900) metric tons. This put relative CO_2 emissions for 2013 at 75.1 (71.8) metric tons per EUR 1 million of revenue, 4.6% up on the previous year. However, after adjusting for the negative impact of exchange rates on Group sales revenue, the figure for relative CO_2 emissions was 73.6 metric tons per EUR 1 million, an increase of 2.5% on the previous year. The company was therefore unable to reduce its relative CO_2 emissions in 2013.

This was mainly due to a higher level of both electricity and gas consumption, which rose by 8% and 7% respectively across the Group. The increase in electricity consumption was partly attributable to expansion of the Group's production facilities, e.g. in Buford (USA) and Dettingen/Erms (plastic housing modules). Overall CO_2 emissions were also driven higher by production ramp-ups for entirely new components and a shift in the Group's portfolio towards more energy-intensive products. The rise in gas consumption in 2013 was mainly due to the long, cold spring in Europe.

In 2014, ElringKlinger plans to introduce an energy management system based on ISO 50001 that will help to deliver further sustainable growth. Final certification is scheduled for 2015. At the same time, it intends to manage its energy needs more efficiently by refining the way energy consumption is measured.

The construction of a wind power installation at the Group's Redcar site in the UK should also have a positive long-term impact on emissions. Wind energy captured by the rotor is converted into electrical energy and fed into the electricity grid. At 50%, plants such as this are highly efficient. Redcar's position near the coast makes it an ideal candidate for the production of wind energy. The new 500 kW plant is expected to begin operation in mid-2014 and will generate almost 1,500 MWh of green electricity per year. This will cover around 30% of the site's electricity requirements and deliver an annual saving of approximately 600 metric tons of CO_2.

Two new combined heat and power (CHP) plants built in 2013 at the Group's Dettingen/Erms site in 2013 will also help to save energy. The first of these began operation in 2013, and the second will be connected to the network in 2014. CHPs work on the principle that waste heat from electricity generation can be used for production and other processes and in winter to heat the offices. The CHP is also linked to an absorption cooling system that allows waste heat to be used for cooling purposes in the summer months. The three in-house CHP units in operation at Dettingen/Erms in 2013 have already significantly reduced the site's external energy requirements.

ElringKlinger also focuses on the best possible energy efficiency when it buys new machines and equipment. In 2013, the company acquired two large presses for its factories in China and Mexico. They consume considerably less energy than the previous models.

Low CO_2 emissions are an important criterion in the selection of new company vehicles. In 2013, average CO_2 emissions for the vehicle fleet fell sharply to 145 (157) g/km. This was achieved in part by a policy of regularly updating the vehicle fleet and partly through the purchase of a second, environmentally friendly, plug-in diesel hybrid with CO_2 emissions of just 99 g/km. Two all-electric cars have been ordered from a German premium manufacturer and will join the fleet around the middle of 2014. ElringKlinger has already installed the necessary infrastructure, including recharging points. The company also plans to allow visitors who travel to the site in an electric vehicle to use the recharging points without a fee.

The use of solvents in 2013 rose at a faster rate than sales, mainly because of new product ramp-ups across the Group. Total waste grew in line with the increase in production volume, although water consumption rose by a much smaller proportion. In the reporting year, metal waste – mainly from the stamping processes used in production – accounted for 83% of total waste (2012: 83%). The company collects and sells this metal waste. All waste is removed by an accredited company for recycling or disposal.

THE ELRINGKLINGER GROUP – KEY ENVIRONMENTAL INDICATORS

	2013[1]	2012[2]
Total direct and indirect CO_2 emissions in metric tons	88,300	80,900
CO_2 emissions in metric tons per EUR 1 million in sales	75.1	71.8
Total direct CO_2 emissions in metric tons	23,300	22,700
Of which direct CO_2 emissions from gas, oil, engine test stands, etc. in metric tons	22,600	22,100
Of which CO_2 emissions for vehicle fleet[3] in metric tons	660	580
Total indirect CO_2 emissions in metric tons	65,000	58,200
Of which indirect CO_2 emissions from electricity in metric tons	62,000	55,700
Of which indirect CO_2 emissions from flights[4] in metric tons	3,000	2,500
Absolute energy consumption (electricity, gas and other energy sources) in MWh	240,000	223,500
Absolute energy consumption per EUR 1 million in sales in MWh	204.2	198.3
Of which electricity consumption in MWh[5]	144,200	133,400
Electricity consumption per EUR 1 million in sales in MWh	122.7	118.3
Water consumption in m³	163,400	163,700
Solvents in metric tons	1,060	940
Total waste in metric tons	43,700	42,100
Of which metal waste in metric tons	36,200	35,100

[1] 2013 figures include ElringKlinger Korea Co., Ltd. for first time at 100% (2012: 50%). The new plant in Indonesia will be included from 2014
[2] Prior-year figures adjusted for entities consolidated on a proportionate basis
[3] Vehicle fleet of ElringKlinger AG sites Dettingen/Erms, Gelting, Langenzenn, Runkel, Thale and (since 2013) Lenningen
[4] Air travel attributable to sites in Germany, Switzerland and France as well as centrally recorded flights relating to sites in the UK and US
[5] Excluding output from in-house CHP units

Business success underpinned by HR development – ElringKlinger rated among "top employers"

Well-motivated and committed employees are vital to the company's long-term success. Accordingly, ElringKlinger strives to offer its employees an attractive working environment. By way of example, it has drawn up a Group-wide Code that establishes binding principles for all employees and managerial staff with regard to staff development, pay, working hours, freedom from discrimination, health and safety. The Code can be accessed online at **www.elringklinger.de/en/sustainability/guiding-principles/code-of-ethics***.

Internetlink

In 2013, the company also adopted a Code of Conduct that is intended to serve as both a guide and benchmark for employees on issues such as corruption, conflicts of interest, fair competition, data protection and discrimination. The aim of the Code is to establish and disseminate uniform values and goals across the ElringKlinger Group. The Code of Conduct is also available online at **www.elringklinger.de/en/sustainability/guiding-principles/code-of-conduct***.

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ElringKlinger is keen to ensure that all employees benefit appropriately from the company's success. Following a successful year in 2012, employees at ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH and Elring Klinger Motortechnik GmbH received a bonus of EUR 1,300 (1,150) each.

In order to boost its appeal as an employer, ElringKlinger promotes specific measures that help to reconcile the demands of family and career. The childcare provision organized by ElringKlinger for the first time during the 2013 summer holidays for school-age children proved very popular. The program will be repeated during the holidays in 2014.

Employee satisfaction is also reflected significantly in the company's sickness and staff turnover rates. As in the previous year, the sickness rate for 2013 remained low. Despite the Group's expanding workforce in countries such as China and Brazil, where higher staff turnover is relatively common, the overall staff turnover rate fell to 5.2% (6.7%).

ElringKlinger's appeal as an employer was underlined by the results of a survey in the business magazine FOCUS that placed the company in the list of top employers. With a ranking of 18th in the "Automotive and Supplies" category, ElringKlinger made it into the Top 20 alongside some of the biggest names in the industry. The FOCUS survey was primarily based on criteria such as leadership culture, corporate image, career opportunities and pay. Over 12,000 employees from around 2,000 different companies took part. The views of members of the career network Xing and ratings submitted via the Kununu platform were also taken into account.

A major element of ElringKlinger's HR work involves recruiting talented young people and providing employee training. Staff at ElringKlinger are offered training opportunities to suit their particular needs. These can take the form of further professional training in specific areas (e.g. language courses and software skills) or individual staff development programs. During the year under review, the Group spent a total of EUR 1.0 (1.0) million on training and professional development.

A special training program is in place to prepare talented employees for future leadership roles on both the technical and managerial side. Nine young people embarked on the program in 2013 and are expected to complete it by spring 2014. The concept was revised and extended as recently as 2012.

ElringKlinger has offered both technical and commercial apprenticeships for several decades. Dual work/study programs have also been set up in collaboration with cooperative state universities. Other options available to students at ElringKlinger include internships and opportunities to prepare a bachelor's or master's thesis. In 2013, the company hosted a total of 51 (42) students and interns at various sites in Germany.

THE ELRINGKLINGER GROUP – KEY HR INDICATORS

	as of Dec. 31, 2013	as of Dec. 31, 2012
Absolute number of employees	6,716	6,263
Of which men	70.1%	69.7%
Of which women	29.9%	30.3%
Average number of employees	6,543	6,314
Breakdown by age group		
Less than 30 years old	24.9%	24.3%
30 to 50 years old	56.0%	56.8%
Over 50 years old	19.2%	18.9%
Vocational training ratio[1]	3.9%	3.1%
Interns and thesis students[1]	51	42
Staff turnover rate	5.2%	6.7%
Average number of sick days per employee	9.1	9.4
Employees covered by collective agreements	4,728	4,554
Number of qualification interviews conducted	5,379	4,844
Percentage of part-time employees	4.7%	4.6%
Employees on permanent contracts	5,577	5,433
Number of employees with disabilities	189	189
Number of employees in management positions	525	449
Of which women	64	55
Of which local nationals	476	420
Work-related accidents leading to more than 3 days off work	292	236
Work-related fatalities	0	0
Absolute number of employees		
In partial retirement[1]	76	72
On maternity leave[1]	8	3
On parental leave[1]	24	28
Number of improvement suggestions submitted[1]	289	264
Improvement suggestions successfully implemented[1]	98	75
Improvement suggestions rejected[1]	148	119

[1] Figures based on German sites only. Figures for 2012 have been adjusted

ElringKlinger: Combining global success with local social engagement

ElringKlinger AG makes regular donations to charities. In 2013, the company gave around EUR 116,000 (70,000) to support a range of socially active organizations and projects.

ElringKlinger is also indirectly involved in social causes via Paul-Lechler-Stiftung. This trust is supported by the Lechler families, who are also major shareholders of ElringKlinger AG. Through this connection, each year part of the company's profit is channeled into Paul-Lechler-Stiftung. It supports numerous social projects.

In addition, ElringKlinger has been working closely with the Bruderhaus Diakonie foundation and the associated disabled persons' workshops in Dettingen/Erms for many years. The people with disabilities independently handle complete processes for ElringKlinger's Aftermarket division, including tasks such as the finishing and packing of gasket sets. A digital archiving project launched in 2012 continued its work very successfully in 2013 and expanded the scope of its activities.

ElringKlinger targets reduction in relative CO_2 emissions in 2014

Looking ahead, ElringKlinger will make further contributions towards achieving the goal of sustainable mobility. The Group has set itself the target of cutting its relative CO_2 emissions by a percentage figure at the lower end of the single-digit range. Projects such as the green energy program should help it to achieve this aim.

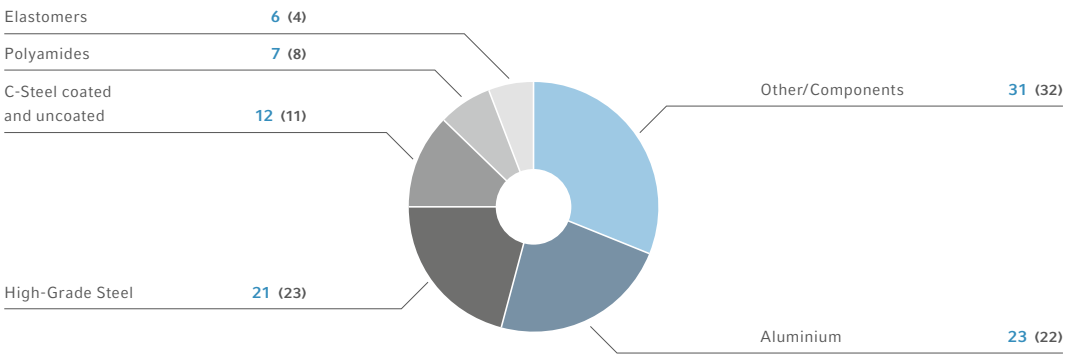
Procurement

The earnings performance of the ElringKlinger Group depends to a large extent on the work of the central purchasing department. At 61.6% of the total cost of sales, spending on materials is the Group's single largest cost item.

The purchasing department is responsible for procuring the materials needed by the company in good time and at the right price. Above all, ElringKlinger has to buy in the raw materials used in production, such as alloyed high-grade steels (especially nickel alloys), aluminum, C-steel, polymer granules, rubber and polytetrafluoroethylene (**PTFE***). In 2013, ElringKlinger AG's central purchasing department at its headquarters in Dettingen/Erms again directed most of the materials procurement activities on behalf of the Group's German and international subsidiaries.

* *Cf. glossary*

RAW MATERIAL CHARGE WITHIN ELRINGKLINGER GROUP 2013
(prior year) in %



Further globalization of purchasing network – Synergies generated by takeovers

One of ElringKlinger's principal objectives in 2013 was to expand its international purchasing structures. The company made consistent efforts to broaden its supplier base, especially in Asia. Thanks to its highly effective global purchasing organization, the Group was able to secure the materials, quality and suppliers it needed at all times in the year under review.

When Hummel-Formen GmbH was merged into ElringKlinger AG in the financial year 2013, its entire purchasing unit was incorporated into the Group's central purchasing department. As a result, ElringKlinger AG's factory in Lenningen now benefits from the lower prices achievable (e.g. for polymer granules) as part of the group of companies.

Total purchasing expands to EUR 724 million

Total purchasing was driven up in 2013 by a substantial increase in production volume within the ElringKlinger Group. Compared with the previous year, it rose by 2.4% to EUR 724.0 (707.0) million. The figure encompasses raw materials, consumables and supplies as well as merchandise for the company's independent aftermarket business and investments in land, real estate and property, plant and equipment. The cost of materials alone was up 2.9% at EUR 520.9 (506.1) million.

Commodity prices largely stable in 2013

Throughout 2013, partly reflecting the wider economic situation, the prices of ElringKlinger's main commodities were at the same level as in the previous year.

While the price of high-grade steel was largely stable and in some cases actually fell by a small margin, polymer granules remained stubbornly expensive. Nickel, a component of high-grade steel alloys, briefly passed the USD 18,000 per ton mark at the beginning of 2013, although it fell back to well below USD 15,000/ton in the second half of the year. There were no significant increases in the price of aluminum.

Wherever possible, ElringKlinger contracts for the supply of materials run for at least a year. This limits the risk of price increases during the year, while ensuring an adequate supply of materials. Shorter contracts have become the norm in the case of polymer granules and, more recently, C-steel. The relatively low prices in place at the end of 2013 provided a solid foundation for contracts to be negotiated for 2014 (**Report on Expected Developments***).

* Cf. page 136

It is not possible to secure alloy surcharge prices under contract. It takes one to three months before downward price adjustments on the commodities exchanges have an effect on ElringKlinger's purchasing costs. ElringKlinger uses derivative instruments to hedge part of its alloyed high-grade steel requirements on a rolling basis.

Declining commodity prices in 2013 also have a direct impact on the revenue generated by the company from scrap materials. ElringKlinger sells the waste metal from production-specific stamping processes. The corresponding revenue fell considerably in the year under review due to the relatively low price achievable for high-grade steel.

Energy costs up 14% – Requirements partly met by company's own CHP plants

The Group's energy consumption in 2013 was pushed up by an increase in production volume. Absolute energy consumption (electricity, gas and other energy sources) stood at 240,000 (223,500*) MWh (**Sustainability***). This represents an increase of 7.4%.

* Cf. page 107

Energy costs rose as a result of this increased level of consumption, exacerbated by higher electricity and gas prices, and reached EUR 20.5 (17.9*) million over the year. Accordingly, the ratio of energy costs to the total cost of sales ended the year slightly higher at 2.4% (2.2%).

In order to secure adequate supplies and allow it to plan ahead, ElringKlinger has signed long-term supply agreements covering a large part of its electricity and gas requirements. In 2013, the company negotiated new contracts with its existing suppliers for the period up to and including 2016. The aim of the Group's electricity and gas purchasing strategy is to achieve flexibility and the best possible prices.

A new combined heat and power (CHP) plant went into operation at the company's Dettingen/Erms site in 2013. There are now three such plants at the main production facility. Altogether, during the year under review, they generated 3,328 MWh of electricity.

Expansion of supplier base in Asia

In response to its strong growth outside Europe, the Group continuously assesses and approves new suppliers around the globe. 2013 brought another increase in the volume of purchases in Asia, especially China. New local suppliers were certified in order to meet the growing production needs of ElringKlinger's Asian subsidiaries. As well as reducing logistics costs, this limits the Group's exposure to currency risks. One of ElringKlinger's two largest aluminum suppliers is a Chinese company. PTFE is increasingly sourced from China and India, predominantly for local use.

* Prior-year figures have been adjusted

*Internetlink

As a general rule, all new suppliers are evaluated and certified on the basis of international ISO standards. They are also expected to comply with the Group's strict rules on quality and environmental protection and to implement its stringent ethical code (**www.elringklinger.de/en/sustainability/guiding-principles/code-of-ethics***). In 2013, following an increase in the Group's production capacity across Asia (especially in China), new international suppliers were evaluated to determine whether they were able to meet these standards.

ElringKlinger uses various methods of optimizing its procurement costs. As well as qualifying new suppliers, the Group's supplier management team promotes ongoing improvements at its existing suppliers. The central purchasing department performs regular analyses of quality and cost (e.g. cost-breakdown analysis) in order to identify the best possible sources for all the companies that make up the Group. This also allows the company to spot price increases in different types of material at an early stage and take appropriate action. ElringKlinger is committed to minimizing its dependency on individual suppliers. In 2013, the Group's top 30 suppliers accounted for approximately 20% (20%) of its total volume of purchases.

With a view to encouraging a collaborative relationship with its business partners on the procurement side, ElringKlinger has established an annual supplier award. The winner in 2013 was H.D. Lenzen Bandverzinkung GmbH & Co. KG, which is based in Hagen in the German region of North-Rhine Westphalia and produces the electrolytically galvanized steel sheets used by ElringKlinger to make specialty gaskets. Suppliers are rated on the basis of criteria such as product quality reliability, and customer focus.

In 2014, the Group's central purchasing department plans to concentrate on the further globalization of its supplier structure, especially in India and China. As well as streamlining the Group's purchasing costs, this is intended to increase supply-side security in these regions. Plans are also in place for the construction of a new container returns depot in Dettingen/Erms to improve the company's freight logistics.

Report on Opportunities and Risks

Risk management system

ElringKlinger has established an extensive worldwide 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 gage 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 Group planning. Within this context, information is retrieved, collated and evaluated in a standardized process. The Management Board bears full responsibility. Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the management of the respective domestic and foreign Group companies as well as the divisions, which is performed on a quarterly basis. It covers developments in all fields relevant to the company that can affect business activity and, in particular, the continuation of the ElringKlinger Group as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, commodities markets and internal risks. This reporting system involves identifying and evaluating all risks and subsequently drafting recommendations on how to prepare for and protect against them. The defined measures are implemented promptly in the areas affected. The head of the Group legal department oversees coordination.

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

Alongside regular reporting requirements, 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 as well as at the Group companies. These audits are conducted by accountancy firms commissioned by ElringKlinger AG. The rationale behind the appointment of external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. Execution of these measures is controlled by the Management Board member whose remit covers this area. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weakness. In the 2013 financial year, audits were conducted

at Elring Klinger (Great Britain) Ltd., Elring Parts Ltd., United Kingdom, and Elring Klinger México S.A. de C.V. as well as within business and service divisions of ElringKlinger AG. None of the audits conducted within this context gave rise to any significant objections. Both statutory regulations and internal requirements were consistently met. The recommendations submitted with regard to potential areas for optimization were put in place or are currently being implemented.

Back in the 2012 financial year, a specialized auditing and consulting firm was commissioned by the Management Board to prepare a compliance risk profile for ElringKlinger, on the basis of which suitable measures were to be defined with regard to the compliance system. The analysis revealed in particular that ElringKlinger presents no specific risk potential. Based on this analysis and other reviews conducted in respect of compliance, together with experience gained within this area, the company introduced a compliance system in 2013, which includes a Chief Compliance Officer who reports directly to the CEO. The code of conduct forms an important part of the compliance system. It sets out binding rules for all employees of the ElringKlinger Group. Among other aspects, the code covers issues such as fair competition, corruption, discrimination and the protection of confidential data. The code is distributed to all employees in the language of the country in which they are based. Staff members, and particularly management personnel, receive training relating to these issues. Further measures are planned in 2014 for the purpose of refining the compliance system.

In order to reduce the liability risk from potential damage cases and any associated losses, the company has taken out appropriate insurance policies. The suitability of these policies, which also cover the Group companies, 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.

Internal control and risk management system with regard to Group accounting

With regard to accounting and external financial reporting within the Group, 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 Group is the responsibility of the Management Board and Supervisory Board. In accordance with the distribution of responsibilities within the Management Board, the Finance department, which is in charge of accounting, comes under the remit of the Chairman of the Management Board. This department, which also includes Corporate Investment Management, controls accounting within the Group and ElringKlinger AG and compiles the information required for the preparation of the consolidated financial statements and the annual financial statements of ElringKlinger AG. Corporate Investment Management is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. The Group companies report to the Head of Finance, who in turn reports to the Chairman of the Management Board.

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

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

All Group companies are obliged to comply with a pre-defined schedule for preparation of the Group financial statements. The same applies to the annual financial statements of ElringKlinger AG. Each Group company is responsible for drawing up its annual financial statements in accordance with local accounting rules, with the exception of the German Group companies, whose financial statements are prepared by the Accounts department at ElringKlinger AG. A reconciliation of balances is conducted in respect of internal Group clearing accounts. Financial reporting by the Group companies is conducted via a separate database containing not only financial data but also information that is of importance to the notes to the consolidated financial statements and the combined management report of the ElringKlinger Group and ElringKlinger AG. The data and information are checked prior to release and consolidation in the respective centralized departments.

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

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

Among the risks that may affect the Group 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 Group accounting process is also incorporated into the ElringKlinger Group's risk management system as a way of identifying accounting-related risks at an early stage, allowing the company to take prompt action to anticipate and address potential risks.

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

Risks

The following table presents an overview of material risks to which the ElringKlinger Group is exposed. The risks were graded according to the probability of occurrence and the potential financial impact. A probability of occurrence of less than 30% is considered "low", while one in excess of 60% is deemed to be "high". The potential financial impact is assessed on the basis of qualitative criteria, ranging from "insignificant" to "significant". These factors are identified as gross risks, i.e. prior to possible measures aimed at risk mitigation. In this context, "insignificant" refers to a projected impact on earnings before taxes of less than EUR 3 million, "moderate" between EUR 3 and 10 million and "significant" in excess of EUR 10 million. Overall risk in relation to the respective risk category is derived from the interaction of probability of occurrence and potential financial impact.

KEY OPPORTUNITIES AND RISKS FOR THE COMPANY

	Probability of occurrence			Potential financial impact		
	low	medium	high	insignifi-cant	moderate	significant
Economic risks						
Economic and industry risks	x					x
Operational risks						
Price-related pressure/Competition			x		x	
Material risks/Supplier risks	x				x	
Customer risks		x			x	
Labor cost risks		x			x	
Personnel risks		x		x		
Quality/Warranty risks		x			x	
IT risks	x			x		
Other legal risks/Compliance risks	x				x	
Strategic risks						
Technology risks	x					x
External growth/Acquisitions	x				x	
Financial risks						
Bad debt loss	x				x	
Liquidity risks/Financing risks	x			x		
Currency risks			x		x	
Interest-rate risk	x				x	
Use of derivative financial instruments	x			x		
Opportunities						
Climate change/New emission standards			x			x
Technology trends/New drive technologies			x			x
Extension of product and service portfolio			x			x
New sales markets			x			x
Industry consolidation		x			x	

Economic risks

Economic and market risks

The performance of global vehicle markets tends to be closely correlated with the prevailing economic situation. This applies to the truck segment even more so than to business within the area of passenger cars. Against this background, a slump in economic performance always carries the risk that demand for vehicles – and therefore in the short to medium term also vehicle production – will weaken. This, in turn, would result in lower demand for ElringKlinger components (**Overview of ElringKlinger's Activities and Structure: Economic and legal factors***).

* Cf. page 49

Based on current assessments, risks relating to economic performance continue to be present in the markets of Southern and Western Europe, which have been adversely affected by economic volatility and high levels of unemployment. Although 2013 saw greater economic stability, these markets are unlikely to experience a speedy and all-embracing recovery. Overall, the economic situation in Europe should gradually improve from 2014 onward. Growth in Asia and North America is expected to be sufficient to compensate for the economic malaise seen in Europe. The International Monetary Fund is of the opinion that the global economy will expand at a faster rate in 2014 than in 2013 and has forecast growth of 3.7%.

At a global level, therefore, a severe slump in vehicle production – similar to the crisis seen in 2008/09 – can be ruled out to a large extent. ElringKlinger anticipates that global vehicle production will expand by around 2 to 3% in 2014 (**Report on Expected Developments***).

* Cf. page 136 et seqq.

ElringKlinger has a global presence. Benefiting from a broad customer base, it is not dependent on specific markets or individual manufacturers. With this in mind, the effects of an economic downturn in a particular region can be offset at least in part. Thanks to its flexible positioning, ElringKlinger would be able to respond immediately to market conditions and adjust its cost structures within a reasonable period of time in the event of more severe economic turbulence. Instruments available to the company include flexitime accounts and flexible shift models as well as the option of issuing an application for short-time work. Additionally, the company can react to changing market conditions by adjusting its staffing levels to demand patterns and by bringing together production quantities at individual manufacturing sites within the international production network. Furthermore, the central purchasing department works in close cooperation with suppliers for the purpose of assessing and adjusting procurement volumes in a timely manner and at a central level.

ElringKlinger factors in economic risks to an appropriate extent at the forward planning stage. As a matter of principle, the budget is drawn up on the basis of a relatively prudent assessment of the likely macroeconomic situation.

Operational risks

Price-related pressure/Competition

As a supplier to the automotive industry, ElringKlinger operates in a business environment that is generally considered to be highly competitive. Customers regularly make demands for price reductions. This constitutes one of the prominent individual risks to which the company is exposed. Owing to its strong technological position, ElringKlinger is comparatively well placed to respond to price demands put forward by its customers. Having said that, the company is not completely immune to such forces. With an eye to relieving price-related pressures, ElringKlinger endeavors to cultivate niche markets and develop highly sophisticated products with unique technological selling points. Downward pressure on prices has to be offset by corresponding efficiency gains in production.

* Cf. page 48 et seqq.

The barriers to entry for new competitors are relatively high, as the business model applied by the ElringKlinger Group is based on a number of special core competencies relating to materials, tooling and processes (**Overview of ElringKlinger's Activities and Structure***). Additionally, the investments needed to introduce the requisite production systems and equipment are comparatively high. For operations to be efficient, companies have to produce substantial volumes. Experience has shown, however, that initial orders placed with new suppliers are relatively small in scale. What is more, production systems and equipment are often designed according to specific ElringKlinger specifications, i.e. they are not available as standardized solutions within the marketplace.

Material risks/Supplier risks

Accounting for 61.6% of the cost of sales, the cost of materials constitutes the largest expense item for the ElringKlinger Group. Therefore, the direction taken by material prices is of particular significance to the company.

* Cf. page 113 et seqq.

The raw materials primarily used within the ElringKlinger Group include alloyed high-grade steels, C-steel, aluminum and polymer granules (**Procurement***). Alloy surcharges (nickel, chromium, molybdenum) are subject to extreme volatility. They are added to the price of high-grade steel and cannot be fixed in advance by contractual agreements.

Generally, ElringKlinger looks to negotiate agreements with its commodity suppliers that are as long term as possible. The purchase prices for 2014 in respect of high-grade steels, C-steel and aluminum are comparable to those applicable in 2013. The price of polymer granules, which is dependent on the price of oil, remains high. On the whole, the risk of substantial increases in the price of materials in 2014 can be considered manageable, which is also due to the fact that many raw material suppliers have expanded their production capacities.

ElringKlinger works continuously on optimized product designs, improvements to production processes and the qualification of new suppliers in order to counteract possible increases in material prices.

In some cases, ElringKlinger agrees cost escalation clauses with its customers. Where such clauses have not been negotiated in advance, upstream price rises that exceed cost estimates have to be passed on to customers. This involves a risk that the company may not be able to pass on the full increase in costs and/or that it may only be able to do so after a certain period of time has elapsed.

Thanks to its own scrap metal trading activities, ElringKlinger is also in a position to sell metal-based waste produced as part of its stamping processes for the purpose of partially offsetting higher costs. Having said that, the development of scrap metal prices also carries an underlying risk.

As part of its risk assessment, ElringKlinger monitors not only trends relating to material prices but also the actual availability of materials. In order to limit associated risks to the largest extent possible, ElringKlinger relies on close collaboration with its suppliers over the long term. The Group makes a point of planning its material requirements well in advance and pursues a multi-supplier strategy. It approves at least two suppliers for significant materials and bought-in parts. Medium-sized and smaller suppliers are thoroughly assessed and monitored with regard to their financial strength, liquidity and insurance coverage; they also have to undergo extensive supplier audits. In 2013, the 30 largest suppliers accounted for around 20% (20%) of the Group's purchasing volume. To the largest extent possible, ElringKlinger develops alternatives for commodities and materials that are either in short supply or that are subject to severe fluctuations in price.

Customer risks

A sudden and severe decline in demand faced by individual customers of particular importance to the company may pose the risk of a substantial reduction in the scheduled quantities of ElringKlinger components to be installed in their vehicles and/or engines. In order to limit the company's dependence on individual customers on the demand side, but also with a view to alleviating potential pricing pressure, the ElringKlinger Group has gradually extended its customer base in recent years. This includes new customers in Asia as well as manufacturers of engines, transmissions and exhaust systems. In 2013, the company's top three customers accounted for around 30% (33%) of Group revenue. The largest individual customer contributed 12% (12%) to sales revenue.

Labor cost risks

Alongside cost of materials, labor costs constitute the largest expense item for the ElringKlinger Group. They account for 24.0% of cost of sales.

At close to 46%, almost half of the overall workforce within the Group is still employed at company sites in Germany. Correspondingly, future wage increases in Germany would have a negative impact on the company's earnings situation, particularly as the IG Metall trade union has been able to negotiate relatively substantial collective wage agreements in the last two years. Thus, the overall competitiveness of ElringKlinger AG relative to other market players at an international level could deteriorate markedly.

After a wage increase of 3.4% in July 2013, covering a period of ten months, employer and union representatives have already agreed a further rise of 2.2% for 2014 relating to workers covered by collective pay agreements. The aforementioned wage increase will come into force in May 2014 and will be applicable until the end of 2014. This will provide a solid foundation for planning in fiscal 2014.

The level of labor costs in emerging countries such as China, South Korea, India and Brazil, where 1,243 people – i.e. almost 20% of ElringKlinger's workforce – are employed, is below the Group average. In these regions, sales revenue and employment figures have grown at a disproportionately high level. Having said that, these sites have also seen wages increase at a percentage rate beyond that of the Group average in some cases.

If demand were to slump by an unexpectedly large degree, the staff cost ratio would surge. ElringKlinger has a number of instruments at its disposal that are aimed at providing greater flexibility, allowing it to respond rapidly in an emergency. They include working time accounts, shift models and temporary employment contracts. Within the ElringKlinger Group, the proportion of employees with temporary contracts was 17% (13%) as of December 31, 2013, thus providing the company with the necessary flexibility.

Essentially, the direction taken by labor costs is to be seen as one of the significant risks to which the ElringKlinger Group is exposed. For the purpose of safeguarding international competitiveness and retaining jobs in the domestic market, higher wage costs will have to be offset by improved efficiency and continuous streamlining in production accompanied by substantial capital investment.

Personnel risks

The employees of ElringKlinger are a significant factor in the Group's success and an important source of expertise. The company addresses the risk of losing expertise through staff exits by offering its personnel a motivating working environment and a good work-life balance in order to keep the rate of fluctuation as low as possible (**Sustainability***). Owing to the well-balanced age structure – more than half of the workforce is aged between 30 and 50, around one-quarter is younger than 30 – the risk of overaging is small. Rather than concentrating specialist skills among individual staff members, knowledge is distributed across a broad base.

* *Cf. page 110 et seqq.*

At some sites operated by the Group the task of attracting skilled workers with relevant qualifications is becoming increasingly difficult. For the purpose of HR recruitment, the Group follows a systematic program of university/college marketing and offers university and vocational students the option of completing internships and degree theses with the company. ElringKlinger also counteracts the lack of qualified staff with extensive in-house training measures and programs designed to develop its own skilled personnel and managers.

Quality and warranty risks

As a manufacturing company and supplier to the automotive industry, ElringKlinger is exposed to warranty and liability risks. The supply of non-compliant components may necessitate an exchange or recall of such parts, with corresponding costs and claims for damages. In particular, the development of entirely new products for fields of application beyond the automobile industry, e.g. for medical devices, or in the area of alternative drive technologies poses additional liability risks. Appropriate quality assurance systems are in place to prevent and mitigate such risks. Furthermore, risks in this area are covered to a large extent by insurance policies, e.g. insurance policies for product liability, which are an element of the risk management system. Insurance coverage is reviewed at least once a year and is adjusted where required. In addition, limitation of liability is agreed as for as possible.

IT risks

IT risks such as data loss, hacking or virus attacks have increased markedly in the digital age.

Any disruption to IT systems and application software can lead to delays in the processing of orders and in the supply chain. This, in turn, could have a detrimental effect on revenues as well as costs.

ElringKlinger is committed to mitigating these risks to the largest extent possible. For instance, data that is of importance to operational processes is always stored twice or redundant systems are deployed. Where specific projects or processes are associated with potential risks, the company addresses the issue by introducing additional backup systems or developing transitional solutions.

Additionally, the company's headquarters in Dettingen/Erms operates two data centers accommodated in different buildings, i.e. at two separate locations. This approach offers the best possible protection against system failure and data loss. Furthermore, all data pertaining to the international sites are backed up at a central location.

Staff access to confidential data is controlled by means of scalable access authorizations. State-of-the-art security software applications are used for the purpose of protecting the company against unauthorized access via external sources.

Other legal risks/Compliance risks

Beyond the risks already discussed in the section dealing with warranty risks, the ElringKlinger Group is exposed to further legal risks attributable to its business model and the size of the company. ElringKlinger addresses its exposure to legal risks by recognizing appropriate provisions in its annual accounts.

The company failed to submit several necessary notifications to the Indian central bank in connection with the founding and the expansion of the Indian subsidiary ElringKlinger Automotive Components (India) Pvt. Ltd., Ranjangaon. This has exposed it to the risk of a possible fine. The company has now submitted the notifications in question or is in the process of doing so. The possible fine could range from several thousand euros to a figure at the lower end of the double-digit million range. ElringKlinger is working on a solution to address this issue, which is attributable to extremely rigid bureaucracy in India. ElringKlinger assumes that the probability of occurrence is low.

The structure of the compliance system was outlined earlier in the description of the risk management system. Risks can occur at both the parent company and the subsidiaries as a result of unlawful actions. ElringKlinger has drawn up an extensive Code of Conduct for the entire Group in 2013. Managers were trained accordingly. Furthermore, ten to twelve reviews are conducted each year. Against this background and in view of the ElringKlinger culture applied and embraced by the company, the probability of occurrence can be classified as low but cannot be ruled out entirely. The financial effects on Group earnings are difficult to specify; depending on the respective case, they may reach a scale that could be considered significant. Based on its current assessment, ElringKlinger anticipates that the associated risk is relatively moderate.

Strategic risks

Technology risks

The business model of the ElringKlinger Group is based on a culture of excellence in innovation and technology leadership. The company is committed to developing products that are technologically sophisticated and to manufacturing these items with a high level of productivity, the aim being to achieve growth rates that are above the industry average (**Overview of ElringKlinger's Activities and Structure***).

* *Cf. page 48 et seqq.*

If ElringKlinger failed to identify and pursue important technological developments, the Group could lose its role as a pioneer and jeopardize its position as a development partner to the vehicle industry. In the medium to long term, this in turn would have a severely adverse effect on revenue and earnings. ElringKlinger generally invests more than 5% of its revenue in **Research and Development*** per annum. This figure is in excess of the industry average. What is more, in the last five years the Group spent between 10 and 16% of sales per annum on investments directed mainly at extending its technology portfolio. In order to combat me-too products and imitations, ElringKlinger protects significant technologies and processes in the form of property rights and patents.

* *Cf. page 59 et seqq.*

The company focuses its R&D activities firmly on areas that are of particular importance to the automotive industry, i.e. optimization of the conventional combustion engine and the development of alternative drive technologies. ElringKlinger is one of just a few suppliers worldwide to have taken the lead in positioning itself within the market with a range of new products tailored to the requirements of e-mobility – be it in the area of battery or fuel cell technology – and exhaust gas purification. However, as the revenue contribution made by these new divisions is still comparatively low, rapid and extensive technological change may possibly result in a painful loss of revenue and increased pressure on prices.

Although the probability of occurrence is considered low, the possible financial impact would be significant.

External growth/Acquisitions

Consolidation within the automotive supply industry is progressing at pace. In the medium term, this will provide ElringKlinger with the opportunity to acquire additional technologies and conclude targeted takeovers in order to accelerate the process of regional market entry for its divisions (**section on Industry Consolidation***).

* *Cf. page 131*

In the case of acquisitions, ElringKlinger faces the fundamental risk that the acquired entities may fall short of specified targets or fail to meet them in the planned time frame. This may result in unforeseen restructuring expenses, which – at least temporarily – could exert downward pressure on the Group's profit margin. In addition, investments may have to be extended beyond the figure originally planned by the company, which would lead to more substantial funding requirements. Technology purchases also pose the risk that the performance expected by the company may not be achievable to the degree initially envisaged or that the products may ultimately fail to meet the customer's expectations.

Prior to an acquisition, ElringKlinger always conducts extensive due diligence investigations. As a matter of principle, all projects are reviewed by a company team of experts. Financial plans and technical specifications are checked thoroughly for plausibility, analyzed in detail and evaluated.

Generally, an acquisition will only be transacted if there is discernible medium-term potential that the Group's targeted EBIT margin can be met. At the same time, the overall financial risk must in no way impair ElringKlinger AG's ability to offer a dividend, even in the worst-case scenario.

As part of the annual impairment tests to be carried out in accordance with IFRS at the end of each year, it may be necessary to recognize impairment losses in connection with goodwill or investees, which would in turn adversely affect annual Group earnings.

Financial risks

Bad debt loss

On balance, the risk of customers defaulting on payments is considered relatively low for ElringKlinger, despite sluggish sales in Western Europe in the last few years. Due to the broadly diversified customer base, the risk of bad debt loss is limited. In the unlikely event of customer insolvency, the default risk relating to accounts receivable would have been between EUR 9.3 and 19.6 million as of December 31, 2013, if one of the five largest customers had been affected.

Liquidity risks/Financing risks

Since the financial crisis the lending practices adopted by banks have become more restrictive. At the same time, corporate expansion and the development of new technologies, e.g. in the field of alternative drives, necessitate sizeable investments, generally leading to more substantial funding requirements. If rating agencies were to downgrade the automotive industry as a whole in response to a less favorable risk profile, credit terms for the sector and ultimately also for ElringKlinger may be adversely affected.

In view of this situation, the industry in which ElringKlinger operates is exposed to a latent financing risk – despite improved earnings within the sector and low interest rates. The risk of insolvencies, particularly with regard to smaller automotive supply companies that are not operating at an international level, can still not be ruled out entirely.

Thanks to a strong equity ratio of 50.5% (50.6%) and a comparatively low level of debt (net debt in relation to EBITDA) of 1.2 (1.2), the financing situation of ElringKlinger itself is considered solid. At EUR 120.0 (112.3) million, ElringKlinger generates net cash from operating activities that covers to a large extent the company's financing requirements for higher working capital as well as for investments. Agreed but currently unused credit lines available to the Group amount to EUR 117 (115) million. As of December 31, 2013, all existing financial covenants were met. Based on the full range of information available at present, it can be assumed that all existing financial covenants will be met also in financial year 2014.

There are currently no identifiable risks that might jeopardize the financing of major projects or prevent the company from meeting its payment deadlines. Equally, there are no identifiable financing risks that might jeopardize the company's existence as a going concern. In summary, it can be said that there is sufficient financial scope for the ElringKlinger Group to pursue its expansion plans and to channel the requisite investments into new technologies.

Currency risks

Against the backdrop of the sovereign debt crisis and isolated cases of uncertainty in the political domain, the monetary policy adopted by the world's leading central banks has in some cases led to a substantial increase in the volatility of exchange rates. This applies in particular to exchange rates between the euro and the majority of currencies in the emerging markets.

The ElringKlinger Group is exposed to limited currency risks relating to transactions. In almost all the company's sales regions, both costs and revenues are largely denominated in the same currency (natural hedging). As regards the Swiss subsidiary Hug Engineering AG, foreign exchange losses attributable to the strength of the Swiss franc were scaled back substantially in 2013 following the relocation of significant production volumes to the new plant in Thale, Germany, i.e. into the eurozone. Hug generates a significant part of its revenue in euros.

Currency risks also exist when translating revenue, earnings and expenses of the international subsidiaries into the Group currency, i.e. the euro. Therefore, changes in the average exchange rates can have a dampening effect on the Group's revenue and earnings. In 2013, for instance, the negative effect of foreign currency translation on sales revenue was equivalent to EUR 24.7 million in total.

Exchange rate movements also have an impact on the net finance result. These factors are mainly associated with the funding of Group entities by the parent company as well as, in part, with the measurement of accounts receivable and payable. Owing to the significant appreciation of the euro against the majority of emerging-market currencies in the second half of the year, the Group had to recognize foreign exchange losses of EUR 4.6 million in 2013. In this context, the direction taken by the Asian currencies, the Brazilian real and the Indian rupee, but also the Turkish lira, was of particular relevance.

* Cf. page 203

A summary of the quantitative impact of an appreciation or a depreciation of the euro against the key Group currencies can be found in the **Group Notes***.

Up to the second quarter of 2013 the exchange rate of the euro against the Swiss franc was also of particular significance. In 2008, ElringKlinger had financed the acquisition of the Swiss SEVEX Group in Swiss francs, and the changes in this liability as a result of currency translation were accounted for in the net finance result. The loan was repaid in full in 2013, as a result of which it no longer constitutes an exposure to risk.

Interest-rate risk

The ElringKlinger Group funds itself through cash flow generated from operating activities as well as through borrowings from banks. Having seen evidence suggesting a slight increase in interest rates at the beginning of the year, the ElringKlinger Group returned to a slightly more long-term approach to its financing structures over the course of 2013. A detailed overview of current and non-current financial liabilities categorized by maturity as of December 31, 2013, can be found in the **Notes***.

* Cf. page 201

The current level of interest rates within the market is extremely low when viewed over a longer period of time. A marked increase in interest rates would feed into variable rate loans and would ultimately also have an impact on the net finance result of the ElringKlinger Group. To protect the company against fluctuations in interest rates, ElringKlinger has entered into forward contracts. This has the effect of converting variable interest rates into predictable fixed rates (Notes: **Derivative Financial Instruments***).

* Cf. page 212

Please refer to the **Group Notes*** for a sensitivity analysis; it outlines the impact of a change in market interest rates on the earnings of the ElringKlinger Group.

* Cf. page 203

Use of derivative financial instruments

ElringKlinger only makes use of derivative financial instruments in isolated cases, e.g. for the purpose of protecting the company against price fluctuations relating to high-grade steel alloys (particularly nickel) or in order to mitigate interest rate risks. Where hedging contracts are employed as a protective instrument against commodity price volatility, they are always based on the actual quantity of physical materials required by the company.

Operating on a rolling basis, ElringKlinger again hedged some of its requirements for alloyed high-grade steels in 2013. As of December 31, 2013, the volume actually hedged was 25% of the purchase quantities computed by the company. Hedging was performed by means of nickel forward contracts.

Opportunities

Climate change/New emission standards

The primary goal currently pursued by the vehicle industry is to reduce emissions, whether they are CO_2 emissions or other hazardous components found in exhaust gases, such as soot particles, nitrogen oxides and hydrocarbons. Europe now has some of the most stringent emission standards worldwide. In accordance with laws passed by the European Commission, CO_2 emissions in new vehicles have to be reduced from 120 g/km at present to just 95 g/km by 2021. For 90% of manufacturers' vehicle fleets these provisions will be applicable as early as 2020. For the years from 2025 onwards, Brussels is already discussing levels of 78 to 68 grams. At the same time, the United States and emerging countries such as China have put in place legislation that prescribes a reduction in emissions by up to 30% in the coming years. When formulating legal provisions relating to permissible emissions, the growth-driven emerging countries tend to look at the particularly strict **Euro standards*** as a basis for policy making.

* Cf. glossary

For the ElringKlinger Group this legislative framework offers considerable potential with regard to development and revenue growth. The trend towards more fuel-efficient engines opens up additional sales opportunities and new sales markets for highly heat-resistant specialty gaskets and shielding components, such as those required for turbochargers, in exhaust systems and increasingly within the area of lightweight construction (**Research and Development***).

* Cf. page 59 et seqq.

Additionally, hybrid vehicles – i.e. the combination of a combustion engine and an electric motor – are becoming increasingly popular. Many car makers are extending their product portfolio to include hybrids, the aim being to meet the strict CO_2 regulations applied at fleet level. According to industry experts, half of all new vehicles rolling off the production lines by 2025 will be hybrids.

For ElringKlinger, hybrid vehicles open up the possibility of significant revenue growth per unit. In the case of **plug-in hybrids***, in particular, the company offers not only components required for conventional combustion engines but also new products such as cell contact systems and pressure equalization modules. This significantly lifts the average revenue potential per vehicle.

* Cf. glossary

Additionally, stricter emission standards are becoming increasingly relevant in sectors beyond the car industry, e.g. in shipping, for commercial vehicles and for stationary engines used in power stations. This is unlocking new niche markets for the products offered by the Exhaust Gas Purification division. The revenue potential associated with the issue of greenhouse gas reduction can be categorized as significant as regards the possible financial prospects for the Group. The potential of ElringKlinger exploiting these opportunities with the help of its existing product portfolio and extensive development pipeline is classified as highly probable.

Technology trends/New drive technologies

The technology trends outlined earlier are being driven by more stringent international emission standards. Downsizing, lightweight construction and the use of alternative drive technologies will be essential when it comes to achieving the particularly ambitious targets set for CO_2 emissions. Insofar as ElringKlinger continues to succeed in designing new solutions within these fields and rolling them out onto the market by utilizing its existing know-how and development and production processes, the prospects for revenue growth and for the earnings of the Group can indeed be categorized as significant. (**Research and Development***)

* Cf. page 59 et seqq.

Extension of product and service portfolio

For most of the divisions within the Group this provides solid opportunities for utilizing existing expertise relating to processes and materials in order to complement the product range or extend it in a targeted manner. As these aspects have already been discussed extensively in the chapter on Research and Development, the list presented here for illustrative purposes shall be limited to examples such as lightweight construction based on new organo materials and exhaust gas technology, for which filter systems used in marine engines and construction machinery but also in stationary engines will be of particular interest. Prospects for the Group's Engineered Plastics division are particularly interesting in the area of PTFE components used in medical devices. All divisions within the Group are actively pursuing the expansion of their product and service portfolio for the purpose of generating growth.

New sales markets

In the coming years, moving into new regional sales markets with existing products may present opportunities for significant revenue and earnings growth. In this context, the ASEAN region may be cited as a prime example. In the BRIC countries, to a large extent the Group still has the opportunity to expand its revenue and earnings by manufacturing all key product groups locally and selling them in the respective regional markets.

There are opportunities for further growth within the Aftermarket business by widening the product range as well as by tapping new sales regions in Africa and, in the medium term, also in Asia and North America.

Industry consolidation

In the foreseeable future, growth in the automobile industry is likely to take place primarily in North and South America as well as in Asia. This trend poses significant challenges for many small and medium-sized enterprises that have either an insufficient international presence or none whatsoever. What is more, suppliers are now responsible for an increasingly large proportion of value creation relating to new vehicle production. They have to invest heavily in research and development, in addition to being exposed to financing risks.

Against this backdrop, the automotive supply industry is likely to be faced with a significant wave of consolidation in the coming five years; the sector may even have to contend with bankruptcies. The number of insolvent companies fell slightly in 2013 compared to the previous year, but it still remains high.

For ElringKlinger, as a company operating from a strong financial base, this scenario offers additional opportunities to extend its technology portfolio through acquisitions or to establish a stronger competitive position through consolidation of individual product groups. In some cases, competitors also exit the market without the influence of consolidation processes. ElringKlinger monitors the market systematically in order to identify potential opportunities for acquisition as early as possible and pursue them where this is deemed feasible. It is not improbable in the coming years that ElringKlinger will exploit growth opportunities through acquisitions or that competitors will exit the market. The associated financial impact is difficult to quantify and may range from insignificant to indeed significant when measured on the basis of earnings contributions for the Group.

Overall assessment of risks and opportunities

The system deployed by ElringKlinger AG for the purpose of managing risks and opportunities has proven to be very effective in recent years. This is illustrated by the company's success in handling the severe economic crisis of 2008/09. Entry into highly promising lines of business such as e-mobility or exhaust gas purification proved opportune.

The conclusion drawn from scrutinizing the opportunities and risks in their entirety is that the situation of the ElringKlinger Group in respect of risk exposure remains, in essence, unchanged from that seen in the previous year. Some of the risks to which the Group is exposed are of a geopolitical or external nature and ElringKlinger's capacity to control these risks in an active manner is extremely limited. When weighting the relevance of risk in respect of the possible impact on earnings, depending on the timeline under review, a sudden slump in the market, rapid technological change in the field of drive technology and a severe surge in commodity prices constitute the three principal risks to which the ElringKlinger Group is exposed.

The general macroeconomic climate stabilized over the course of 2013 and the associated economic risks, and thus also the industry risks, have become less pronounced as a whole. The strategic risks remain unchanged. There has been a trend towards more pronounced financial risks attributable to exchange rate fluctuations.

Benefiting from the risk management system outlined above and its flexible cost structure, if necessary the ElringKlinger Group is in a position to respond promptly and assertively to any risks that may arise by implementing the corresponding risk management arrangements. The entity is deliberately not exposed to risk that may jeopardize the existence of ElringKlinger AG or even its ability to pay a dividend. The Group's solid financial position as reflected in an equity ratio of 50.5% (50.6%), together with its financial stability, provides a protective shield in respect of ElringKlinger and its business model even in the unlikely event of a protracted crisis. The three principal opportunities for the company relate to the technological trend towards more fuel-efficient engines, which is inextricably linked to the issue of climate change and a global drive towards stricter emission laws. Industry consolidation is gathering pace, and in the medium term this will provide a distinct advantage for the positioning of the ElringKlinger Group.

There are currently no identifiable risks that might jeopardize the future existence of the company as a going concern, either in isolation or in conjunction with other factors. The Group is well positioned to actively seize any opportunities presented to it in the future and to outpace the global automotive market as a whole in the years ahead on the basis of percentage growth in production against the background of a manageable risk profile.

Compensation Report

Compensation structure for members of the Management Board

Contracts for members of the Management Board are drawn up by the Personnel Committee of the Supervisory Board, 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 consists of fixed and variable elements. The variable components are made up of a short-term component, which relates to IFRS Group earnings before interest and taxes (previous year: IFRS Group earnings before taxes), and a long-term component that is measured on the basis of share price performance.

Short-term variable compensation is calculated as a percentage of the average earnings before interest and taxes (previous year: Group earnings before taxes) of the last three years at Group level. It is paid annually. Short-term variable compensation is restricted to three (previous year: 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. On February 1 of each year – commencing in 2013 – 30,000 stock appreciation rights are allocated to each member of the Management Board. The grant price is computed as the arithmetic mean of the market price of ElringKlinger shares in the last sixty stock exchange trading days prior to the grant date. An essential precondition for the allocation of stock appreciation rights is the personal investment by the Management Board members of one-tenth of the overall number of stock appreciation rights in shares of ElringKlinger AG. The vesting period of the stock appreciation rights is four years. On completion of the vesting period, the Management Board member is entitled to request redemption of the stock appreciation rights within another two years. The redemption price is determined on the basis of the average market price of the ElringKlinger shares over the last sixty stock exchange trading days prior to the request for redemption. Redemption of the stock appreciation rights can only be requested if the redemption price is 25% higher than the grant price. The redemption price as a whole is limited per tranche to the amount of two fixed annual salaries at the time of redemption. A provision is recognized in consideration of expected future obligations.

Up until February 1, 2013, the stock appreciation bonus encompassed the allocation of stock appreciation rights in five and four tranches respectively. For two of the Management Board members this allocation occurred in the period from February 1, 2008, to February 1, 2012. For one of the Management Board members it occurred in the period from January 1, 2009, to January 1, 2012. The grant price is computed as the arithmetic mean of the market price of ElringKlinger shares in the last sixty stock exchange trading days prior to the grant date. The number of stock appreciation rights was determined on the basis of fixed remuneration payable to the individual Management Board member as well as the level of the grant price (fixed compensation in relation to grant price = number of shares allocated). The amount to be remunerated is calculated on the basis of the difference between the redemption price, which is also calculated as an average of the last sixty stock exchange trading days, and the grant price. A payment is made only when the share price of ElringKlinger AG has increased more than the index in which ElringKlinger is listed, but at least by 25%. 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. Additionally, the company has taken out D&O insurance and casualty insurance covering death and invalidity for the members of the Management Board, with appropriate sums insured.

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 3% or 3.2% of the last monthly fixed salary prior to leaving the company for each completed year of service, not to exceed 45% of the last monthly fixed salary. The pension commitments include benefits in respect of widows and orphans. The widow's pension amounts to 50% and the orphan's pension to 40% – but no more than 70% in total – of the pension of the deceased member of the Management Board.

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

Compensation structure for members of the Supervisory Board

The compensation structure for Supervisory Board members remained unchanged compared with last year. The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on May 16, 2013.

In accordance with the recommendations of the German Corporate Governance Code, compensation is comprised of a fixed component and a variable component, the latter being calculated on the basis of average IFRS Group earnings before taxes of the last three financial years (previous year: IFRS Group earnings before taxes in the financial year ended).

The role of the Supervisory Board Chairman and that of his Deputy are taken into consideration when determining the level of compensation. The Chairman of the Supervisory Board receives two times and the Deputy Chairman one-and-a-half times the compensation paid to other Supervisory Board members. Expenses incurred by the Supervisory Board members are reimbursed to an appropriate extent. Members of the Supervisory Board committees receive additional fixed compensation, which is doubled in respect of the chairmanship of a committee.

Supervisory Board members who have not held the position for a full financial year receive a pro rata amount of fixed and variable compensation.

Details according to Section 289 (4) and Section 315 (4) of the German Commercial Code (HGB), particularly with regard to share capital and disclosure of potential takeover obstacles

As of December 31, 2013, the nominal capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

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

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2013, are as follows:

Walter H. Lechler, Stuttgart	Total of 22.027% (of which 10.013% 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 majority of three-quarters.

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***.

* *Cf. page 194*

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.

Corporate Governance Statement pursuant to Section 289a of the German Commercial Code

The Corporate Governance Statement pursuant to Section 289a of the German Commercial Code (Handelsgesetzbuch – HGB) is part of the combined management report and has been published on the ElringKlinger website at **www.elringklinger.de/en/company/corporate-governance/declaration-of-conformity***.

*Internetlink

Report on Expected Developments

Outlook – Market and Sector

Stronger growth expected for global economy in 2014 – Persistent risk of downturn

The International Monetary Fund (IMF) is of the opinion that the world economy will gain momentum in 2014. At 3.7%, growth is expected to be more pronounced than in 2013 (3.0%). The industrialized nations are gradually extricating themselves from the crisis, while the emerging economies look set to continue on a trajectory of growth. In spite of this, there are still serious risks of a downturn at a global level. A stricter approach taken by central banks within the area of monetary policy could have a dampening effect on the future economic performance. A case in point is the decision taken by the US Federal Reserve to taper its monthly bond purchases by USD 10 billion, which led to a visible divestment of capital previously held in the emerging markets. Further down the line this may act as a decelerator in the emerging economies and give rise to more pronounced fluctuations in foreign exchange rates. Regardless of these scenarios, the IMF has forecast solid growth of 3.9% for the global economy in 2015.

Having shown the first signs of growth towards the end of 2013, the eurozone is expected to shake off the shackles of recession to a large extent in 2014. After years of stagnation, the IMF has forecast modest growth of 1.0% for 2014 – the first forward movement in a long while. Given the high level of indebtedness in the public and private sector, however, any economic upturn is likely to be relatively tentative. As an exporting nation, Germany is also expected to benefit from the recovery of key trading partners in 2014 and 2015.

Asia will again be responsible for the lion's share of global economic growth in 2014. Reforms announced by the Chinese government, including measures aimed at liberalizing the financial system, may have a slightly dampening effect on economic expansion. At the same time, however, they are also expected to provide greater stability with regard to the pattern of growth. The ASEAN member states look set to maintain their substantial rate of growth. The Indian economy is edging its way out of the crisis and there are signs of some forward momentum within the market as a whole. Against this backdrop, India's economic output is expected to return to a level of more than 5.0% in 2014 and 2015. Despite the prospect of higher taxes, Japan is also expected to see a rise in its GDP.

After a modest start, the US economy seems to be recovering at a faster rate. Private consumption has benefited from lower unemployment. At the same time, the adverse effects of spending cuts and tax hikes are gradually disappearing, which should help to boost the US economy considerably in 2014 and 2015. By contrast, Brazil is having to contend with budgetary constraints and spiraling inflation, as a result of which economic growth is likely to be rather modest in the coming years.

GDP GROWTH PROJECTIONS (Year-on-year change)

in %	2013	Projections 2014	Projections 2015
World	3.0	3.7	3.9
Germany	0.5	1.6	1.4
Eurozone	-0.4	1.0	1.4
United States	1.9	2.8	3.0
Brazil	2.3	2.3	2.8
China	7.7	7.5	7.3
India	4.4	5.4	6.4
Japan	1.7	1.7	1.0

Source: International Monetary Fund (January 2014)

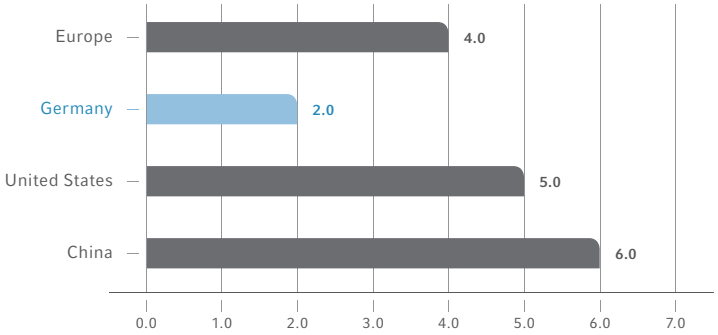
Positive outlook for global car markets

Global car markets are expected to maintain their pattern of growth in 2014. According to industry experts, passenger car sales will rise by 3 to 4% worldwide in 2014. Production levels are expected to expand at a similar percentage rate. In 2015, both sales volumes and production output are likely to grow at an even more dynamic rate of around 5%.

According to ElringKlinger's own projections, global production of cars and light trucks will rise by between 2 and 3% in 2014. The company anticipates that Europe will produce moderate growth, while North America and Asia will continue to act as global growth drivers, albeit at a slightly slower rate compared with 2013.

GROWTH PROJECTIONS FOR GLOBAL CAR SALES IN 2014

in %



Source: Center of Automotive Management (December 2013)

The European car market finally bottomed out in 2013. After a severe slump in the majority of Europe's key markets, the prospects for 2014 are somewhat more positive. Having said that, there is little chance of fast, all-embracing recovery. The European vehicle market is expected to take a slightly larger step forward in 2015. In the long term, however, it remains to be seen whether it can ever return to the record levels seen in 2007. In Germany, new car registrations will once again edge up slightly in 2014. This will give a boost to domestic production. Having said that, demand from overseas, i.e. exports, will continue to be the principal driving force. In the coming years, it should also be noted that German car makers will shift larger chunks of their value-creating operations to local markets in Asia and North America, as a result of which domestic production is unlikely to see any significant growth.

The vehicle industry continues to be in a buoyant mood in Asia. China, now the world's single largest car market, is again expected to achieve above-average growth rates in 2014 and 2015. Local production is also likely to expand substantially, with a larger proportion of value creation now covered by domestic sites. The ASEAN region, which among others also includes the booming economies of Indonesia, Malaysia and Vietnam, will account for an increasingly large part of Asia's buoyant demand. After a disappointing slump in the number of cars sold during 2013, India looks set to benefit from a visible expansion in demand for new vehicles in 2014 and, even more so, in 2015.

The United States will remain a vital supportive pillar when it comes to global demand within the automotive industry. The average age of vehicles on the road remains high, i.e. there is the chance of catch-up effects. Against this backdrop, car sales in the United States are expected to increase further in 2014 and the following year. In contrast, new vehicle demand in Brazil is expected to stagnate in 2014. South America's single largest car market is not expected to pick up until 2015.

The automotive sector will remain a growth industry in the long term. The particularly buoyant emerging countries will grasp an ever larger share of new car registrations. In the years leading up to 2020, the average annual rate of growth relating to car sales in Asia is expected to be 5%, compared to just 2% in Western Europe. In China, only 37 out of 1,000 people own a car. By contrast, vehicle density in Germany currently stands at 525 cars per 1,000 inhabitants.

ElringKlinger is well positioned when it comes to benefiting from this trend. The Group operates at a global level and – including exports – generates approximately a quarter of its sales in the Original Equipment segment in Asia. With an assertive approach to business expansion in Asia, this percentage share of sales will be propelled forward even further in the years ahead. (**"Locations and markets", Overview of ElringKlinger's Activities and Structure***)

* Cf. page 50

Truck market on track for recovery

The introduction of the Euro VI standard was postponed to January 1, 2014. Against this backdrop, the fourth quarter of 2013 saw a surge in the number of purchases of trucks based on the existing standard – purchases brought forward in order to avoid having to buy the more expensive next-generation models equipped with more complex exhaust gas purification technology. With this in mind, the first half of 2014 is likely to see a great deal of uncertainty as to the future direction taken by the truck market. Demand is expected to be relatively subdued at the beginning of 2014. By contrast, the gradual economic recovery predicted for Western Europe will have a positive effect on demand within the truck market as the year progresses. Indirectly, truck engine production in Europe will also benefit from robust patterns of demand in the United States, as some of the engines fitted to US-made vehicles are produced in Europe. In 2014, truck sales are expected to contract by around 5%. However, the total number of vehicles sold is expected to rise by up to 10% in 2015.

The market for Class 8 trucks in North America is likely to expand further in 2014. Strong economic recovery has been fueling demand for freight space. This is reflected in the encouraging level of incoming orders for Class 8 trucks. In December 2013 alone order intake was up by 42%. In 2014 as whole, the number of Class 8 trucks sold is expected to rise by 8%.

The prospects for Brazil's truck market are bleaker in terms of the future pattern of demand for trucks. Given the sluggish levels of momentum within the industrial sector, there is actually a possibility that truck sales may decline by 5 to 10%.

Overall, the Asian markets are expected to see an increase in truck sales by around 2% in 2014. While India and Japan are seeing signs of growing demand from fleet operators, China is likely to be faced with stagnation in respect of new truck registrations, albeit at the high level recorded in 2013.

On the whole, ElringKlinger will be able to benefit directly from higher truck production output. The company holds a substantial share of the market relating to commercial vehicles, and around 15% of its sales revenue generated within the Original Equipment segment is attributable to the truck sector. Given the higher proportion of value added associated with Euro VI trucks though the addition of lightweight plastic housing modules, ElringKlinger anticipates above-average growth rates from its truck components business in the coming years.

Outlook – Company

Competitive climate remains challenging despite industry consolidation

The requirements to be met by suppliers are likely to become even more challenging in 2014 and 2015. Today, automotive suppliers account for around 70% of the value creation process associated with vehicles. At the same time, in response to technological trends in the area of drive systems, suppliers have to invest substantial funds in research and development.

Despite this situation, the company is regularly confronted with customer-driven demands for lower prices, which have to be compensated for by means of substantial efficiency gains in production workflow or further automation.

In the coming years, ElringKlinger will continue to press ahead with efforts to secure unique selling points by committing itself to research and development expenditure in excess of the industry average and by pursuing innovations in the field of tooling technology and production processes. With this in mind, the R&D ratio is to remain at around 5% in the years ahead. Against this backdrop, new market entries of potential competitors are considered unlikely even in the medium term. Many of the materials deployed as well as the design of system technology and processes are based on proprietary developments and protected methods.

The intensity of development activities and progressive business expansion at an international level, for example in the ASEAN region, necessitate significant financial resources. Given these multifaceted challenges, it is likely that consolidation within the automotive supply industry will continue at an increasingly dynamic pace.

Alongside the above-mentioned structural revenue drivers associated with downsizing concepts, hybridization and stricter emission standards, the market trends outlined above will unlock opportunities for ElringKlinger to underpin its organic growth with company acquisitions.

The smoldering risks still emanating from the international debt crisis continue to be a source of uncertainty when it comes to future economic performance in general. Ultimately, this may also have an impact on the volumes requested by customers as part of their production scheduling. In this environment, one cannot rule out entirely the possibility of market demand being buffeted by more pronounced fluctuations than in the past. In view of this situation, it is essential that the Group as a whole remains as flexible as possible with regard to its structures and all of its expense items in 2014 and 2015.

New financial year on solid foundations: double-digit growth in order intake

The Group anticipates further growth for 2014 and 2015. In 2013 as a whole, for instance, order intake rose by 15.4% year on year, taking the figure to EUR 1,309.8 (1,134.8) million.

In the fourth quarter of 2013 alone, order intake increased to EUR 303.7 (260.8) million, i.e. 16.4% up on the figure recorded in the same quarter a year ago.

When it comes to achieving sales growth targeted for 2014, the ElringKlinger Group can already rely on the support of a solid order backlog. As of December 31, 2013, the volume of orders held throughout the Group amounted to EUR 595.4 (456.0) million. This represents an increase of 30.6%.

Acquired entities with significant improvement in earnings performance – Expansion of capacity levels at Hug

Following the successful turnaround in earnings performance in 2013, the ElringKlinger Group anticipates that exhaust gas specialist Hug will again achieve an operating margin in excess of the Group average in 2014 as a whole. In percentage terms, revenue is expected to expand by a single-digit figure in 2014 and gain additional momentum in 2015 as new products are rolled out.

The company's CARB retrofit activities centered around mobiclean™ diesel particulate filters in North America are likely to produce a further increase in revenue contributions. Hug is planning to further expand its production capacity for these retrofit systems over the course of the first half of the year 2014. Alongside California, other US states are considering the introduction of similar regulations; this may open up opportunities for additional projects.

Hug has also recorded a solid intake of orders for exhaust gas purification systems used in large natural gas-fueled engines, which are now increasingly being deployed in North American power stations for the purpose of electricity generation.

In the medium term, ElringKlinger sees interesting potential for end-to-end nauticlean™ exhaust gas purification systems in the shipping industry. The emphasis here is on reducing particulates and nitrogen oxides emitted by marine diesel engines in freight vessels and cruise liners. The issue of retrofitting engines generally powered by heavy fuel oil with exhaust-cleaning systems is now being more widely debated at a public and a political level. Legislative measures to reduce CO_2 and other harmful emissions – taken by the EU Commission for example – could generate significant demand in the coming years. Hug already equips a significant number of inland waterway vessels with complete exhaust gas purification systems.

ElringKlinger Meillor SAS looks towards recovery in Western Europe

Following successful restructuring and automation of production processes, the former Freudenberg company ElringKlinger Meillor SAS, Nantiat, France, is expected to see an improvement in its earnings. The objective is for the company to operate profitably at a sustainable level in 2014. These efforts will be supported by the ramp-up of small-batch production for the aftermarket business. Given the relatively modest signs of recovery within the French vehicle market, however, 2014 is likely to see only a gradual improvement in earnings performance. The Nantiat site has a strong focus on vehicle manufacturers operating in Southern and Western Europe, and therefore a fundamental upturn in the Western European automotive markets could clearly prove advantageous for this location.

E-Mobility requires up-front investments

The E-Mobility division continues to be dependent on up-front expenditure not only for the expansion of business with cell contact systems but also for the development of new battery components such as cell housing covers. Having said that, the series projects initiated towards the end of 2013 will make a more sizeable contribution to revenue in 2014. This will provide more scope when it comes to covering the substantial amount of fixed costs. If sales relating to in-series-produced cars for which ElringKlinger supplies components develop as planned, the company's battery technology business will have the potential for earnings improvement in the mid-single-digit million range. Depending on demand patterns of end customers, break-even within this division is being targeted for 2015.

Group-wide cost streamlining

In 2014, the ElringKlinger Group will again be looking to increase the level of automation in specific areas of production and introduce new intelligent process engineering methods for the purpose of optimizing costs. The aim is to raise efficiency levels by at least 3%. Within this context, the emphasis of streamlining programs in 2014 will be on the subsidiaries and investees. In the coming years, almost a third of capital expenditure earmarked for investments will again be directed at streamlining measures.

As regards the prices of materials, ElringKlinger anticipates that the overall price situation will remain relatively stable based on the supply contracts negotiated for 2014. Depending on the category of raw materials, procurement prices are likely to move within a corridor ranging from slightly lower to moderately higher. Polymer granules, which are now being used to a larger extent in the Plastic Housing Modules/Elastomer Technology division, are expected to trend higher. Although there is no evidence of price hikes at present, it is impossible to rule out the possibility of higher material prices and alloy surcharges respectively over the course of 2014, depending on the future direction taken by the world economy and thus demand for commodities. Having said that, from today's perspective, commodity prices are not expected to advance at a rate as dynamic as seen in 2010 and 2011. As regards ElringKlinger's proceeds from scrap materials in the form of waste generated during stamping/cutting processes, associated revenue is expected to decline given the low level of prices within this area.

As the ElringKlinger Group continues to employ almost half of its workforce at sites in Germany, the direction taken by staff costs within the Group is heavily dependent on the extent of the collective bargaining agreement negotiated for the German metal-working industry. As from May 1, 2014, wages and salaries will rise yet again, up by 2.2%, with regard to those members of the workforce employed at the German sites of the ElringKlinger Group and covered by the aforementioned collective agreement. Given the sustained pressure exerted on prices by customers amongst other factors, these substantial wage rises will have to be offset by appropriate streamlining measures and cost reductions.

The level of revenue growth planned for 2014 will necessitate an increase in the workforce within the Group as a whole. However, staffing levels are to be expanded at a less pronounced rate relative to revenue growth. Administration costs are to be reined in during 2014 by further measures aimed at centralizing and automating administrative functions within the Group. These cost items are to grow at a slower pace compared to the planned rate of revenue growth.

Further revenue and earnings growth expected for 2014

Based on the assumption that global car production will expand by a projected 2 to 3%, the ElringKlinger Group anticipates that its revenue will increase by 5 to 7% organically in 2014, thus again outpacing market growth. Full consolidation of ElringKlinger Marusan Corporation, Japan, will additionally contribute around EUR 25 million to revenue in 2014.

The Group's EBIT margin is expected to improve slightly compared to 2013. Adjusted for non-recurring items, EBIT is to rise for the fifth consecutive year, reaching a level of EUR 160 to 165 (2013: EUR 144,7) million. For the purpose of improved comparability, the financial indicator EBIT will in future no longer be reported inclusive of foreign exchange effects, which are mainly attributable to financing activities (in the income statement these items were accounted for in net finance costs). Thus, as is standard, EBIT will correspond to the operating result reported in the Group income statement.

Full inclusion of the lower-margin subsidiary ElringKlinger Marusan Corporation within the Group's scope of consolidation will have a dilutive effect on the EBIT margin of the ElringKlinger Group in 2014 (projected at approx. minus 0.3 percentage points). At the same time, the introduction of Euro VI will lead to higher capacity utilization in the truck area over the course of the year. Additionally, revenue streams attributable to battery technology are expected to expand and the level of growth projected for revenue will be accompanied by earnings contributions. In total, these factors are expected to provide a slight increase to the Group's EBIT margin.

The Group is also targeting organic revenue growth of 5 to 7% for 2015 and beyond. EBIT, adjusted for non-recurring items, is to outpace revenue growth in percentage terms.

Strong growth at parent company ElringKlinger AG

The parent company, ElringKlinger AG, which accounted for 38.3% of consolidated sales revenue in 2013, is expected to see its revenues expand by between 5 and 10% in 2014.

ElringKlinger AG is supported by a marked improvement in order backlog when it comes to achieving targeted sales growth. Compared to the previous year, order backlog rose to EUR 281.4 (218.6) million as of December 31, 2013. Order intake rose by 16.5% in 2013, reaching EUR 564.4 (484.5) million. Alongside structural growth achieved within the majority of product groups, the significant improvement in incoming orders is also a reflection of a recovery in demand in Western Europe as well as an upturn in scheduled quantities requested within the truck business and in the area of battery technology. The largest proportion of revenue growth planned for 2014 will be attributable to Original Equipment.

After capital expenditure on property, plant and equipment as well as tools, totaling EUR 37.7 million in 2013, the amount to be invested at sites operated by ElringKlinger AG has been set at more than EUR 55.0 million for 2014. Of this total, an above-average proportion will be directed at machinery and assembly lines for the Plastic Housing Modules/Elastomer Technology and Specialty Gaskets divisions. Capital expenditure for investment purposes is to be covered largely by net cash from operating activities. Additionally, an open line of credit of close to EUR 100 million is available if required for the additional funding of growth.

As regards earnings in 2014, ElringKlinger AG anticipates that income from ordinary activities will grow at a slightly faster rate compared to revenue growth targeted by the company.

Outlook for segments: structural growth in Original Equipment remains key revenue driver

80.9% of Group revenue and 70.8% of EBIT (adjusted for non-recurring effects) were attributable to Original Equipment in 2013. Against this background, this segment will again contribute the largest proportion of revenue and earnings growth within the Group in 2014. Original Equipment is also likely to remain the segment with the highest growth rate in percentage terms.

Based on a projected expansion of global vehicle production by 2 to 3%, structural growth in product groups such as turbocharger gaskets, thermal-acoustic shielding components, control plates for automatic transmissions and lightweight plastic modules will continue to be the key driving force behind revenue increases planned for the Original Equipment segment. Additionally, the introduction of new products and revenue growth targeted within the area of battery technology will contribute to growth within this segment.

Correspondingly, ElringKlinger anticipates that revenue will expand by 5 to 10% in the Original Equipment segment. EBIT is to increase at a faster rate relative to revenue growth.

Despite the fact that customer demand within the area of mechanical engineering has not shown any significant upturn in Western Europe, the Engineered Plastics segment is expected to see a percentage increase in revenue in 2014 comparable to that planned for the Group as a whole. By contrast, demand has picked up markedly when it comes to applications relating to automotive technology and medical devices. New product roll-outs relating to PTFE sealing rings for injection systems used in petrol engines, guides and gaskets for diesel injection systems as well as turbocharger gaskets will make a significant contribution to sales revenue.

Production ramp-ups in China and India as well as successful market entry in North America will also have a positive impact on business in 2014. At the site operated by ElringKlinger USA, Inc. in Buford a first manufacturing line for PTFE components will start production in 2014.

The Aftermarket segment will see a further expansion of its product range in 2014. Meanwhile, ElringKlinger will be looking to strengthen its sales activities in Western Europe, particularly in France, which forms Europe's second largest market for spare parts. This will be underpinned at a manufacturing level by the introduction of small-batch production aimed at meeting demand within the spare parts business at the Chamborêt/Nantiat site of ElringKlinger Meillor SAS.

In the wake of car scrappage incentives introduced by a number of European countries in 2009 the market saw a substantial fall in the average age of cars in Western Europe – particularly in the small vehicle segment. At the same time, blustery economic conditions in Europe have meant that many vehicle owners are postponing servicing and repair work. This has had an adverse effect on the sales situation within the Aftermarket segment in recent years. An upturn in the economy and an improvement in the labor market in Western Europe could prompt a noticeable recovery in demand from this

region in 2014. Having broken the record books on a number of occasions in recent years, Eastern Europe is expected to produce moderate growth in sales revenues in 2014. From today's point of view, risks remain with regard to the possible depreciation of local currencies against the euro and the US dollar as well as the high levels of sovereign debt, which could have a negative impact on consumer behavior. By contrast, the increasing level of motorization and the growing pool of used vehicles continue to provide a solid foundation for expansion within the Aftermarket segment. The same applies to the Middle East and Africa, which should also offer opportunities for slight revenue gains.

On balance, the Aftermarket segment is expected to achieve further revenue growth of around 5% in 2014. EBIT is to increase at a similar rate in percentage terms.

The ElringKlinger Group is also favorably positioned for 2015 and beyond, having positioned itself in technology niches undergoing structural growth and benefiting from the introduction of many new products. Additionally, it has established a very solid vantage point in the automotive markets of the emerging economies. Against this background, the Group anticipates that it will be in a position to increase sales revenue by 5 to 7% annually, assuming that global vehicle production continues to expand at a moderate rate. At the same time, earnings before interest and taxes are to grow at a more pronounced rate relative to sales.

Projected investment ratio of between 8 and 10%

In recent years the ElringKlinger Group has been investing substantial funds in the construction of new production plants, particularly in Asia, as well as in major projects such as the new logistics centre in Dettingen/Erms, Germany. As a result of these measures, the Group's investment ratio (Payments for investments in property, plant and equipment as well as intangible assets and investment property relative to sales revenue) rose to levels in excess of 15%, which was well above average when viewed over an extended period of time. By contrast, capital expenditure relating to investments is to be scaled back towards normal levels in 2014 and 2015, at between 8 and 10% of sales revenue. More than two-thirds of the investments will be directed at new production buildings, machinery for planned product roll-outs and streamlining projects. At present, payments for property, plant and equipment as well as investment property has been planned at EUR 100 to 110 million respectively for 2014 and 2015.

ElringKlinger is currently in advanced negotiations with a German vehicle manufacturer for the supply of a new combined metal-polymer structural module. This gives ElringKlinger a foothold in the rapidly growing and technologically advanced market for lightweight body and chassis components. Additional investments of up to EUR 20 million have been planned for the purpose of implementing this project, the majority of which would be expended in 2014. The Hummel Group, which is now fully integrated into ElringKlinger AG, has provided the ElringKlinger Group with valuable tooling expertise in the field of lightweight plastic designs.

The largest proportion of projected investment spending will be directed at the Original Equipment segment, which is planning a substantial number of new product launches for 2015 and 2016, particularly in the area of Plastic Housing Modules/Elastomer Technology.

Growth within the automotive industry will be driven primarily by Asia in the coming years. With this in mind, business expansion in Asia will remain one of the focal points of investment spending in 2014.

In 2014, capital expenditure towards the lower end of the single-digit million range will be required for the final construction stage of the newly erected factory building and production systems at the site in Gumi, South Korea.

In response to the solid level of incoming orders and the introduction of new products in the Plastic Housing Modules division, the company plans to build a new plant at the site operated by ElringKlinger China Ltd. in Suzhou. Around EUR 15 million have been budgeted for the building and the purchase of production machinery required for ramp-up. An extension is to be built on the site of the second Chinese subsidiary, Changchun ElringKlinger Ltd., in preparation for projected revenue growth. Additionally, the plant's capacity levels are to be further expanded by adding additional production equipment. Investments earmarked for these measures will be at the upper end of the single-digit million range.

Within the Exhaust Gas Purification division, the Swiss-based company Hug Engineering AG will see an expansion of its production capacity for ceramic substrates. This will allow it to meet rising demand from its CARB retrofit business in the United States.

At ElringKlinger Abschirmtechnik (Schweiz) AG, meanwhile, the emphasis will be on expanding production within the area of thermal/acoustic shielding parts. This will be complemented by replacement investments. In total, investments will amount to approximately EUR 7 million in 2014.

An additional facility is to be built at the Bietigheim-Bissingen site operated by ElringKlinger Kunststofftechnik GmbH, Germany, in preparation for new projects relating to automotive applications and medical devices. Including the newly purchased machinery, investments within this area are estimated at around EUR 18 million. Additionally, the US subsidiary ElringKlinger Engineered Plastics North America, Inc., formed in 2013, is planning to introduce its first production line for PTFE products in 2014 at the Group's site in Buford, Georgia.

Sufficient scope for financing organic growth and acquisitions

The cash flow expected from operating activities in 2014 is likely to exceed payments currently planned for investments in property, plant and equipment. Therefore, funding of organic growth within the Group, with a focus on Asia and North America, has been safeguarded. The same applies to financing of measures aimed at expansion within the highly promising areas of exhaust gas purification technology and electromobility.

The Group's overall financing requirements for 2014 and 2015, as anticipated at present, can be covered to a large extent by the existing inflow of funds attributable to internal financing. Additionally, the Group has the option of accessing outside capital in the form of lines of credit of around EUR 117 million in total, as approved by several banks.

ElringKlinger would have sufficient room for maneuver if – in the context of the ongoing sector consolidation – favorable opportunities for acquisitions were to arise that are considered both manageable and interesting in technological terms. ElringKlinger monitors the market consistently.

Reduction of debt

If no capital is required for corporate acquisitions, the Group intends to scale back its debt (current and non-current financial liabilities) – now up to EUR 358.2 (314.7) million – over the course of 2014 with the help of net cash from operating activities. Debt has expanded significantly in recent years as a result of acquisitions, the construction of new plants and funding required in connection with steady organic growth. The focus of debt reduction will be on the second half of the year, as dividend payments made during the first half usually result in a disproportionately large outflow of cash.

The aim is to reduce the Group's net financial debt (financial liabilities less cash) by the end of 2014 to a level that is below that recorded in 2013. The ElringKlinger Group is also committed to scaling back net financial debt in 2015.

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

Dettingen/Erms, March 20, 2014
The Management Board

Dr. Stefan Wolf | Theo Becker | Karl Schmauder

Consolidated Financial Statements of ElringKlinger AG

for the Financial Year 2013

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Group Income Statement

of ElringKlinger AG, January 1 to December 31, 2013

EUR k	Note	2013	2012
Sales revenue	**(1)**	**1,175,231**	**1,127,182**
Cost of sales	(2)	-846,158	-815,011*
Gross profit		**329,073**	**312,171**
Selling expenses	(3)	-82,343	-78,046
General and administrative expenses	(4)	-47,617	-45,775
Research and development costs	(5)	-57,136	-57,304
Other operating income	(6)	33,232	15,400
Other operating expenses	(7)	-10,277	-7,816
Operating result		**164,932**	**138,630**
Finance income		9,340	6,858
Finance costs		-25,056	-21,867*
Net finance costs	**(8)**	**-15,716**	**-15,009**
Earnings before taxes		**149,216**	**123,621**
Income tax expense	(9)	-38,013	-34,409
Net income		**111,203**	**89,212**
of which: attributable to non-controlling interests	(20)	5,785	3,493
of which: attributable to shareholders of ElringKlinger AG	**(20)**	**105,418**	**85,719**
Basic and diluted earnings per share in EUR	**(10)**	**1.66**	**1.35**

* Prior-year figures restated, see comments in the notes to the consolidated financial statements

Group Statement of Comprehensive Income

of ElringKlinger AG, January 1 to December 31, 2013

EUR k	Note	2013	2012
Net income		**111,203**	**89,212**
Currency translation difference		-20,309	-4,492
Gains and losses that can be reclassified to the income statement in future periods		**-20,309**	**-4,492**
Actuarial gains and losses from pension commitments, net after tax		5,991	-15,651*
Gains and losses that cannot be reclassified to the income statement in future periods		**5,991**	**-15,651**
Other comprehensive income after taxes		**-14,318**	**-20,143**
Total comprehensive income		**96,885**	**69,069**
of which: attributable to non-controlling interests		5,141	2,908
of which: attributable to shareholders of ElringKlinger AG		**91,744**	**66,161**

* Prior-year figures restated, see comments in the notes to the consolidated financial statements

Group Statement of Financial Position

of ElringKlinger AG, as at December 31, 2013

EUR k	Note	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Assets				
Intangible assets	(11)	176,710	135,989	134,133
Property, plant and equipment	(12)	612,108	565,000	537,545
Investment property	(13)	12,747	13,329	13,071
Financial assets	(14)	1,980	1,637	2,621
Non-current income tax assets	(15)	2,189	2,830	3,355
Other non-current assets	(15)	3,001	2,737	1,730
Deferred tax assets	(9)	9,520	29,552	20,991
Non-current assets		**818,255**	**751,074**	**713,446**
Inventories	(16)	257,387	229,586	216,467
Trade receivables	(17)	207,453	185,850	187,279
Current income tax assets	(17)	3,986	2,208	1,539
Other current assets	(17)	45,260	45,351	33,706
Cash and cash equivalents	(18)	62,949	54,273	65,153
Current assets		**577,035**	**517,268**	**504,144**
Non-current assets held for sale	**(19)**	**0**	**249**	**0**
		1,395,290	1,268,591	1,217,590

* Prior-year figures restated, see comments in the notes to the consolidated financial statements

EUR k	Note	Dec. 31, 2013	Dec. 31, 2012	Jan. 1, 2012
Liabilities and equity				
Share capital		63,360	63,360	63,360
Capital reserves		118,238	118,238	118,238
Revenue reserves		501,346	424,440	376,847*
Other reserves		-5,897	4,911	23,818*
Equity attributable to the shareholders of ElringKlinger AG	**(20)**	**677,047**	**610,949**	**582,263**
Non-controlling interest in equity	(21)	27,507	31,268	29,747*
Equity		**704,554**	**642,217**	**612,010**
Provisions for pensions	(22)	92,323	99,597	77,233*
Non-current provisions	(23)	10,345	11,121	7,402
Non-current financial liabilities	(24)	237,346	130,993	161,348
Deferred tax liabilities	(9)	32,528	46,781	44,900
Other non-current liabilities	(25)	6,504	10,149	21,069
Non-current liabilities		**379,046**	**298,641**	**311,952**
Current provisions	(23)	19,472	18,409	15,499
Trade payables	(25)	68,574	58,065	65,019
Current financial liabilities	(24)	120,883	183,716	126,145
Tax payable	(9)	14,696	11,513	18,546
Other current liabilities	(25)	88,065	56,030	68,419
Current liabilities		**311,690**	**327,733**	**293,628**
		1,395,290	**1,268,591**	**1,217,590**

Group Statement of Changes in Equity

of ElringKlinger AG, January 1 to December 31, 2013

EUR k	Share capital	Capital reserves	Revenue reserves	
Note	(20)	(20)	(20)	
Balance as of Dec. 31, 2011	**63,360**	**118,238**	**376,847**	
Adjustment for recognition of pensions[2]				
Balance as of Jan. 1, 2012	**63,360**	**118,238**	**376,847**	
Capital increase				
Dividend distribution			-36,749	
Change in scope of consolidated financial statement			-1,377	
Purchase of shares from controlling interests				
Total comprehensive income			85,719	
Net income[2]			85,719	
Other comprehensive income[2]				
Balance as of Dec. 31, 2012/Balance as of Jan. 1, 2013	**63,360**	**118,238**	**424,440**	
Dividend distribution			-28,512	
Change in scope of consolidated financial statement				
Purchase of shares from controlling interests				
Total comprehensive income			105,418	
Net income			105,418	
Other comprehensive income				
Balance as of Dec. 31, 2013	**63,360**	**118,238**	**501,346**	

[1] Figures as of Dec. 31, 2012, restated on account of change in presentation.
[2] Prior-year figures restated, see comments in the notes to the consolidated financial statements

Other reserves					
Actuarial gains and losses from pension commitments, net[1,2]	Equity impact of controlling interests	Currency translation differences[1]	Equity attributable to the shareholders of ElringKlinger AG[2]	Non-controlling interests in equity[2]	Group equity[2]
(20)	(20)	(20)		(21)	
-8,287	**-1,484**	**31,979**	**580,653**	**29,458**	**610,111**
1,610			1,610	289	1,899
-6,677	**-1,484**	**31,979**	**582,263**	**29,747**	**612,010**
			0	365	365
			-36,749	-1,184	-37,933
	791		-586	0	-586
	-140		-140	-568	-708
-15,326		-4.232	66,161	2,908	69,069
			85,719	3,493	89,212
-15,326		-4,232	-19,558	-585	-20,143
-22,003	**-833**	**27,747**	**610,949**	**31,268**	**642,217**
			-28,512	-1,138	-29,650
			0	997	997
	2,866		2,866	-8,761	-5,895
6,014		-19,688	91,744	5,141	96,885
			105,418	5,785	111,203
6,014		-19,688	-13,674	-644	-14,318
-15,989	**2,033**	**8,059**	**677,047**	**27,507**	**704,554**

Group Statement of Cash Flows

of ElringKlinger AG, January 1 to December 31, 2013

EUR k	Note	2013	2012
Earnings before taxes		149,216	123,621*
Depreciation/amortization (less write-ups) of non-current assets	(11) - (14)	75,957	79,380
Net interest	(8)	11,137	12,158*
Change in provisions		-1,346	4,741*
Gains/losses on disposal of non-current assets		-475	-2,768
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		-51,626	-22,448
Change in trade payables and other liabilities not resulting from financing and investing activities		-2,872	-34,972
Income taxes paid	(9)	-37,787	-40,879
Interest paid		-8,477	-8,737
Interest received		352	426
Other non-cash expenses		-14,102	1,733
Net cash from operating activities		**119,977**	**112,255**
Proceeds from disposals of property, plant and equipment, intangible assets and investment property		2,601	8,974
Proceeds from disposals of financial assets		791	1,687
Payments for investments in intangible assets	(11)	-11,632	-11,293
Payments for investments in property, plant and equipment and investment property	(12), (13)	-115,648	-103,056
Payments for investments in financial assets	(14)	-971	-412
Payments for the acquisition of subsidiaries, less cash		-3,151	-4,081
Net cash from investing activities		**-128,010**	**-108,181**
Proceeds from non-controlling interests for the purchase of shares		0	365
Payments to non-controlling interests for the purchase of shares		-5,896	-658
Dividends paid to shareholders and to non-controlling interests		-29,650	-37,933
Proceeds from the addition of financial liabilities	(24)	151,976	68,692
Payments from the repayment of financial liabilities	(24)	-101,790	-43,736
Net cash from financing activities		**14,640**	**-13,270**
Changes in cash		6,607	-9,196
Effects of currency exchange rates on cash		-3,271	-1,684
Cash inflow from acquisitions		5,340	0
Cash at beginning of period	(18)	54,273	65,153
Cash at end of period	**(18)**	**62,949**	**54,273**

* Prior-year figures restated, see comments in the notes to the consolidated financial statements

Notes to the Consolidated Financial Statements
of ElringKlinger AG for the 2013 Financial Year

General information

As parent company of the Group, ElringKlinger AG is filed in the commercial register at the local court of Stuttgart (Amtsgericht) under the number HRB 361242. The company is domiciled in Dettingen/Erms (Germany). The address is ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms. The articles of incorporation are dated June 13, 2012. The registered company name is ElringKlinger AG.

The financial year is the calendar year.

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

Accounting principles

The consolidated financial statements of ElringKlinger AG as of December 31, 2013, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the supplementary commercial law regulations pursuant to § 315a (1) HGB. All IFRSs and IFRICs mandatory for the financial year 2013 have been observed.

On March 20, 2014, the Management Board of ElringKlinger AG submitted for approval the consolidated financial statements to the Supervisory Board, which will meet on March 24, 2014.

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

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

The following regulations and amendments to existing regulations were applied for the financial year 2013 for the first time:

IFRS 7 Offsetting Financial Assets and Financial Liabilities

The amendment also resulted in additional disclosures in the notes to the financial statements regarding the offsetting of financial instruments. In addition to additional disclosures on actual offsetting procedures performed, disclosure requirements were introduced for existing offsetting rights that do not comply with the offsetting criteria pursuant to IAS 32.

IFRS 13 Fair Value Measurement

IFRS 13 uniformly governs the fair value measurement for all IFRSs. IFRS 13 applies when another standard requires or permits fair value measurements or disclosures about fair value measurements. The provisions do not expand the scope of measurement at fair value, but rather provide guidance on how to apply fair value measurement in those instances where this is already required or permitted by standards. The application of IFRS 13 did not have any material effect on the measurement of the fair values of the Group. Mandatory disclosures can be found in the disclosures in the notes to the financial statements on the individual assets and liabilities whose fair value was calculated.

IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

IAS 1 has led to a change in how items are grouped in other comprehensive income. Thus, the items that could later be reclassified to net income must be recorded separately from the items that are not reclassified. This provides the users of the financial statements with an improved understanding of the effects of the individual items of other comprehensive income on future net income. This amendment will result in a change in presentation for all companies but will not impact the assets, liabilities or financial position of the ElringKlinger Group.

IAS 12 Deferred Tax: Recovery of Underlying Assets

The amendment of IAS 12 implements a requirement simplifying the treatment of temporary tax differences associated with applying the fair value model from IAS 40. Accordingly, unless proven otherwise, it is assumed that, in principle, realizing the carrying amount through the sale is decisive for measuring the deferred taxes for investment property valued at fair value. The amendment did not have any effect on the consolidated financial statements of ElringKlinger AG.

IAS 19 Employee Benefits (revised 2011)

In accordance with the transition provisions in the revised standard, the Group applied IAS 19R retroactively in the current reporting period. The opening statement of financial position for the earliest presented comparative period (January 1, 2012) and the comparative figures were restated accordingly. IAS 19R amends, among other things, the accounting treatment of defined benefit pension plans. This had the following effects for the ElringKlinger Group:

- Interest expenses and the expected income from plan assets in the previous IAS 19 were replaced by a net interest amount in IAS 19R, which is calculated from applying the discount rate to the net debt or net asset value from defined benefit plans at the beginning of each reporting period.
- Taking into account the risk sharing between employees and employers changes how the defined benefit obligation and service cost are calculated for the Swiss Companies.

The effects of the retroactive application of IAS 19R on the comparative figures reported in the previous year are presented below.

Group statement of financial position *EUR k*	Amount published Jan. 1, 2012	Change	Amount restated Jan. 1, 2012
Equity and liabilities			
Revenue reserves	376,847	0	376,847
Other reserves	22,208	1,610	23,818
Equity attributable to the shareholders of ElringKlinger AG	580,653	1,610	582,263
Non-controlling interests in equity	29,458	289	29,747
Total equity	**610,111**	**1,899**	**612,010**
Provisions for pensions	79,132	-1,899	77,233
Total equity and liabilities	**1,217,590**	**0**	**1,217,590**

Group statement of financial position *EUR k*	Amount published Dec. 31, 2012	Change	Amount adjusted Dec. 31, 2012
Equity and liabilities			
Revenue reserves	424,631	-191	424,440
Other reserves	3,048	1,863	4,911
Equity attributable to the shareholders of ElringKlinger AG	609,277	1,672	610,949
Non-controlling interests in equity	30,978	290	31,268
Total equity	**640,255**	**1,962**	**642,217**
Provisions for pensions	101,559	-1,962	99,597
Total equity and liabilities	**1,268,591**	**0**	**1,268,591**

Group income statement *EUR k*	Amount published Dec. 31, 2012	Change	Amount adjusted Dec. 31, 2012
Cost of sales	-814,778	-233	-815,011
Finance costs	-21,910	43	-21,867
Net income	**89,402**	**-190**	**89,212**

The diluted and basic earnings per share decreased from EUR 1.36 to EUR 1.35 in the previous year.

Group statement of comprehensive income *EUR k*	Amount published Dec. 31, 2012	Change	Amount adjusted Dec. 31, 2012
Net income	89,402	-190	89,212
Actuarial losses from pension commitments, net after tax	-15,904	253	-15,651
Other comprehensive income after tax	-20,396	253	-20,143
Total comprehensive income	**69,006**	**63**	**69,069**
of which: attributable to non-controlling interests	2,907	1	2,908
of which: attributable to shareholders of ElringKlinger AG	66,099	62	66,161

The amendment to IAS 19 had a similar impact in the current period as in the comparative period.

IAS 36 Recoverable Amount Disclosures for Non-financial Assets

The amendment to IAS 36 is intended to eliminate undesired repercussions of the disclosure requirements resulting from the introduction of IFRS 13. Furthermore, disclosure requirements are standardized in the event that, with regard to an individual assets or a cash-generating unit, a write-down or write-up is recognized and the recoverable amount is calculated based on the fair value less costs to sell. The amendments are mandatory for financial years beginning on January 1, 2014. Early adoption is permitted. The ElringKlinger Group has early adopted the amendments.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 governs the treatment of the costs that are incurred from the removal of overburden during the stripping operations of a surface mine and has no effect on the consolidated financial statements of ElringKlinger AG.

Annual improvements to IFRSs (2009 to 2011)

The pronouncement relates to smaller amendments to the standards IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. The amendments did not affect the accounting policies and the presentation of the assets, liabilities, financial position and profit or loss of the Group.

The following standards, which have already been adopted by the EU but are not yet mandatory for the financial year 2013, have not yet been applied by the ElringKlinger Group:

IFRS 10 Consolidated Financial Statements

The objective of IFRS 10 is to define the term “control” for all entities uniformly. The standard provides application guidance for this purpose.

IFRS 11 Joint Arrangements

The standard supersedes IAS 31 “Investments in joint ventures.” IFRS 11 primarily abolishes the previous option to use proportionate consolidation for joint ventures.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 summarizes the disclosure requirements for an entity’s investments in subsidiaries, joint arrangements and associated companies previously contained in IAS 27, IAS 31 and IAS 28. The new standard has extensive disclosure requirements for non-consolidated special-purpose entities in particular.

IFRS 10, 11 and 12 and the subsequent amendments to IAS 27 and IAS 28 apply in the EU for the first time to financial years beginning on or after January 1, 2014. There are not expected to be any effects on the future accounting treatment of proportionately consolidated entities as the entities that have been included by proportionate consolidation since the financial year 2013 are included in the consolidated financial statements in the course of full consolidation. However, the retroactive application of the amended standards will make it necessary to disclose the restated comparative figures from the prior period. There is not expected to be any material impact on the presentation of the statement of financial position as of December 31, 2013. Sales revenues for the period of first-time application will be down some EUR 23.4 million. There is not expected to be any material impact on net income. The ElringKlinger Group also does not expect any significant effect on its future assets, liabilities, financial position and profit or loss.

IFRS 10, IFRS 12 and IAS 27 Investment Entities

This amendment applies to the reporting years beginning on or after January 1, 2014 and exempts entities that satisfy the definition criteria of an investment entity pursuant to IFRS 10 from the consolidation duty. The investment entities must instead measure the shares in their subsidiaries at fair value through profit and loss in future. This amendment is not relevant for the Group as ElringKlinger AG does not satisfy the definition criteria of an investment entity pursuant to IFRS 10.

IAS 32 Financial instruments: Offsetting financial assets and financial liabilities

The amendment to IAS 32 was issued in December 2011 and become mandatory for the first time in the financial year beginning on or after January 1, 2014. The amendments are intended to address existing inconsistencies by providing supplemental guidance. However, the current underlying provisions for offsetting financial instruments will remain in force. The amendments will not affect the accounting policies applied by the Group.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendment to IAS 39 permits under certain circumstances the continuation of hedge accounting when derivatives designated as hedging instruments are transferred to a central clearing agency as a consequence of laws or regulations (novation). The amendment is effective for reporting periods beginning on or after January 1, 2014. Since no hedge accounting is applied in the ElringKlinger Group, the amendment will not affect the consolidated financial statements.

The following standards, which have already been adopted by the EU but are not yet mandatory for the financial year 2013, have not yet been applied by the ElringKlinger Group:

IFRS 9 Financial Instruments

IFRS 9 was published in November 2009. The standard was developed by the IASB as the first part of the project to extensively revise the accounting treatment of financial instruments and contains new regulations on the classification and measurement of financial assets. In October 2010 the requirements of IAS 39 on financial liabilities were largely carried over unchanged to IFRS 9. In December 2011 an addition was made to IFRS 9 in that the previous-year financial statements may not be restated upon first-time adoption and additional disclosure requirements must be met. In November 2013 the IASB, based on the third part of the project to replace IAS 39, published an addition to IFRS 9 containing general provisions on the future accounting treatment of hedge accounting. The current version of IFRS 9 does not contain an effective date. A mandatory first-time effective date is only determined once all phases of the project have been completed and there is a definitive version of IFRS 9.

The Group will analyze the future phases of IFRS 9 to assess their full impact on the Group as soon as they have been published by the IASB.

IAS 19R Employee Contributions

The amendment to IAS 19R was published in November 2013 and is effective for the first time in financial years beginning on or after July 1, 2014. The amendment regulates the recognition of contributions by employees or third-parties to the pension plan as a reduction in service costs if these reflect the work performed in the reporting period. The amendment is applicable retrospectively. Early adoption is permitted. The effects from the first-time adoption of the amendment to IAS 19R on the consolidated financial statements of ElringKlinger AG are currently being analyzed.

IFRIC 21 Levies

IFRIC 21 deals with the issue of accounting for public levies which do not represent income taxes within the meaning of IAS 12 and clarifies in particular when obligations to pay such levies are recognized as liabilities in the financial statements. Voluntary early application of the interpretations is permitted. The application of the amendment is mandatory for financial years beginning on or after January 1, 2014. The Group does not expect the application of IFRIC 21 to have any material impact on its consolidated financial statements.

Improvements to IFRSs (2010 to 2012) and (2011 to 2013)

The amendments resulting from these pronouncements published in December 2013 relate to smaller amendments to nine standards in total. They are mandatory for the first time in the financial year beginning on or after July 1, 2014. The effects from the first-time adoption on the assets, liabilities, financial position and profit or loss of the Group are currently being analyzed.

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2013, include the annual financial statements of six (2012: 6) domestic and 30 (2012: 25) foreign subsidiaries in which ElringKlinger AG holds, either directly or indirectly, more than 50% of the shares or is able to control the entity's financial and business policy for other reasons (control relationship). Inclusion begins at the time the control relationship comes into being and ends when control is deemed to no longer exist.

ElringKlinger Engineered Plastics North America, Inc., Buford, USA, a subsidiary of ElringKlinger Kunststofftechnik GmbH, Germany, was formed on April 8, 2013.

Another subsidiary of ElringKlinger Marusan Corporation, Tokyo, Japan, ElringKlinger (Thailand) Co. Ltd, Bangkok, Thailand, was formed on April 19, 2013.

KOCHWERK Catering GmbH with its registered office in Dettingen/Erms, Germany, was formed on April 29, 2013. ElringKlinger AG holds a 100% interest in the company.

With effect as of May 10, 2013, HURO Invest S.R.L., Timisoara, Romania, was merged into HURO Supermold S.R.L., Timisoara, Romania.

Hummel Formen GmbH, Lenningen, Germany, was merged into ElringKlinger AG in the third quarter of 2013 with a merger date on January 1, 2013.

The companies previously included in the consolidated financial statements by proportionate consolidation ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, with its subsidiaries are fully consolidated as of December 31, 2013.

An overview of the 36 entities included is provided on the following page.

Schedule of Shareholdings and Scope of Consolidation

as of December 31, 2013

Name of company	Domicile	Capital share in %
Parent		
ElringKlinger AG[1]	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Domestic		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg /Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	74.50
Hug Engineering GmbH[2]	Magdeburg	93.67
KOCHWERK Catering GmbH	Dettingen/Erms	100.00
Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Hug Engineering AG	Elsau (Switzerland)	93.67
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Hug Engineering S.p.A.[2]	Mailand (Italy)	93.67
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger North America, Inc.	Plymouth/Michigan (USA)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
Hug Engineering Inc.[2]	Austin (USA)	93.67
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Engineered Plastics North America, Inc.[3]	Buford (USA)	74.50
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.[3]	Qingdao (China)	74.50
ElringKlinger Marusan Corporation[4]	Tokyo (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd.[5]	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd.[6]	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia[5]	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd[5]	Bangkok (Thailand)	50.00

[1] ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of consolidated subsidiaries
[2] Wholly owned subsidiary of HUG Engineering AG
[3] Wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH
[4] Consolidated due to contractual possibility of exercising control
[5] Wholly owned subsidiary of ElringKlinger Marusan Corporation
[6] 46.9% subsidiary of ElringKlinger Marusan Corporation, consolidated due to majority of voting rights

Acquisition of non-controlling interests

With effect from January 1, 2013, ElringKlinger AG acquired the 49% interest previously held by non-controlling interests in the subsidiary ElringKlinger South Africa (Pty) Ltd., with its registered office in Johannesburg, South Africa. The purchase price amounted to EUR 589 k, with the resulting difference from the non-controlling interests accounted for recognized directly in equity. ElringKlinger AG now holds a 100% interest in the company.

On August 1, 2013, ElringKlinger AG acquired the 10% interest previously held by non-controlling interests in the subsidiary Elring Parts Ltd., with its registered office in Gateshead, UK. The purchase price amounted to EUR 701 k, with the resulting difference from the non-controlling interests accounted for recognized directly in equity. ElringKlinger AG now holds a 100% interest in the company.

On August 1, 2013, ElringKlinger AG acquired the 25% interest previously held by non-controlling interests in the subsidiary HUG Engineering AG, with its registered office in Elsau, Switzerland. The purchase price amounted to EUR 4,606 k, with the resulting difference from the non-controlling interests accounted for recognized directly in equity. ElringKlinger AG now holds a 93.67% interest in the company.

Step-by-step purchase of interests

With its investments, ElringKlinger generally strives to have a majority shareholding. In this connection, the 50% interest in ElringKlinger Korea Co., Ltd., Changwon, South Korea, was acquired by ElringKlinger AG from the joint shareholder with effect as of February 1, 2013. ElringKlinger AG now holds a 100% interest in the company. The purchase price amounted to EUR 4,266 k. The transaction-related costs of EUR 53k to date were recognized in administrative costs.

The assets and liabilities of the acquired shares were measured at fair value as of the acquisition date.

The business combination resulted in goodwill of EUR 4,915 k. This was paid primarily for the positive forecasts as well as the expected synergies and allocated to the Original Equipment segment.

Goodwill is not tax deductible.

The first-time full consolidation of the company increased the Group's revenue by EUR 4,678 k as of December 31, 2013 and earnings before taxes were reduced by EUR 415 k.

Had the acquisition been completed as of January 1, 2013, ElringKlinger Korea Co., Ltd. would have contributed EUR 5,146 k to group revenue and burdened earnings before taxes with EUR 395 k.

The following table contains the final distribution of the purchase price between the assets and liabilities:

EUR k	IFRS carrying amount as of the acquisition date	Purchase price allocation	Acquisition date fair value
Intangible assets	–	82	82
Land and buildings	132	–	132
Technical equipment and machinery	1,852	–	1,852
Other equipment, furniture and fixtures	104	–	104
Property, plant and equipment under construction	76	–	76
Long-term securities	212	–	212
Deferred tax assets	289	–	289
Inventories	2,155	–	2,155
Trade receivables	2,033	–	2,033
Other current assets	1,278	–	1,278
Cash and cash equivalents	2,231	–	2,231
Total assets	**10,362**	**82**	**10,444**
Provisions	164	–	164
Deferred tax liabilities	–	16	16
Current trade payables	6,275	–	6,275
Current provisions	68	–	68
Tax payable	11	–	11
Other current liabilities	293	–	293
Total liabilities	**6,811**	**16**	**6,827**
Net assets	**3,551**	**66**	**3,617**

EUR k			Feb. 1, 2013
Purchase price of the shares 50%			4,266
Fair value of the old shares 50%			4,266
Measurement basis for goodwill			**8,532**
Goodwill			**4,915**

The fair value adjustments for intangible assets relate to the profit margins contained in the order backlog as of the acquisition date as well as the resulting deferred tax effect.

The shares in ElringKlinger Korea Co., Ltd. accounted for on a proportional basis were remeasured upon acquiring the outstanding shares at a fair value of EUR 4,266 k. The transition to full consolidation resulted in non-cash income of EUR 1,386 k from the remeasurement of the shares held to date, which was recognized as other operating income.

No contingent liabilities were identified in the course of the acquisition. No impairment losses were recognized in respect of trade receivables. Their fair value corresponds to the gross value of EUR 2,033 k.

Full consolidation of ElringKlinger Marusan Corporation

With its investments, ElringKlinger generally strives to have a majority shareholding. As of December 31, 2013, ElringKlinger AG and its joint venture partner entered into an agreement regarding control of ElringKlinger Marusan Corporation, Tokyo, Japan. On account of the new contractual regulations, ElringKlinger AG is in a position to shape decisions and thereby exercise control over the joint venture.

Under this agreement, a put and call option was agreed with the non-controlling interests on their shares. The obligation resulting from this agreement is recognized as a financial liability and recorded at amortized cost in the amount of the fair value of EUR 37,054 k. Changes to the fair value are recognized in the income statement in subsequent periods.

ElringKlinger Marusan is therefore fully consolidated in the ElringKlinger Group; the shareholdings of the non-controlling interests have not been disclosed.

The shares in ElringKlinger Marusan accounted for on a proportional basis were remeasured at their fair value of EUR 37,054 k. The transition to full consolidation resulted in non-cash income of EUR 17,556 k from the remeasurement of the shares held to date, which was recognized as other operating income. The transition to full consolidation did not result in any changes to group revenue or earnings.

The goodwill resulting from the change in the organization of the company primarily reflects the positive earnings prospects of the ElringKlinger Marusan Group and in particular the growth potential in the ASEAN countries. This has been allocated to the Original Equipment segment. Goodwill is not tax deductible.

Had the change in the organization of the company taken place as of January 1, 2013, the contribution made by the Marusan Group to ElringKlinger's group revenue in 2013 would have amounted to EUR 23,423 k and earnings before tax to EUR 559 k.

The following table contains the provisional distribution of the value of the company between assets and liabilities:

EUR k	IFRS carrying amount as of the acquisition date	Preliminary allocation of the business value	Acquisition date fair value
Goodwill	25	–	25
Patents, licenses, software and similar rights	316	–	316
Order backlog, customer base and technology	–	9,204	9,204
Land and buildings	6,939	–	6,939
Technical equipment and machinery	5,664	–	5,664
Other equipment, furniture and fixtures	163	–	163
Property, plant and equipment under construction	621	–	621
Loans to affiliated companies	6,910	–	6,910
Non-current securities	44	–	44
Other non-current assets	215	–	215
Deferred tax assets	1,587	–	1,587
Inventories	4,028	–	4,028
Trade receivables	12,418	–	12,418
Other current assets	1,476	–	1,476
Cash and cash equivalents	10,679	–	10,679
Total assets	**51,085**	**9,204**	**60,289**
Non-controlling interests	2,363	–	2,363
Non-current provisions	1,874	–	1,874
Deferred tax liabilities	85	3,169	3,254
Non-current financial liabilities	67	–	67
Other non-current liabilities	160	–	160
Current financial liabilities	1,757	–	1,757
Current trade payables	4,967	–	4,967
Current provisions	60	–	60
Tax payable	789	–	789
Other current liabilities	1,388	–	1,388
Total liabilities	**13,510**	**3,169**	**16,679**
Net assets	**37,575**	**6,035**	**43,610**
Proportionate share of the business value 50%			37,054
Fair value of the old shares 50%			37,054
Consolidation			
Measurement basis for goodwill			**74,108**
Goodwill			**30,498**

As part of the allocation, hidden reserves were identified for intangible assets. The assets identified include the profit margins contained in the order backlog as of the acquisition date as well as in the technology and customer base. For the customer base, which is amortized over a useful life of

five years using the straight-line method, a fair value of EUR 7,064 k was calculated. The corresponding deferred tax effect was also recognized at the respective asset values.

As part of the allocation, no contingent liabilities and receivables were identified. No impairment losses were recognized in respect of trade receivables. Their fair value corresponds to the gross value of EUR 12,418 k.

The fair values of the intangible assets are currently only provisional. A definitive assessment of the assets and liabilities is expected in 2014.

Summary of the principal accounting and measurement methods

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

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

Consolidation methods

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

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

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

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

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

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

The financial year of all companies included, except the Indian subsidiary (March 31), corresponds to the financial year of the parent company. In case of differing reporting dates, interim financial statements are prepared as of the reporting date of the parent company.

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

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

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

Currency translation differences from monetary items that form part of a net investment in a foreign operation are reported under other comprehensive income.

The financial statements of the foreign companies are translated into euros since this is the functional currency of the parent company. Since subsidiaries and joint ventures operate their businesses independently in financial, economic and organizational respects, the functional currency is identical to the relevant national currency of the company. For reasons of simplification, the expenses and income from financial statements of entities included in the consolidated financial statements which were originally prepared in foreign currencies are translated at the average rate for the year. The average rate for the year is calculated on the basis of daily rates. Assets and liabilities are translated at the closing rate. Currency differences are reported as separate items directly in equity. In the event of a disposal of a consolidated entity, accumulated currency differences are recorded as part of the gain or loss on sale.

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

Currency	Abbr.	Closing rate Dec. 31, 2013	Closing rate Dec. 31, 2012	Average rate 2013	Average rate 2012
US dollar (USA)	USD	1.37910	1.31940	1.33083	1.29284
Pound (UK)	GBP	0.83370	0.81610	0.85008	0.81163
Franc (Switzerland)	CHF	1.22760	1.20720	1.22906	1.20428
Canadian dollar (Canada)	CAD	1.46710	1.31370	1.37711	1.29058
Real (Brazil)	BRL	3.25760	2.70360	2.89373	2.53343
Peso (Mexico)	MXN	18.07310	17.18450	17.12746	16.94385
RMB (China)	CNY	8.34910	8.22070	8.17328	8.14721
WON (South Korea)	KRW	1,450.93000	1,406.23000	1,456.23833	1,447.12500
Rand (South Africa)	ZAR	14.56600	11.17270	13.01281	10.57579
Yen (Japan)	JPY	144.72000	113.61000	130.18167	103.49667
Forint (Hungary)	HUF	297.04000	292.30000	297.93333	288.18167
Turkish lira (Turkey)	TRY	2.96050	2.35510	2.56752	2.31404
Leu (Romania)	RON	4.47100	4.44450	4.41495	4.45736
Indian rupee (India)	INR	85.36600	72.56000	78.47108	69.00309
Indonesian rupiah (Indonesia)	IDR	16,764.78000	12,713.97000	14,067.13083	12,123.76333
Bath (Thailand)	THB	45.17800	40.34700	41.08033	40.05708

Accounting policies

Goodwill

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

EUR k	2013	2012
Original Equipment	130,793	99,291
Engineered Plastics	4,816	4,816
Aftermarket	1,658	1,658
Total	**137,267**	**105,765**

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

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

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

A detailed plan of the cash flows for the cash-generating units is established over the forecast period of five years. Subsequent periods are accounted for by a perpetual annuity determined on the basis of the average for the years 2014 to 2018.

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

Sales revenue planning at the ElringKlinger Group is performed at an individual component level. A variety of different information is used for the sales revenue planning. With regard to short-term planning, the current order backlog, information on the respective manufacturer and information from independent sources, such as advisory firms or automobile associations, is used. In the medium term, ElringKlinger, in performing its sales revenue planning, expects the global automotive markets to sustain slight growth.

Costs are also budgeted at an individual component level within the ElringKlinger Group. This takes into account efficiency as well as cost increases. For the raw materials processed in the cash-generating units, group-wide uniform planning assumptions were applied. For prices of materials, excessive price increases are not expected. For other costs, it is assumed that they will continue to develop in line with regional economic development dependent on sales revenues.

The discount factor applied as of December 31, 2013 was the weighted average cost of capital (WACC) before taxes of 10.70% (2012: 9.54%). The WACC is determined on the basis of the basic interest rate according to the IDW method, the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread as a premium over the risk-free rate was derived from a rating of a peer group.

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

The impairment test performed as of December 31, 2013 did not result in the impairment of goodwill. Even changes in key parameters management deemed to be possible would not result in impairment.

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

Intangible assets

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

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

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

Property, plant and equipment

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

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

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

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

Investment property

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

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

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

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

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

Impairments and reversals are recorded in income.

Financial instruments

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

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

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

At their acquisition date, financial instruments are categorized on the basis of their intended use.

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

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

Financial assets

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

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

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

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

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

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

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

Financial assets resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as **loans and receivables**. Current assets and liabilities classified in this category are measured at acquisition cost, whereas the non-current financial assets and liabilities are measured at amortized cost in accordance with the effective interest method.

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

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables based on the creditworthiness of the customer concerned. If there is objective evidence of impairment of loans and receivables (e.g., major financial difficulties on the part of the debtor or negative changes in the market environment of the debtor), these are recognized in the income statement. Impairments of trade receivables are initially recognized in an adjustments account. The impaired receivable is derecognized when it is considered unrecoverable.

Using the effective interest method, financial instruments are recorded at amortized cost in the category **"financial investments held to maturity"** when the Group has the intent and the legal ability to hold them until maturity.

Assets are allocated to **financial assets classified as available for sale** if they are financial assets for which there is intention to sell and they were not acquired for trading purposes or cannot be allocated to any of the above categories. This category does not contain securities held for trading, for example. They are measured at fair value.

Financial liabilities

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

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

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

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

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

Derivative financial instruments and treatment of hedges

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

Derivative financial instruments used in the ElringKlinger Group are interest and price hedge transactions. The purpose of derivative financial instruments is to reduce the negative effects of interest and price risks on the assets, liabilities, financial position and profit or loss of the Group. As of the reporting date, there was one financial derivative (interest rate swap) as well as five nickel hedging contracts and forward contracts for electricity and gas.

Inventories

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

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

Cash and cash equivalents

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

Non-current assets held for sale

Non-current assets classified as held for sale are carried at the lower of their carrying amount and fair value less costs to sell.

Provisions for pensions

Provisions for pensions are calculated on the basis of the projected unit credit method in accordance with IAS 19 (revised 2011). Measurement takes into account not only to the pensions and vested benefits known at the end of the reporting period, but also expected future increases in pensions and salaries with a prudent estimate of the relevant variables and biometric assumptions.

Actuarial gains and losses resulting from the difference between the expected and actual accounting changes in headcount, as well as differences arising from changes to accounting assumptions, are recognized in full in the period in which they occur. They are recognized outside of the income statement under other comprehensive income.

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

Provisions

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

The measurement of these provisions is at the present best estimate of the expenses necessary to fulfill the obligation. If appropriate, the amount of the provision corresponds to the present value of the expenditures expected to be necessary to meet the obligations. Refund claims are capitalized separately, if applicable. If the Group expects at least a partial refund for a provision, the refund is recognized under other assets if the return of the refund is expected.

Leases

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

If beneficial ownership under a lease rests with the lessor (operating leases), the lessor recognizes the leased object in its statement of financial position. The lease expenditures incurred are then recorded as expenses over the term of the lease using the straight-line method. Lease relationships in which the ElringKlinger Group is the lessor, and for which the lessee does not for the most part bear all risks and rewards associated with ownership, are classified as operating leases. Income from operating lease relationships of the industrial park is recognized as sales revenues.

Recognition of income and expense

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

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

Interest income is recognized on an accrual basis using the effective interest method.

Income from services is recognized as soon as the services have been rendered.

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

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

Operating expenses are recorded in the income statement at the time of performance or at the time of origination.

Research and development costs

Research costs are expensed at the time they are incurred. The costs for development activities are recognized if all the following criteria are satisfied.

- The development costs can be determined reliably.
- The product or the process can be realized technically and commercially.
- Future commercial benefits are likely.
- There is the intent and sufficient resources to complete the development and to use or sell the asset.

Capitalized costs are included under intangible assets. Other development costs are recognized as an expense when incurred. The recognized costs are amortized over five years. As of the financial year 2013, amortization of internally generated capitalized development costs of EUR 6,328 k (2012: EUR 5,624 k) is recognized under cost of sales instead of research and development costs in order to improve presentation of the Group's income statement.

Government grants

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

Borrowing costs

Borrowing costs directly associated with the acquisition, construction, or production of qualifying assets are added to the production costs of these assets until the period in which the assets are largely available for their intended use or for their sale. Interest not capitalized pursuant to IAS 23 is recognized on an accrual basis as an expense using the effective interest method. The actual borrowing costs are capitalized if a financing loan can be definitively assigned to a specific investment. Unless a direct relationship can be established, the Group's average interest rate for borrowed capital for the current period is used. The Group's average interest rate for borrowed capital for the financial year 2013 amounted to 2.66% (2012: 3.6%). In the financial year 2013 borrowing costs of EUR 274 k (2012: 452) were recognized.

Income taxes and deferred taxes

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

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

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

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

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

Changes in deferred tax assets are recognized in the income statement as tax income or expense unless they relate to other comprehensive income or items recognized directly in equity; in these cases, deferred taxes are also reported under other comprehensive income or directly in equity.

Contingent liabilities and contingent receivables

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

Use of estimates

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

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

determined on the basis of the circumstances from individual estimates or from past experience, and appropriate provisions are recognized.

The use of estimates for other items in the group statement of financial position and the group income statement are described in the accounting principles for the respective items. This pertains in particular to the matters: Impairments of goodwill, impairments of property, plant and equipment and intangible assets, impairment of receivables and the valuation of pension provisions.

Risks and uncertainties

The development of the global vehicle markets is generally linked to the economic situation. This applies even more to the truck segment than to the passenger vehicle segment. In light of this, a collapse in economic development always poses the risk that the demand for vehicles drops and therefore also vehicle production in the short to medium term. This would result cause demand for ElringKlinger components to fall.

According to current assessments, there continue to be risks regarding economic development in the southern and western European markets which are affected by the tense economic situation and high unemployment. Although there were reports of the economies stabilizing here in 2013, a quick and far-reaching recovery is not to be expected. On the whole, the economic situation is expected to gradually improve in Europe as of 2014. Weak development in Europe, however, can be compensated for on a global scale by the grown in Asia and North America. The Internal Monetary Fund anticipates economic growth to be stronger in 2014 than 2013 and forecasts an increase of 3.7%.

At a global level, the risk of a dramatic collapse in vehicle production – similar to the 2008/2009 crisis – can therefore be ruled out for the most part. ElringKlinger expects global vehicle production in 2014 to increase by some 2% to 3%.

ElringKlinger is represented worldwide and, with its broad customer structure, is generally neither dependent on individual markets nor on individual manufacturers. This means that an adverse economic situation in one region can at least be partially offset. Thanks to its flexible position, ElringKlinger, in the event of greater economic turmoil, would be in the position to react immediately to the market conditions and quickly adjust the cost structures.

ElringKlinger makes adequate provision for economic risks during the planning stage. The budget is generally based on a rather cautious macroeconomic scenario.

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

Individual disclosures on the Group Income Statement

Sales revenues

(1)

Sales revenues increased by EUR 48,049 k in comparison with 2012 to reach EUR 1,175,231 k.

Sales revenues of the Group are made up as follows:

EUR k	2013	2012
Sale of goods	1,162,940	1,115,693
Proceeds from the rendering of services	8,031	7,254
Income from rental and leasehold	4,260	4,235
Total	**1,175,231**	**1,127,182**

Breakdown by geographical markets:

EUR k	2013	2012
Domestic	360,796	338,882
Foreign	814,435	788,300
Total	**1,175,231**	**1,127,182**

The location of the customer is used to determine allocation of sales revenues. The division of group revenues by segment and region is presented in note (30) **Segment reporting*** .

* *Cf. page 214*

Cost of sales

(2)

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

Cost of sales includes:

EUR k	2013	2012
Cost of materials	520,881	506,118
Personnel expenses*	203,138	192,020
Depreciation and amortization	60,380	58,463
Other expenses	61,759	58,410
Total	**846,158**	**815,011**

*Previous-year figures restated

(3) Selling expenses

Selling expenses increased by EUR 4,297 k compared to 2012 to reach EUR 82,343 k. Selling expenses mainly include personnel expenses, material and marketing costs, as well as amortization and depreciation related to sales activities.

(4) General and administrative expenses

General and administrative expenses include personnel expenses and material costs as well as the amortization and depreciation related to the administrative area. General and administrative expenses rose by EUR 1,842 k compared to 2012 to reach EUR 47,617 k.

(5) Research and development costs

Research and development costs include the personnel expenses and the cost of experimental materials and tools attributable to these activities, unless these are development costs that are required to be capitalized under the conditions set forth in IAS 38.57. Development costs increased by EUR 168 k compared to 2012 to reach EUR 57,136 k. Development costs of EUR 8,985 k (2012: EUR 8,394 k) were capitalized in the financial year 2013.

(6) Other operating income

EUR k	2013	2012
Government grants	7,261	4,019
Reimbursements from third parties	1,731	1,614
Income from disposals of non-current assets	1,124	3,663
Reversal of provisions/deferred liabilities	482	901
Insurance reimbursements	457	720
Write-up of impaired receivables	279	871
License fees	235	125
Income from claims reimbursements	108	30
Income from the disposal of machinery	0	68
Other	21,555	3,389
Total	**33,232**	**15,400**

In connection with the transition to the full consolidation of ElringKlinger Marusan Corporation and ElringKlinger Korea Co., Ltd., other comprehensive income contains income from the remeasurement of the shares held to date totaling EUR 18,942 k.

Other operating income also includes out-of-period income from the reversal of provisions and deferred liabilities (EUR 482 k; 2012: EUR 901 k).

Other operating expenses

(7)

EUR k	2013	2012
Other taxes (excl. income taxes)	2,676	1,287
Impairment of receivables	1,170	495
Defaults on receivables	906	1,089
Expenditures for claims	772	409
Recognition of provisions/deferred liabilities	729	763
Losses on disposal of non-current assets	678	894
Other fees	249	612
Selling costs for machinery	20	108
Other	3,077	2,159
Total	**10,277**	**7,816**

Net finance costs

(8)

EUR k	2013	2012
Finance income		
Income from currency differences	8,570	5,105
Interest income	743	1,240
Other	27	513
Finance income, total	**9,340**	**6,858**
Finance costs		
Expenses from currency difference	-13,163	-8,467
Interest expenses*	-11,880	-13,398
– thereof from derivative financial instruments	-158	-132
Other	-13	-2
Finance costs, total	**-25,056**	**-21,867**
Net finance costs	**-15,716**	**-15,009**

*Previous-year figures restated

Of the interest expenses, EUR 3,285 k (2012: EUR 3,862 k) are related to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on long-term provisions. Borrowing costs for qualifying assets in the amount of EUR 274 k were capitalized in the reporting year (2012: EUR 452 k); this represents a corresponding improvement in the result. Interest expenses for finance leases are immaterial.

9 Income taxes

Income taxes are composed as follows:

EUR k	2013	2012
Current tax expense	38,047	35,739
Deferred taxes	-34	-1,330
Tax expense reported	**38,013**	**34,409**

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

The income tax rate calculated for the German companies is 27.7% (2012: 27.6%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 10.0% and 38.9% (2012: between 10.0% and 40.0%). The average foreign tax rate is 27.2% (2012: 26.0%).

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

The following table shows a reconciliation between the income tax expense that might theoretically be expected to arise for the Group under application of the current domestic rate of 27.7% (2012: 27.6%) and the income tax expense actually reported.

EUR k	2013	2012
Earnings before taxes	149,216	123,621
Expected tax rate	**27.7%**	**27.6%**
Expected tax expense	**41,333**	**34,107**
Change in the expected tax rate due to:		
– Flat-rate tax on dividends	0	302
– Investment property has a fair value as of the reporting date	-3,953	1,224
– Difference in basis of assessment of local taxes	139	312
– Utilization of non-current and expiration of current tax loss carryforwards	0	2,629
– Write-up of non-current and write-down of current tax loss carryforwards (from other periods)	4,101	-433
– Addition to non-current tax loss carryforwards (relating to the period)	1,668	0
– Taxes relating to other periods	172	441
– Deviations due to changes in tax rate	-4,573	-4,255
– Other effects	-875	81
Current tax expense	**38,013**	**34,409**
Actual tax rate	**25.8%**	**27.8%**

Retained earnings of EUR 13,897 k (2012: EUR 21,951 k) at domestic and foreign subsidiaries will be distributed to ElringKlinger AG in the coming years. The tax expense in relation to distributions in Germany amounted to EUR 193 k (2012: EUR 286 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 264,948 k (2012: EUR 195,226 k) are intended to be permanently reinvested in those operations on the basis of current planning.

In the financial year 2013, deferred tax income on actuarial losses recognized under other comprehensive income amounted to EUR 6,349 k (2012: EUR 5,486 k).

Deferred tax assets on tax loss carryforwards have been recognized in the amount of EUR 1,171 k (2012: EUR 3,893 k). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 32,302 k (2012: EUR 16,818 k), since it was not expected that the deferred tax assets would be utilized in the foreseeable future.

Unused income tax loss carryforwards primarily relate to foreign subsidiaries. The Group's total income tax loss carryforwards amount to:

Expiration of loss carryforwards within	EUR k
One year	0
Two years	540
Three years	1,508
Four years	1,673
Five years	4,042
More than five years	18,931
Non-forfeitable	8,683
Total	**35,377**

Tax deferrals relate to the following line items:

Items of the statement of financial position	Deferred tax assets		Deferred tax liabilities	
EUR k	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Intangible assets	334	69	9,517	6,688
Property, plant and equipment	1,898	1,427	31,799	35,379
Investment property	0	0	1,795	553
Financial assets	14	16	51	7
Other non-current assets	142	320	18	66
Inventories	2,945	2,304	1,604	994
Trade receivables	569	428	151	709
Other current assets	-97	0	787	1,998
Cash and cash equivalents	1	0	0	0
Provisions for pensions	10,933	13,671	-734	-856
Non-current provisions	1,207	1,156	0	0
Non-current financial liabilities	17	15	390	0
Other non-current liabilities	84	202	0	0
Current provisions	1,785	3,169	-72	-71
Trade payables	45	198	23	4
Current financial liabilities	19	46	1	0
Other current liabilities	1,600	2,638	152	1,024
Deferred taxes associated with investments in subsidiaries	0	0	193	286
Tax loss carryforwards	1,171	3,893	0	0
Total	**22,667**	**29,552**	**45,675**	**46,781**
Offsetting of deferred tax assets against deferred tax liabilities	-13,147	0	-13,147	0
Shown in the statement of financial position	**9,520**	**29,552**	**32,528**	**46,781**

(10) Basic and diluted earnings per share

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

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

	2013	2012
Share of earnings attributable to shareholders of ElringKlinger AG in EUR k*	105,418	85,719
Average number of shares	63,359,990	63,359,990
Earnings per share in EUR*	**1.66**	**1.35**

* Previous-year figures restated

Disclosures on the Group Statement of Financial Position

Intangible assets

(11)

EUR k	Development costs (internally generated)	Goodwill (purchased)	Patents, licenses, software (purchased)	Intangible assets under construction (purchased)	Total
Cost as of Jan. 1, 2013	**33,487**	**118,982**	**41,484**	**0**	**193,953**
Currency changes	-166	-1,689	-431	0	-2,286
Change in consolidated group	0	33,047	9,302	0	42,349
Additions	8,985	0	2,562	85	11,632
Reclassifications	0	0	132	0	132
Disposals	4,980	0	80	0	5,060
As of Dec. 31, 2013	**37,326**	**150,340**	**52,969**	**85**	**240,720**
Depreciation and amortization as of Jan. 1, 2013	**18,187**	**13,217**	**26,560**	**0**	**57,964**
Currency changes	-102	-144	-240	0	-486
Change in consolidated group	0	0	-143	0	-143
Additions	6,328	0	4,261	0	10,589
Disposals	3,837	0	77	0	3,914
As of Dec. 31, 2013	**20,576**	**13,073**	**30,361**	**0**	**64,010**
Net carrying amount as of Dec. 31, 2013	**16,750**	**137,267**	**22,608**	**85**	**176,710**
Cost as of Jan. 1, 2012	**28,112**	**118,530**	**38,562**	**137**	**185,341**
Currency changes	44	452	-95	0	401
Change in consolidated group	0	0	34	0	34
Additions	8,394	0	2,901	0	11,295
Reclassifications	0	0	135	-137	-2
Disposals	3,063	0	53	0	3,116
As of Dec. 31, 2012	**33,487**	**118,982**	**41,484**	**0**	**193,953**
Depreciation and amortization as of Jan. 1, 2012	**15,584**	**13,215**	**22,409**	**0**	**51,208**
Currency changes	30	2	-78	0	-46
Change in consolidated group	0	0	18	0	18
Additions	5,624	0	4,257	0	9,881
Disposals	3,051	0	46	0	3,097
As of Dec. 31, 2012	**18,187**	**13,217**	**26,560**	**0**	**57,964**
Net carrying amount as of Dec. 31, 2012	**15,300**	**105,765**	**14,924**	**0**	**135,989**

Purchase commitments to acquire intangible assets amounted to EUR 12 k as of December 31, 2013 (December 31, 2012: EUR 69 k).

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

EUR k	2013	2012
Cost of sales	7,506	779
Selling expenses	1,018	1,291
General and administrative expenses	1,405	1,310
Research and development costs	691	6,144
Total	**10,620**	**9,524**

Property, plant and equipment

(12)

EUR k	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures	Property, plant and equipment under construction	Total
Cost as of Jan. 1, 2013	**291,965**	**736,752**	**132,211**	**47,272**	**1,208,200**
Currency changes	-5,405	-16,955	-1,211	-1,882	-25,453
Change in consolidated group	430	-7,563	-425	842	-6,716
Additions	19,934	39,211	10,562	45,864	115,571
Reclassifications	5,486	31,863	2,307	-39,788	-132
Disposals	410	6,418	5,699	0	12,527
As of Dec. 31, 2013	**312,000**	**776,890**	**137,745**	**52,308**	**1,278,943**
Depreciation and amortization as of Jan. 1, 2013	**61,178**	**485,933**	**96,089**	**0**	**643,200**
Currency changes	-1,520	-12,389	-826	0	-14,735
Change in consolidated group	-3,105	-11,315	-542	0	-14,962
Additions	7,810	49,565	7,481	0	64,856
Reclassifications	0	-1	1	0	0
Disposals	250	5,706	5,568	0	11,524
As of Dec. 31, 2013	**64,113**	**506,087**	**96,635**	**0**	**666,835**
Net carrying amount as of Dec. 31, 2013	**247,887**	**270,803**	**41,110**	**52,308**	**612,108**
Cost as of Jan. 1, 2012	**249,302**	**673,094**	**124,194**	**74,628**	**1,121,218**
Currency changes	-1,276	-2,921	-267	-1,209	-5,673
Change in consolidated group	2,100	1,506	200	0	3,806
Additions	23,305	34,732	7,557	36,898	102,492
Reclassifications	22,504	37,013	3,058	-62,571	4
Disposals	3,970	6,672	2,531	474	13,647
As of Dec. 31, 2012	**291,965**	**736,752**	**132,211**	**47,272**	**1,208,200**
Depreciation and amortization as of Jan. 1, 2012	**55,922**	**435,991**	**91,760**	**0**	**583,673**
Currency changes	-360	-2,312	-207	0	-2,879
Change in consolidated group	137	549	167	0	853
Additions	7,039	55,369	6,608	0	69,016
Disposals	1,560	3,664	2,239	0	7,463
As of Dec. 31, 2012	**61,178**	**485,933**	**96,089**	**0**	**643,200**
Net carrying amount as of Dec. 31, 2012	**230,787**	**250,819**	**36,122**	**47,272**	**565,000**

Property, plant and equipment contains technical equipment capitalized by the Group as beneficial owner under finance lease arrangements in the amount of EUR 778 k (2012: EUR 1,064 k). In the financial year, amortization of leased assets amounted to EUR 286 k (2012: EUR 154 k).

In the financial year 2013, impairments, based on the fair value less costs to sell, of EUR 525 k were recognized on land and buildings. Impairments relate to the Original Equipment segment.

Purchase commitments to acquire property, plant and equipment amounted to EUR 30,237 k as of December 31, 2013 (December 31, 2012: EUR 36,996 k).

(13) Investment property

EUR k	Investment property	Investment property under construction	Total
Cost as of Jan. 1, 2013	**23,652**	**104**	**23,756**
Currency changes	-217	-2	-219
Additions	77	0	77
Reclassifications	6	-6	0
Disposals	6	0	6
As of Dec. 31, 2013	**23,512**	**96**	**23,608**
Depreciation and amortization as of Jan. 1, 2013	**10,427**	**0**	**10,427**
Currency changes	-67	0	-67
Additions	501	0	501
As of Dec. 31, 2013	**10,861**	**0**	**10,861**
Net carrying amount as of Dec. 31, 2013	**12,651**	**96**	**12,747**
Cost as of Jan. 1, 2012	**22,663**	**96**	**22,759**
Currency changes	883	7	890
Additions	0	110	110
Reclassifications	107	-109	-2
Disposals	1	0	1
As of Dec. 31, 2012	**23,652**	**104**	**23,756**
Depreciation and amortization as of Jan. 1, 2012	**9,688**	**0**	**9,688**
Currency changes	250	0	250
Additions	489	0	489
As of Dec. 31, 2012	**10,427**	**0**	**10,427**
Net carrying amount as of Dec. 31, 2012	**13,225**	**104**	**13,329**

Investment property includes the Idstein and Kecskemét-Kádafalva (Hungary) industrial parks.

Investment property has a fair value of EUR 17,460 k as of the reporting date (2012: EUR 16,889 k). The input data used to determine the fair value correspond to stage 3 of the fair value hierarchy. The fair value is determined using the discounted cash flow method and general approximations. Under the discounted cash flow method, the surplus of expected future rental payments (lease agreements) is discounted over the expected cash expenses to the valuation date. The capitalization factor applied was an interest rate of 8.69% (2012: 9.92%). Measurement of the fair values was not performed by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR 4,260 k (2012: EUR 4,235 k). Expenses directly connected with this financial investment amounted to EUR 4,462 k (2012: EUR 4,251 k). Material contractual commitments to acquire or maintain investment property did not exist as of the end of the reporting period. Furthermore, there were no limitations regarding the saleability of investment property.

Financial assets

(14)

EUR k	Non-current securities	Other financial assets	Total
Acquisition cost as of Jan. 1, 2013	**1,532**	**125**	**1,657**
Currency changes	-5	-1	-6
Change in consolidated group	157	0	157
Additions	966	5	971
Revaluations	24	0	24
Disposals	734	28	762
As of Dec. 31, 2013	**1,940**	**101**	**2,041**
Depreciation and amortization as of Jan. 1, 2013	**20**	**0**	**20**
Currency changes	1	0	1
Change in consolidated group	29	0	29
Additions	11	0	11
As of Dec. 31, 2013	**61**	**0**	**61**
Net carrying amount as of Dec. 31, 2013	**1,879**	**101**	**1,980**
Fair value as of Dec. 31, 2013	1,880	101	
Acquisition cost as of Jan. 1, 2012	**1,524**	**1,122**	**2,646**
Currency changes	6	0	6
Additions	404	8	412
Disposals	402	1,005	1,407
As of Dec. 31, 2012	**1,532**	**125**	**1,657**
Depreciation and amortization as of Jan. 1, 2012	**25**	**0**	**25**
Currency changes	2	0	2
Revaluations	6	0	6
Disposals	1	0	1
As of Dec. 31, 2012	**20**	**0**	20
Net carrying amount as of Dec. 31, 2012	**1,512**	**125**	**1,637**
Fair value Dec. 31, 2012	1,549	125	

Of the non-current securities, EUR 1,433 k (2012: EUR 1,512 k) is pledged in full to secure pension claims.

(15) Non-current income tax assets and other non-current assets

Non-current income tax assets contain mainly the corporate tax credit of ElringKlinger AG capitalized at present value in the amount of EUR 1,988 k (2012: EUR 2,688 k). The corporation tax credit are being disbursed to ElringKlinger AG in ten equal annual installments from 2008 until 2017.

Other non-current assets include an advance payment on future licensing expenses amounting to EUR 645 k (2012: EUR 861 k).

(16) Inventories

EUR k	Dec. 31, 2013	Dec. 31, 2012
Raw materials, consumables and supplies	74,759	66,705
Work in progress	47,436	29,983
Finished goods and merchandise	132,446	127,330
Advance payments	2,746	5,568
Total	**257,387**	**229,586**

Under inventories, markdowns of EUR 16,319 k (2012: EUR 14,788 k) have been made to account for marketability risks. No write-ups were performed. Impairments are recognized in cost of sales.

(17) Trade receivables, current income tax assets and other current assets

For trade receivables and other current assets, impairments of EUR 4,698 k (2012: EUR 3,706 k) were recognized for specific identifiable risks and likely use of discounts.

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

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

The adjustment account for trade receivables developed as follows:

EUR k	2013	2012
As of Jan. 1	**3,706**	**4,485**
Additions	2,281	1,427
Reversals/utilizations	-925	-2,049
Exchange rate effects	-364	-157
As of Dec. 31	**4,698**	**3,706**

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

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

EUR k	Dec. 31, 2013	Dec. 31, 2012
Neither overdue nor impaired	**170,351**	**150,835**
Overdue, not impaired		
– less than 30 days	17,504	19,728
– from 31 to 60 days	7,110	5,874
– from 61 to 90 days	3,985	2,529
– from 91 to 180 days	2,260	470
– more than 180 days	2,610	516
Total:	**33,469**	**29,117**
Discounts	**-273**	**0**
Impaired	**3,906**	**5,898**
Carrying amount	**207,453**	**185,850**

The need to recognize impairment losses is analyzed on every reporting date for the major customer on an individual basis. Additionally, a large number of receivables are grouped into homogeneous groups and assessed for impairment collectively.

For the portfolio of receivables neither overdue nor impaired, nothing has been identified as of the reporting date that would indicate that the debtors will not meet their payment obligations.

The other current assets include receivables relating to VAT and other taxes amounting to EUR 14,787 k (2012: EUR 9,615 k), as well as insurance receivables in the context of warranty claims.

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

(18) Cash and cash equivalents

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

The carrying amount of these assets corresponds to their fair value

(19) Non-current assets held for sale

The property held for sale as of December 31, 2012 is a building held by ElringKlinger Korea Co., Ltd. which was sold in the financial year 2013. This did not have any effect on earnings in 2013.

(20) Equity

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

* Cf. page 154

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2013 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with § 60 AktG in conjunction with § 23 no. 1 of the Articles of Association.

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

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

The Management Board has not exercised the authorization to date.

The capital reserves were essentially created from the premium from the 2010 capital increase.

The revenue reserves contain the earnings generated by the group companies where these had not yet been distributed. There is also an amount of EUR 26,181 k from the first application of IFRSs in 2005.

The other reserves contain actuarial gains and losses from pension commitments, equity impact of controlling interests and currency translation differences.

Under the German Stock Corporation Act (AktG), the distributable dividend is measured by the retained earnings, which are shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In the financial year 2013, ElringKlinger AG distributed to its shareholders a dividend of EUR 28,512 k (EUR 0.45 per share) from the retained earnings for 2012. In the financial year 2012, the distribution was EUR 36,749 k (EUR 0.58 per share) from the retained earnings for 2011.

The Management Board and the Supervisory Board will propose to the Annual General Meeting on the 2013 financial statements to be held on May 16, 2014, a distribution from retained earnings amounting to EUR 31,680 k of a dividend of EUR 0.50 per share carrying dividend rights.

Non-controlling interests in equity and net income (21)

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

Provisions for pensions (22)

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

Under the **defined contribution plans** the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Once the contributions are paid, the company has no further obligations, such as follow-up contribution payments. Current contribution payments are reported under personnel expenses in the reporting year; in the reporting year, the Group's contribution payments totaled EUR 16,511 k (2012: EUR 15,987 k) and are allocated to the relevant function costs.

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

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

In 2011, the ElringKlinger AG's pension system was partially modified. In order to secure pension payments going forward, the obligations to certain executive employees were transferred to Allianz Pensionsfonds AG and a provident fund covered by plan assets, Allianz Pensions-Management e.V. This does not affect the amount of benefits. The assets received by the pension fund constitute plan assets within the meaning of IAS 19.7 and are therefore netted against the obligation to the plan beneficiaries.

The pension plans of the Swiss companies insure employees against the economic consequences of old age, disability and death. Assets are fully covered as part of a reinsurance agreement in place. A shortfall can arise by concluding such an agreement at a fully collective foundation covered by plan assets.

The obligations from the benefits granted are subject to certain risks. The main risks are interest rate risks, where falling market interest rates lead to a higher present value of the obligation in the future, inflation risks, which may lead to higher pension benefits and longevity risks where benefits are paid over a period longer than the one assumed in the mortality tables.

The following assumptions were used as a basis for measuring the Group's obligations.

Measurement as of	Dec. 31, 2013	Dec. 31, 2012
Discount rate (vesting period)	3.22%	2.72%
Discount rate (pension period)	2.94%	2.51%
Expected salary increases (in %)	2.53%	2.50%
Future pension increases	1.75%	2.30%

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

EUR k	2013	2012
Present value of pension benefits as of Jan. 1	**126,176**	**103,439**
Current service cost	6,835	4,130
Past service costs	-190	24
Interest expense	3,285	3,862
Disbursements/utilization	-4,874	-6,893
Actuarial gains/losses	-8,959	21,509
Currency differences	-754	90
Other changes	-2,902	15
Change in consolidated group	1,053	0
Present value of pension benefits as of Dec. 31	**119,670**	**126,176**
Of which (partially) covered by plan assets	32,036	34,790
of which not covered	87,634	91,386

The average weighted term of the defined benefit obligation amounts to 16.11 years.
Actuarial gains and losses arise from the following effects:

EUR k	2013	2012
Effects from changes in the interest rate	-9,276	21,197
Effects from changes in demographic assumptions	20	-15
Effects from other experience-based adjustments	297	327
Actuarial gains/losses	**-8,959**	**21,509**

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

EUR k	2013	2012
Market value as of Jan. 1	26,579	26,206
Change in consolidated group	108	0
Interest income	586	866
Employer contributions	1,957	2,729
Plan participant contributions	2,410	2,699
Service costs	-1,525	-5,739
Actuarial gains/losses	29	-372
Other	-2,388	0
Currency effects	-409	190
Market value as of Dec. 31	**27,347**	**26,579**

Plan assets comprise insurance claims. The plan assets and present value of defined benefit obligations are allocated to key countries as follows:

EUR k	2013	2012
Present value of pension benefits as of Dec. 31.		
Germany	84,047	91,696
Switzerland	32,038	31,468
Other	3,585	3,012
Present value of pension benefits as of Dec. 31.	**119,670**	**126,176**
Market value of plan assets as of Dec. 31		
Germany	2,368	1,909
Switzerland	24,848	24,559
Other	131	111
Market value of plan assets as of Dec. 31	**27,347**	**26,579**

The actual return on plan assets amounted to EUR 638 k (2012: EUR 525 k).

In 2014, liquidity is likely to be reduced due to contributions to plan assets and the reimbursement rights and by direct Group benefit payouts, which are expected to amount to EUR 7,739 k (2012: EUR 6,697 k). The future payments from pension obligations are as follows:

EUR k	2013	2012
For the next 12 months	7,739	6,697
Between one and five years	15,062	10,124
More than five years	227,017	230,472

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

EUR k	2013	2012
Current service cost	4,245	4,130
Net interest expenses	2,699	2,995
Past service costs	-190	24
Income from reimbursement rights	0	-21
Total pension expense	**6,754**	**7,128**

Net interest expenses comprise interest expenses of EUR 3,285 k (2012: EUR 3,862 k) as well as interest income from plan assets of EUR 586 k (2012: EUR 867 k).

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

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

EUR k	2013	2012
Recognized actuarial gains and losses	-9,079	21,114
Deferred taxes on actuarial gains and losses recognized under other comprehensive income	3,088	-5,463

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

EUR k	2013	2012
Present value of pension obligation (incl. fair value of reimbursement rights)	119,670	126,176
Fair value of plan assets	27,347	26,579
Reported pension provision	92,323	99,597
Fair value of reimbursement rights	0	237

With regard to sensitivities, the key actuarial assumptions determined were the discount rate, salary increases and future pension developments.

A 1% increase/decrease in the discount rate would lead to a decrease/increase in the DBO of EUR -76,852 k/EUR 105,015 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 86,029 k/EUR -83,767 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 86,212 k/EUR -81,244 k.

Other provisions

(23)

Other provisions can be broken down as follows:

EUR k	Dec. 31, 2013	Dec. 31, 2012
Current provisions	19,472	18,409
Non-current provisions	10,345	11,121
Total	**29,817**	**29,530**

Current provisions:

EUR k	Personnel obligations	Warranty obligations	Expected losses from customer contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2012	**3,023**	**8,347**	**3,528**	**252**	**3,259**	**18,409**
Exchange rate differences	-97	0	-26	-7	-32	-162
Change in consolidated group	30	0	0	0	34	64
Utilization	2,939	4,556	2,005	0	2,290	11,790
Reversal	522	629	554	207	342	2,254
Addition	2,455	1,986	2,441	124	7,663	14,669
Reclassifications	214	326	0	2	-6	536
As of Dec. 31, 2013	**2,164**	**5,474**	**3,384**	**164**	**8,286**	**19,472**

Non-current provisions:

EUR k	Personnel obligations	Warranty obligations	Expected losses from customer contracts	Litigation costs	Other risks	Total
As of December 31, 2012	**8,746**	**415**	**0**	**529**	**1,431**	**11,121**
Exchange rate differences	-16	0	0	-3	-28	-47
Change in consolidated group	1	0	0	0	60	61
Utilization	991	0	0	0	278	1,269
Reversal	734	0	0	381	451	1,566
Unwinding of discount	177	26	0	34	0	237
Addition	1,418	432	0	0	494	2,344
Reclassifications	-214	163	0	14	-499	-536
As of Dec. 31, 2013	**8,387**	**1,036**	**0**	**193**	**729**	**10,345**

Personnel provisions are recognized for the partial retirement schemes, long-term service benefits and similar obligations.

The provision for warranties represents the best estimate of the management and was recognized on the basis of past experience and the industry average for defective products with regard to the Group's liability for a warranty of twelve months. In addition, specific individual warranties were taken into account.

The other risks relate to a variety of identifiable individual risks and uncertain obligations, which have been included based on the likelihood of their occurrence.

Current and non-current financial liabilities

(24)

EUR k	Domestic	Foreign	Total Dec. 31, 2013	Domestic	Foreign	Total Dec. 31, 2012
Overdrafts	52,582	2,884	55,466	87,255	4,785	92,040
Financial liabilities with a residual term of less than one year	26,450	38,967	65,417	58,710	32,966	91,676
Current financial liabilities	**79,032**	**41,851**	**120,883**	**145,965**	**37,751**	**183,716**
Financial liabilities with a residual term of between one and five years	165,357	53,536	218,893	80,621	32,269	112,890
Financial liabilities with a residual term of more than five years	18,453	0	18,453	18,103	0	18,103
Non-current financial liabilities	**183,810**	**53,536**	**237,346**	**98,724**	**32,269**	**130,993**
Total	**262,842**	**95,387**	**358,229**	**244,689**	**70,020**	**314,709**

This includes liabilities from finance leases in the amount of EUR 608 k (2012: EUR 567 k) with a nominal volume of EUR 622 k (2012: EUR 651 k).

The average interest rates were:

in %	Dec. 31, 2013	Dec. 31, 2012
Overdrafts		
Domestic	0.91	1.00
Foreign	6.20	5.02
Financial liabilities:		
Domestic: less than one year	3.81	3.75
Domestic: between one and five years	2.19	3.35
Domestic: more than five years	1.79	1.81
Foreign: less than one year	2.81	3.23
Foreign: between one and five years	1.93	3.43
Foreign: more than five years	–	–

Fixed interest rates have been agreed for financial liabilities amounting to EUR 291,745 k (2012: EUR 284,048 k).

In addition, interest swaps are in place for a nominal EUR 5,000 k in loans. Under these swaps, variable interest payments are exchanged for fixed amounts.

Land charges on company land with a carrying amount of EUR 108,107 k (2012: EUR 90,763 k), collateral on inventory with a carrying amount of EUR 3,782 k (2012: EUR 2,351 k) and collateral on receivables of EUR 2,643 k (2012: EUR 7,873 k) have been pledged as collateral. The secured liabilities amounted to EUR 48,483 k (2012: EUR 37,479 k) as of December 31, 2013.

As of December 31, 2013, the Group had unused lines of credit amounting to EUR 117,140 k (2012: EUR 113,616 k).

(25)

Trade payables and other current and non-current liabilities

Trade payables and other current and non-current liabilities consist of outstanding obligations from trade and current expenses.

The carrying amounts of trade payables approximate their fair value.

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

Other current and non-current liabilities include accrued liabilities relating to tooling revenue.

(26)

Hedging policy and financial instruments

Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger Group, changes in exchange rates, interest rates and prices of raw materials impact the assets, liabilities, financial position and profit or loss of the Group. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. Additionally, there are liquidity risks which relate to credit and market risks or accompany a deterioration of business operations and financial market turmoil.

By concluding hedges, the Management Board of ElringKlinger AG aims to manage the risk factors that may adversely affect the assets, liabilities, financial position and profit or loss and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. Hedge accounting in accordance with IAS 39 was not applied.

Currency risk

Due to the international nature of its business, the ElringKlinger Group is exposed to currency risks in the normal course of business.

Exchange rate risk arises for the Group in relation to its operating business principally when sales revenues are generated in a different currency than that in which the related costs are incurred. Sales revenues are generally generated in the functional currency (which is the relevant national currency) of the Group entity concerned. In order to reduce currency risks from operating business, the purchases of goods, raw materials and services as well as investing and financing activities are generally accounted for in the functional currency of the group entity. The group also endeavors to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

In order to further limit currency risk, current receivables, liabilities and debts denominated in foreign currencies are hedged with forward currency transactions.

Subsidiaries are not permitted to take out financing in foreign currency or to invest it for speculative reasons. Intragroup financing and investment is usually denominated in the relevant functional currency.

Several ElringKlinger AG subsidiaries are domiciled outside the euro area. Since the euro is the reporting currency of the ElringKlinger Group, the income and expenses of these subsidiaries are translated into euros upon consolidation. Changes in the average exchange rates as compared to prior periods can therefore result in currency translation effects that are reflected in the equity of the Group under other comprehensive income.

Due to the inclusion of subsidiaries, the group also recognizes assets and liabilities relating to these subsidiaries outside of the euro area that are denominated in national currencies. When these assets are translated into euros, exchange rate fluctuations can lead to changes in value. The changes in these net assets are reflected in group equity under other comprehensive income.

A sensitivity analysis has been conducted in order to quantify the potential effects of exchange rate changes on consolidated net income. This analysis illustrates the change in consolidated net income in the event that the relevant functional currency of the Group companies appreciates or depreciates by 10% as compared to the foreign currency

Dec. 31, 2013 *EUR k*	CHF	CNY	EUR	INR	KRW	Other	Total
Local currency +10%							
Consolidated net income	2,138	-1,739	1,404	-932	-436	-541	-106
Local currency -10%							
Consolidated net income	-2,138	1,739	-1,404	932	436	541	106

Dec. 31, 2012 *EUR k*	CNY	CHF	MXN	BRL	USD	Other	Total
Local currency +10%							
Consolidated net income	-1,519	-1,252	564	-341	-221	108	-2,661
Local currency -10%							
Consolidated net income	1,519	1,252	-564	341	221	-108	2,661

Interest rate risk

Interest rate risk arises primarily from financial assets that are subject to a floating rate of interest. The Group manages interest rate risk with the objective of optimizing its interest income and expense.

Fixed interest rates have been agreed mainly for the financing liabilities of the ElringKlinger Group. In individual instances, additional swap transactions have been entered into in order to transform variable interest rates into fixed interest rates. As a result, the risk arising from interest rate fluctuations is only slight.

Had market interest rates been 1% higher on December 31, 2013, earnings would have been EUR 446 k (2012: EUR 212 k) greater. A 1% reduction in the market interest rate would have resulted in EUR 446 k (2012: EUR 273 k) less in earnings.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials it uses in production. In order to mitigate fluctuations in the purchase prices for raw materials, ElringKlinger has entered into five nickel hedges. Where necessary, it is possible to hedge acceptable procurement prices by means of additional derivatives.

ElringKlinger processes a significant volume of high-grade steel. This includes alloy surcharges, in particular for nickel, which is a stock exchange listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in part price calculations. A price corridor surrounding the average calculation cost is hedged. If the stock exchange quotation of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the stock exchange quotation of nickel falls below the lower range of the corridor, ElringKlinger has to pay a surcharge. The existing nickel hedges expire in the financial year 2014 and the latest expiration date is on December 31, 2014.

The Group manages the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks of impeccable creditworthiness in accordance with uniform guidelines.

Had the market value of nickel been 10% higher on December 31, 2013, earnings would have been EUR 48 k greater. A 10% reduction would have resulted in EUR 111 k less in earnings.

Credit risk

Credit risk defines the risk of economic loss arising from counterparty's failure to satisfy contractual payment obligations.

Credit risk encompasses both the direct risk of default, the risk of a ratings downgrade, and concentration risks. The maximum risk exposures of financial assets generally subject to credit risk correspond to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds comprise primarily bank deposits available on demand. The ElringKlinger Group is exposed to losses from credit risks in connection with the investment of liquid funds if financial institutions fail to meet their obligations (counterparty risk). In order to minimize this risk, care is taken in selecting the financial institutions at which deposits are made. The maximum risk exposure corresponds to the carrying amount of the liquid funds at the end of the reporting period.

Trade receivables

Trade receivables relate primarily to the global sales of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. Credit risk resides in the possibility of counterparty default, and is characterized by the Group's customer base, which includes a number of key accounts.

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

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit guarantee insurance policies are taken out or letters of credit are required as collateral for credit in certain cases.

Allowances are also recognized in respect of identifiable individual risks and the likelihood that discounts will be utilized. The maximum risk exposure from trade receivables corresponds to the carrying amount of these receivables at the end of the reporting period. The carrying amounts of trade receivables, together with a separate breakdown of overdue receivables and receivables for which allowances have been recognized, can be found in **note 17***.

* *Cf. page 192*

In 2013, the two largest customers accounted for 12.0% and 9.3% of sales, respectively (2012: 12.1% and 11.6%).

Liquidity risk

The solvency and liquidity of the ElringKlinger Group is constantly monitored by liquidity planning. Furthermore, a cash liquidity reserve and guaranteed credit lines ensure solvency and liquidity. Reference is also made to the financing risks presented in the risk report as part of the group management report.

Expected cash outflows

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

EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Total
As of Dec. 31, 2013					
Carrying amount	**68,574**	**357,621**	**608**	**220**	**427,023**
Outflows					
Expected outflows:	**68,574**	**376,988**	**622**	**220**	**446,404**
– less than one month	42,602	45,494	40	110	88,246
– between one and three months	22,374	9,420	77	73	31,944
– between three months and one year	3,598	63,673	340	37	67,648
– between one and five years	0	239,172	165	0	239,337
– more than five years	0	19,229	0	0	19,229

EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Total
As of Dec. 31, 2012					
Carrying amount	**58,065**	**314,142**	**567**	**227**	**373,001**
Outflows					
Expected outflows:	**58,065**	**330,684**	**651**	**229**	**389,629**
– less than one month	36,914	4,912	33	30	41,889
– between one and three months	17,068	84,082	66	20	101,236
– between three months and one year	3,161	114,325	220	117	117,823
– between one and five years	627	108,173	268	62	109,130
– more than five years	295	19,192	64	0	19,551

* Cf. page 201

Further disclosures on financial liabilities are provided under note 24*.

Additional information on financial instruments (27)

This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the statement of financial position containing financial instruments. No recognized financial instruments were offset.

The following table shows the carrying amounts (CA) and fair values (FV) of financial assets

	Cash and cash equivalents	Trade receivables	Other current assets	Financial assets		Total
EUR k	CA	CA	CA	CA	FV	CA
As of Dec. 31, 2013						
Loans and receivables	62,949	207,453	1,228	74	74	271,704
held to maturity	0	0	0	1,433	1,431	1,433
held for trading	0	0	87	0	0	87
available for sale	0	0	0	473	473	473
Total	**62,949**	**207,453**	**1,315**	**1,980**	**1,978**	**273,697**
As of Dec. 31, 2012						
Loans and receivables	54,273	185,850	832	95	95	241,050
held to maturity	0	0	0	1,386	1,423	1,386
held for trading	0	0	25	0	0	25
available for sale	0	0	0	156	156	156
Total	**54,273**	**185,850**	**857**	**1,637**	**1,674**	**242,617**

Other current assets contain derivatives measured at fair value of EUR 87 k (2012: EUR 25 k).

The following table shows the carrying amounts (CA) and fair values (FV) of financial liabilities:

	Other current liabilities		Current financial liabilities	Trade payables	Derivatives		Non-current financial liabilities		Total
EUR k	CA	FV	CA	CA	CA	FV	CA	FV	CA
As of Dec. 31, 2013									
Financial liabilities measured at acquisition cost	49,040	49,040	120,883	68,574	0	0	237,346	239,438	475,843
Financial liabilities measured at fair value through profit or loss	0	0	0	0	220	220	0	0	220
As of Dec. 31, 2012									
Financial liabilities measured at acquisition cost	17,660	17,660	183,716	58,065	0	0	130,993	131,886	390,434
Financial liabilities measured at fair value through profit or loss	0	0	0	0	227	227	0	0	227

Other current liabilities contain a purchase price liability of EUR 37,054 k from a written put option which is measured at amortized cost.

Management determined that the carrying amount of cash, trade receivables, other receivables, trade payables, other current financial liabilities and other current liabilities is virtually the same as their fair value primarily as a result of the short term of these instruments.

The fair value of the other financial instruments held to maturity and for trading is based on prices quoted in an active market as of the reporting date.

ElringKlinger determines the market value of non-current fixed-interest liabilities to banks, finance lease liabilities and derivatives by discounting expected future cash flows with the current prevailing interest rates for similar financial liabilities with comparable residual terms and the company-specific risk rate.

The fair value of the put option of non-controlling interests of ElringKlinger Marusan Corporation on their shares contained in other current liabilities is based on forecasts of the corporate value. For the measurement of this put option of non-controlling interests, estimates are made when forecasting business development as well as when selecting the interest rate used regarding the liability stated. A 10% change in the corporate value causes the put option to increase/decrease by EUR 3,705 k.

Financial assets and liabilities measured at fair value are classified into the following 3-level fair value hierarchy as of the valuation date December 31, 2013:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2013			
Financial assets			
available for sale	473	0	0
held for trading*	0	87	0
Total	**473**	**87**	**0**
Financial liabilities			
available for sale	0	0	0
held for trading*	0	220	0
Total	**0**	**220**	**0**
Dec. 31, 2012			
Financial assets			
available for sale	156	0	0
held for trading*	0	25	0
Total	**156**	**25**	**0**
Financial liabilities			
available for sale	0	0	0
held for trading*	0	227	0
Total	**0**	**227**	**0**

* These are derivatives that do not qualify for hedge accounting.

The following table shows the allocation of financial assets and liabilities that are not measured at fair value, but for which a fair value was disclosed, at the three levels of the fair value hierarchy as of the valuation date December 31, 2013:

EUR k	Level 1	Level 2	Level 3
Dec. 31, 2013			
Financial assets			
Financial assets	1,431	0	74
Total	**1,431**	**0**	**74**
Financial liabilities			
Non-current liabilities from finance leases	0	0	162
Non-current financial liabilities	0	237,184	0
Purchase price liability from written put option	0	0	37,054
Total	**0**	**237,184**	**37,216**
Dec. 31, 2012			
Financial assets			
Financial assets	1,423	0	95
Total	**1,423**	**0**	**95**
Financial liabilities			
Liabilities from finance leases	0	0	292
Non-current financial liabilities	0	130,701	0
Total	**0**	**130,701**	**292**

The levels of the fair value hierarchy are defined as follows:

Level 1: Measurement based on market prices

Level 2: Measurement based on market prices for similar instruments on the basis of measurement models based on inputs that are observable on active markets.

Level 3: Measurement based on inputs for assets and liabilities not representing observable market data

An assessment is made at the end of every reporting period as to whether the assets and liabilities accounted for at fair value have been transferred between the levels of the fair value hierarchy. There were no reclassifications in the reporting period.

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards of beneficial ownership to the Group as lessee. As of December 31, 2013, future minimum lease payments under finance leases amounted to EUR 622 k (2012: EUR 651 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2013 is as follows:

EUR k	Minimum lease payments Dec. 31, 2013	Interest included in minimum lease payments Dec. 31, 2013	Liabilities from finance leases Dec. 31, 2013
Term			
Less than one year	457	11	446
Between one and five years	165	3	162
More than five years	0	0	0
Total	**622**	**14**	**608**

Net gains/losses on financial instruments

EUR k	2013	2012
Held-for-trading financial instruments*	-121	-202
Available-for-sale assets	24	158
Held-to-maturity financial investments	-1	-2
Loans and receivables	-1,874	539
Financial liabilities measured at acquisition cost	-3,579	-2,399

* These are derivatives which do not qualify for hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values, which were recorded in full in profit or loss for the period.

Net gains on disposal of available-for-sale assets include income from the fair value adjustment of securities recognized directly in equity. There were no net gains that were reclassified from other comprehensive income to the income statement.

Net gains and losses on held-to-maturity financial instruments include impairments and revaluations.

Net gains and losses on loans and receivables primarily consist of impairments and revaluations.

Net losses from financial liabilities measured at cost include currency translation losses.

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

EUR k	2013	2012
Total interest income	352	558
Total interest expense	-8,171	-9,718

As in the previous year, total interest income did not result in interest income from impaired financial assets.

Derivative financial instruments

As of the end of the reporting period, December 31, 2013, there were the following financial derivatives

EUR k	Fair value	Carrying amount	Statement of financial position item
Commodities derivatives			
Nickel hedge	87	87	Other current assets
Nickel hedge	-157	-157	Current provisions
Interest rate derivatives			
Interest rate swap	-63	-63	Current provisions
Total	**-133**	**-133**	

The market values of the financial derivatives are computed using recognized mathematical methods and the market data available as of the end of the reporting period (mark-to-market method).

Capital management

(28)

ElringKlinger believes that the Group's sound financial base is a prerequisite for further growth. The Group's solid capital resources render it possible to invest in future organic growth, as well as in external growth.

The Management Board of the parent company has set a target minimum equity ratio of 40% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

The management is authorized to buy back own shares up to a total of 10% of the share capital existing at the time of the resolution (May 21, 2010). The authorization is valid until May 21, 2015. There are no share option programs that impact the capital structure.

The following table presents changes in equity and total assets as of December 31, 2013 as compared to December 31, 2012.

EUR million	2013	2012
Equity*	**704.6**	**642.2**
as % of total capital*	50.5%	50.6%
Non-current liabilities*	379.0	298.6
Current liabilities	311.7	327.7
Debt*	**690.7**	**626.3**
as % of total capital*	49.5%	49.4%
Total capital	**1,395.3**	**1,268.6**

* Previous-year figures restated

The change in equity from December 31, 2012 to December 31, 2013 was due primarily to an increase in revenue reserves and a decrease in other reserves. Debt was increased year-on-year by 10.3%.

The equity ratios of ElringKlinger AG (53.1%) and the Group (50.5%) exceeded the 40% target equity ratio set by the Supervisory Board and Management Board.

All external minimum capital requirements and covenants were satisfied during the reporting period.

For one loan, financial covenants have been agreed upon, and if these covenants are breached, the terms of the loans change and the loans become immediately callable. These can be broken down as follows:

Dec. 31, 2013 Covenant	Upper/ lower limit	Value as of Dec. 31, 2013
Equity ratio within the Group	25%	41.3%
Ratio of financial liabilities to EBITDA	2.8:1	1.65
Ratio of EBIT to interest expenses	3.5:1	16.16

(29) Notes to the Statement of Cash Flows

The group statement of cash flows shows how the liquidity of the ElringKlinger Group has changed as a result of cash inflows and outflows in the course of the financial year. In accordance with IAS 7, cash flows are categorized as from operating activities, investing activities or financing activities.

The cash reported in the statement of cash flows comprises liquid funds reported on the statement of financial position, i.e., cash in hand, checks and bank deposits.

Cash flows from investing and financing activities are determined by reference to payments. By contrast, cash flows from operating activities are derived indirectly from earnings before taxes for the year. For the indirect computation, effects from currency translation and changes to the scope of the consolidated financial statements are eliminated from the changes to the items of the statement of financial position arising from operating activities. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures evident from the published group statement of financial position.

(30) Segment reporting

The organizational and internal reporting structure of the ElringKlinger Group is centered around its five business divisions: "Original Equipment", "Aftermarket", "Engineered Plastics", "Services" and "Industrial Parks".

The activities in the "Original Equipment" and "Aftermarket" reporting segments relate to the manufacturing and distribution of parts and components for the engine, transmission and exhaust system in motor vehicles (powertrain), as well as battery and fuel cell components and tools machining.

The "Engineered Plastics" segment manufactures and distributes technical products made of high-performance PTFE plastics for the vehicle and general industrial sectors.

The "Services" reporting segment primarily operates engine test benches and contributes to the development of engines.

The "Industrial Parks" segment is responsible for the administration and leasing of land and buildings.

The "Consolidation" column in the "Segment reporting" table below provides an overview of consolidations between the segments. The "Other" column merely contains financial liabilities not directly attributable to the individual segments. Internal control and reporting are based on IFRS. The Group measures the performance of its segments based on earnings before taxes in accordance with IFRS. With the exception of the Original Equipment segment's provision of supplies to the Aftermarket segment, the extent of trade between the individual segments is insignificant. The exchange of goods and/or services between the segments takes place at arm's-length prices.

The segment results contain an impairment loss in the amount of EUR 525 k.

The Original Equipment segment generated more than 10% of the Group's consolidated sales revenues from one customer (EUR 140,453 k).

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
EUR k	2013	2012	2013	2012	2013	2012	2013	2012
Sales revenue	**951,031**	**906,599**	**119,266**	**117,815**	**92,571**	**91,281**	**4,258**	**4,234**
Intersegment revenue	18,499	22,710	0	0	156	68	302	241
Segment revenue[5]	**969,530**	**929,309**	**119,266**	**117,815**	**92,727**	**91,349**	**4,560**	**4,475**
EBIT[2]	**119,571**	**93,063**	**22,305**	**24,422**	**16,046**	**15,662**	**125**	**384**
+ Interest income	726	1,190	35	44	431	415	12	6
– Interest expense	-10,581	-11,665	-1,135	-1,305	-569	-658	-39	-166
Earnings before taxes	**109,716**	**82,587**	**21,205**	**23,161**	**15,908**	**15,419**	**98**	**224**
Depreciation and amortization[4]	69,480	73,294	1,165	1,256	3,698	3,368	436	402
Capital expenditures[3]	115,809	103,887	2,044	1,657	5,195	5,736	217	274
Segment assets	1,228,051	1,085,957	67,044	71,500	90,950	86,495	15,729	15,681
Segment liabilities	394,242	336,291	22,756	23,255	22,490	18,986	1,342	4,229

Segment	Services		Other		Consolidation[1]		Group	
EUR k	2013	2012	2013	2012	2013	2012	2013	2012
Sales revenue	**8,105**	**7,253**	**0**	**0**	**0**	**0**	**1,175,231**	**1,127,182**
Intersegment revenue	4,225	4,320	0	0	-23,182	-27,339	0	0
Segment revenue[5]	**12,330**	**11,573**	**0**	**0**	**-23,182**	**-27,339**	**1,175,231**	**1,127,182**
EBIT[2]	**2,306**	**2,247**	**0**	**0**	**0**	**0**	**160,353**	**135,778**
+ Interest income	20	14	0	0	-481	-427	743	1,240
– Interest expense	-37	-31	0	0	481	427	-11,880	-13,398
Earnings before taxes	**2,289**	**2,230**	**0**	**0**	**0**	**0**	**149,216**	**123,621**
Depreciation and amortization[4]	1,167	1,067	0	0	0	0	75,946	79,387
Capital expenditures[3]	4,015	2,342	0	0	0	0	127,280	113,896
Segment assets	13,049	11,441	0	0	-19,533	-2,483	1,395,290	1,268,591
Segment liabilities	4,568	3,814	264,871	242,282	-19,533	-2,483	690,736	626,374

[1] See comments on page 214
[2] Earnings before interest and taxes
[3] Investments in intangible assets and property, plant and equipment and investment property
[4] Depreciation and amortization including impairments
[5] A different presentation was selected for segment revenue

Segment reporting by region

Region *in EUR k*		Sales revenues[1]	Non-current assets	Investments
Germany	2013	360,796	385,785	52,791
	2012	338,882	377,690	66,142
Rest of Europe	2013	358,753	215,079	28,099
	2012	342,702	205,192	19,404
NAFTA	2013	200,553	53,920	19,416
	2012	197,798	43,868	8,497
Asia-Pacific	2013	189,460	124,194	19,517
	2012	178,915	66,223	17,405
South America and other	2013	65,669	24,568	7,457
	2012	68,885	22,982	2,448
Group	**2013**	**1,175,231**	**803,546**	**127,280**
	2012	**1,127,182**	**715,955**	**113,896**

[1] The location of the customer is used to allocate sales revenues to the regions

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group is currently not subject to contingent liabilities from guarantees, performance bonds or bills of exchange issued.

Contingent liabilities

For one group company, it was determined that formal requirements in approval and information processes for public authorities were not fully complied with. National legislation provide for corresponding fines in such a case. The authorities have not yet begun formal proceedings. We currently see it as not improbable that the authorities will do so. A potential cash outflow is expected to come to a mid seven-digit figure in euro. A potential refund of these possible cash outflows is not evident.

Operating leases

Expenses include payments from operating leases of EUR 6,570 k (2012: EUR 6,197 k).

At the end of the reporting period, the Group had outstanding obligations arising from binding operating leases that fall due as follows

EUR k	Dec. 31, 2013	Dec. 31, 2012
less than one year	3,359	3,566
between one and five years	7,763	6,197
more than five years	4,009	4,274
Total	**15,131**	**14,037**

Of that amount, EUR 9,072 k (2012: EUR 9,314 k) related to outstanding obligations from binding operating leases for commercial premises, EUR 2,749 k (2012: EUR 2,562 k) to office equipment, and EUR 3,310 k (2012: EUR 2,161 k) to other lease arrangements.

Finance lease

Information on the finance lease can be found in **note (27)***.

* *Cf. page 211*

Other financial commitments

Energy purchase commitments

EUR k	Dec. 31, 2013	Dec. 31, 2012
less than one year	9,477	7,371
between one and five years	18,683	14,739
more than five years	0	0
Total	**28,160**	**22,110**

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

Proceeds from lease agreements

The future lease payments due to ElringKlinger in relation to binding operating leases from letting the industrial parks Idstein and Kecskemét-Kádafalva (Hungary) are due as follows:

EUR k	Dec. 31, 2013	Dec. 31, 2012
less than one year	1,412	1,722
between one and five years	2,414	1,804
more than five years	1,052	387
Total	**4,878**	**3,913**

Number of employees

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

	2013	2012
Employees	6,373	6,158
Trainees	170	156
Total	**6,543**	**6,314**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 307,944 k (2012: EUR 282,448 k). Of that amount, 6.8% (2012: 7.2%) related to contributions to the statutory pension scheme.

Events after the end of the reporting period

After the reporting date there were no additional significant events requiring additional disclosures.

Related-party disclosures

Transactions between the parent company, ElringKlinger AG, and its subsidiaries are eliminated in the course of consolidation and are therefore not discussed in this note. In addition, the following business relationships exist between companies of the ElringKlinger Group and related parties and companies controlled by related parties:

Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. Mr. Walter Herwarth Lechler is the Chairman of the Supervisory Board of ElringKlinger AG and holds a significant interest in Lechler GmbH. ElringKlinger earned EUR 80 k during the reporting year (2012: EUR 94 k). As of the end of the reporting period, December 31, 2013, there was one outstanding receivable of EUR 19 k (2012: EUR 0 k).

Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kádafalva, Hungary. TPH earned EUR 200 k in rental income based on this lease during the reporting year (2012: EUR 200 k). As in the previous year, this did not result in any receivables as of the end of the reporting period.

Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 521 k in sales revenues during the reporting year (2012: EUR 515 k). As of the end of the reporting period, December 31, 2013, there was one outstanding receivable of EUR 38 k (2012: EUR 29 k).

Master supply agreement between Rich. Klinger Dichtungstechnik GmbH & CO. KG, Gumpoldskirchen, Austria, and companies of the ElringKlinger Group concerning the procurement of materials. Mr. Klinger-Lohr is a shareholder and in the financial year 2013 was a member of the Supervisory Board of ElringKlinger AG and has a significant interest in Rich. Klinger Dichtungstechnik GmbH & Co. KG. ElringKlinger AG procured EUR 2,370 k worth of materials under this agreement in 2013 (2012: EUR 1,803 k). As of the end of the reporting period, December 31, 2013, there was one outstanding receivable of EUR 190 k (2012: EUR 107 k).

Master supply agreement between ElringKlinger AG and Klinger AG Egliswil, Switzerland, regarding the procurement of materials. Mr. Klinger-Lohr is a shareholder and in the financial year 2013 was a member of the Supervisory Board of ElringKlinger AG and member of the administrative board of Klinger AG Egliswil. ElringKlinger AG procured EUR 69 k worth of materials under this agreement in 2013 (2012: EUR 63 k). As in the previous year, this did not result in any liabilities as of the end of the reporting period December 31, 2013.

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., Changchun, China, (CEK), and CHYAP, the company controlled by Ms. Liu, who is a joint partner in CEK. CEK procured EUR 99 k worth of services under these business relations in 2013 (2012: EUR 101 k). As of December 31, 2013, there was EUR 8 k in liabilities (2012: EUR 2 k). Furthermore, CEK sold EUR 17 k worth of goods and raw materials to CHYAP (2012: EUR 35 k). As of the reporting date December 31, 2013 there were no trade receivables (2012: EUR 2 k).

Loan agreement between Lechler GmbH and ElringKlinger AG dated August 15, 2013. Lechler GmbH granted ElringKlinger AG a loan in the amount of EUR 7,000 k. The loan carries an interest rate of 1.60% p.a. and has a term until August 17, 2015.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, Dettingen/Erms, Germany, a wholly owned subsidiary of ElringKlinger AG. KOCHWERK Catering GmbH, Dettingen/Erms, Germany, supplies Lechler GmbH, Metzingen, Germany, with canteen food. Revenue amounted to EUR 69 k in 2013. As of the reporting date there was one outstanding receivable of EUR 10 k.

The salaries of the employee representatives to the Supervisory Board are in line with market conditions.

Corporate bodies

Supervisory board

Walter Herwarth Lechler, Stuttgart, Chairman	Managing Partner of Lechler GmbH, Metzingen **Governance roles:** a) n.a. b) Lechler Inc., St. Charles, USA Lechler Ltd., Sheffield, United Kingdom Lechler India Pvt. Ltd., Thane, India ELEX India Pvt. Ltd., Thane, India
Markus Siegers*, Altbach, Deputy chairman	Chairman of the Works Council of ElringKlinger AG
Gert Bauer*, Reutlingen	First General Representative and collector of IG Metall trade union, Reutlingen/Tübingen **Governance roles:** a) Hugo Boss AG, Metzingen b) BIKOM GmbH, Reutlingen
Armin Diez*, Lenningen	Divisional Director of the Cylinder-head Gaskets and Battery Technology/E-Mobility at ElringKlinger AG
Klaus Eberhardt, Lindau (since May 16, 2013)	Former CEO of Rheinmetall AG, Düsseldorf **Governance roles:** a) KSPG AG, Neckarsulm MTU Aero Engines AG, Munich Dürr AG, Stuttgart b) n.a.
Pasquale Formisano*, Vaihingen an der Enz	Set-up engineer Chairman of the Works Council of ElringKlinger Kunststofftechnik GmbH

Dr. Margarete Haase, Cologne	Member of the Executive Board of DEUTZ AG, Cologne **Governance roles:** a) Fraport AG, Frankfurt am Main ZF Friedrichshafen AG, Friedrichshafen b) DEUTZ (Dalian) Engine Co. Ltd., Dalian, China Deutz Engines (Shandong) Co. Ltd., Changlin, China Deutz Engine (China) Ltd. Co, Linyi, China (since November 21, 2013)
Karl Uwe van Husen, Waiblingen (until May 16, 2013)	Managing Director
Dr. Thomas Klinger-Lohr, Egliswil, Switzerland (until December 31, 2013)	Chairman of the board of Betal Netherlands Holding BV, Rotterdam, Netherlands **Governance roles:** a) n.a. b) Klinger AG Egliswil, Egliswil, Switzerland
Paula Monteiro-Munz*, Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG
Prof. Hans-Ulrich Sachs, Bremen	Managing Partner of betec Umformtechnik GmbH, Adelmannsfelden
Manfred Strauß, Stuttgart	Managing shareholder of M&S Messebau und Service GmbH, Neuhausen a.d.F. **Governance roles:** a) n.a. b) Pro Stuttgart Verwaltungs GmbH, Stuttgart Pro Stuttgart Verkehrsverein, Stuttgart
Gerhard Wick*, Geislingen a. d. Steige	Union secretary for IG Metall, district administration, Baden-Württemberg district **Governance roles:** a) Stihl AG, Waiblingen WMF AG, Geislingen an der Steige since April 23, 2013 b) n.a.

*Employee representative
[a] Membership in supervisory boards to be established by law within the meaning of § 125 AktG
[b] Membership in analogous domestic and foreign supervisory bodies, Sec. 125 AktG

Remuneration of the supervisory board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 619 k (2012: EUR 579 k) in the reporting period. In addition, travel expenses in the amount of EUR 2 k (2012: EUR 1 k) were reimbursed.

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

	Fixed remuneration		Variable remuneration		Total remuneration	
EUR	2013	2012	2013	2012	2013	2012
Walter Herwarth Lechler	48,000	37,250	55,480	40,624	**103,480**	**77,874**
Dr. Helmut Lerchner	0	17,000	408	19,242	**408**	**36,242**
Markus Siegers	25,000	25,000	41,812	37,633	**66,812**	**62,633**
Gert Bauer	18,000	17,000	27,875	25,088	**45,875**	**42,088**
Armin Diez	18,000	18,000	27,875	25,088	**45,875**	**43,088**
Klaus Eberhardt	14,250	0	17,210	0	**31,460**	**0**
Pasquale Formisano	14,000	14,000	27,875	25,088	**41,875**	**39,088**
Dr. Margarete Haase	14,000	14,000	27,875	25,034	**41,875**	**39,034**
Dr. Rainer Hahn	0	0	0	55	**0**	**55**
Karl Uwe van Husen	9,250	26,000	10,815	25,088	**20,065**	**51,088**
Dr. Thomas Klinger-Lohr	22,000	17,000	27,875	25,088	**49,875**	**42,088**
Paula Monteiro-Munz	18,000	18,000	27,875	25,088	**45,875**	**43,088**
Prof. Hans-Ulrich Sachs	14,000	9,250	27,606	15,536	**41,606**	**24,786**
Manfred Strauß	14,000	14,000	27,875	25,088	**41,875**	**39,088**
Gerhard Wick	14,000	14,000	27,875	25,088	**41,875**	**39,088**
Total amount	**242,500**	**240,500**	**376,331**	**338,828**	**618,831**	**579,328**

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 over the past three financial years (previous year: consolidated income before taxes prepared in accordance with IFRS over the past financial year). The remuneration of the employee representatives in the Supervisory Board amounted to EUR 442 k in 2013 (2012: EUR 440 k) for their activities as employees.

The difference between the provision for variable remuneration for the financial year 2012 and the actual amounts paid out was EUR 7,485. 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, Sindelfingen, Chairman	Responsible for all Group companies and the corporate functions of Finance, Controlling, Legal Affairs, Personnel, IT, Investor Relations, and Corporate Communications, as well as the Aftermarket and Industrial Parks divisions
Theo Becker, Metzingen	Responsible for the Cylinder-head Gaskets, Specialty Gaskets, Housing Modules/Elastomer Technology, Shielding Technology, E-Mobility, Exhaust gas purification technology and Tooling Technology divisions, as well as the corporate functions Quality and Environment, Materials Management and ElringKlinger AG Plants
Karl Schmauder, Hülben	Responsible for Original Equipment Sales and New Business Areas
Governance roles in supervisory boards and other supervisory bodies	Dr. Stefan Wolf is a member of the Board of Directors of Micronas Semiconductor Holding AG, Zurich, member of the supervisory board of Fielman AG, Hamburg, and Chairman of the Supervisory Board of Norma Group AG, Maintal
	Karl Schmauder is Chairman of the Advisory Board of e-mobil BW GmbH, Stuttgart and Advisory Board member of Steiff Beteiligungs-GmbH, Giengen

Remuneration of the Management Board

The remuneration paid to the members of the Management Board includes fixed and variable components. The variable component is made up of short-term performance-related remuneration and of performance-related remuneration with long-term incentive effects. The long-term performance-related remuneration relates to stock appreciation rights. Provisions are also recognized for pensions. Expenses amounted to:

EUR k	Dec. 31, 2013	Dec. 31, 2012
Short-term fixed remuneration	1,265	889
Short-term variable performance-based remuneration	2,311	1,601
Long-term variable stock-based remuneration	-57	209
Service cost from pensions	392	127
Total	**3,911**	**2,826**

Total management board remuneration pursuant to Sec. 314 (1) No. 6a Sentence 1 to 4 HGB is distributed to the individual management board members as follows:

EUR	Year	Short-term fixed remuneration	Short-term variable performance-based remuneration	Long-term variable stock-based remuneration	Total amount
Dr. Stefan Wolf	**2013**	**503,389**	**1,025,012**	**158,318**	**1,686,719**
	2012	354,009	651,266	62,066	1,067,341
Theo Becker	**2013**	**381,950**	**642,790**	**142,929**	**1,167,669**
	2012	273,096	474,728	39,388	787,212
Karl Schmauder	**2013**	**379,429**	**642,790**	**142,929**	**1,165,148**
	2012	261,963	474,728	47,125	783,816
Total	**2013**	**1,264,768**	**2,310,592**	**444,176**	**4,019,536**
Total	2012	889,068	1,600,722	148,579	2,638,369

Short-term variable performance-based remuneration reflects expenses for which provisions have been recognized, calculated as a percentage of the average IFRS consolidated income before interest and taxes over the last three years (previous year: IFRS consolidated income before taxes in the financial year). In addition, the differences between provisions recognized as of December 31, 2012 and the amounts actually paid in 2013 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 ElringKlinger AG stock. The currently outstanding stock appreciation rights were granted in five and four annual tranches, beginning on February 1, 2008 and January 1, 2009, respectively. The tranches have a term of four years. The strike price is the average stock price of the last 60 trading days prior to the grant date. The number of stock appreciation rights is calculated based on the fixed remuneration of the re-

spective 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 MDAX in which the stock is listed, but at least by 25%. The payment per tranche is limited to the fixed salary amount for the year.

Beginning in 2013, five tranches of 30,000 stock appreciation rights will be granted on February 1 of each year. The strike price is calculated using the arithmetic mean of the market price of ElringKlinger stock on the last 60 trading days prior to the grant date. The grant is subject to an investment by the Management Board members of one-tenth of the number of granted stock appreciation rights in shares of ElringKlinger AG. The holding period of the stock appreciation rights is four years. Within a period of two additional years after the holding period expires, a Management Board member may demand redemption of the stock appreciation rights. The redemption price is calculated using the average market price of ElringKlinger's shares of the last 60 trading days prior to redemption. Redemption of the stock appreciation rights may be demanded only if the redemption price exceeds the strike price by 25%. The total redemption price is limited to two fixed annual salaries at the time of redemption.

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 or the Black-Scholes model using current market parameters. A risk-free interest rate ranging between 0.13% and 0.64% was used depending on the term. The volatility of the share price (34.40%), the MDAX index (19.03%), and a correlation of 60.37% were determined over a four-year period. The expected dividend was EUR 0.50 per share.

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

For financial year 2013, the following data arose:

Date tranche was issued	2010	2011	2012	2013
Number of stock appreciation rights exercised				
Value of stock appreciation rights exercised (EUR k)				
Number of stock appreciation rights (not yet exercisable)	49,090	32,501	42,406	90,000
Average strike price (EUR)	15.68	24.83	19.43	24.54
Average remaining term to maturity in years	0.04	1.04	2.04	3.08
Value of stock appreciation rights held by members of the Management Board				
December 31, 2013 (EUR k)	0	24	69	129
December 31, 2012 (EUR k)	194	42	44	0
December 31, 2011 (EUR k)	103	21	0	0
December 31, 2010 (EUR k)	75	0	0	0

The present value (DBO) of the pension provisions amounts to:

EUR k	Dec. 31, 2013	Dec. 31, 2012
Dr. Stefan Wolf	2,412	2,536
Theo Becker	2,042	2,139
Karl Schmauder	2,881	3,096
Total	**7,335**	**7,771**

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

Provisions of EUR 11,592 k (2012: EUR 13,260 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 823 k (2012: EUR 894 k) during the financial year 2013.

The auditor fees amounted to

EUR k	2013	2012
Audit of the annual financial statements	379	558
Other assurance services	9	0
Tax advisory	0	0
Other services	12	0
Total	**400**	**558**

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance on December 4, 2013 pursuant to § 161 AktG on the German Corporate Governance Code and published it on the ElringKlinger AG website on December 4, 2013. This declaration of compliance will be available on the ElringKlinger AG website and therewith made permanently available to shareholders

Dettingen/Erms, 20 March 2014
Management Board

Dr. Stefan Wolf | Theo Becker | Karl Schmauder

Audit Opinion

We have issued the following opinion on the consolidated financial statements and the group management report, which has been combined with the management report of ElringKlinger AG:

"We have audited the consolidated financial statements prepared by ElringKlinger AG, Dettingen/Erms, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes to the consolidated financial statements, together with the group management report which has been combined with the management report of ElringKlinger AG for the fiscal year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of [German] commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Stuttgart, March 20, 2014
Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft

Marbler
Wirtschaftsprüfer [German Public Auditor]

Göhner
Wirtschaftsprüfer [German Public Auditor]

Responsibility Statement

Responsibility Statement According to §§ 297(2) Sentence 4 and 315(1) Sentence 6 HGB (German Commercial Code)

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report, which has been combined with the management report of ElringKlinger AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Dettingen/Erms, March 20, 2014
Management Board

Dr. Stefan Wolf | Theo Becker | Karl Schmauder

Glossary

Financials

C Cash flow

Figure used to determine a company's financial strength. It measures the extent to which cash received as a result of the company's operating activities exceeds its cash outflows and shows the amount of cash generated by the company itself. For the purpose of determining cash flow, an entity's profit for the annual period is adjusted for items that do not produce an inflow or outflow of cash, such as depreciation or changes in provisions. Net cash from operating activities is the surplus of cash generated by operating activities.

Corporate Governance

Stands for corporate management and supervision that should be as responsible as possible and focused on sustainability and value generation over the long term.

E Earnings per share

Earnings per share (abbreviated: EPS) is used for the purpose of analyzing profitability and – at a cross-sector level – evaluating a company. EPS is calculated by dividing the profit attributable to shareholders of a stock corporation by the number of shares outstanding.

EBIT/Operating result

EBIT stands for earnings before interest and taxes. In most cases, it corresponds to the operating result before taking into account net finance costs. At the international level, this figure is commonly used to compare companies' earnings power. At ElringKlinger, EBIT differs from the operating result in that EBIT includes factors relating to foreign exchange movements (mainly as a result of financing activities).

EBIT margin

EBIT expressed as a percentage of total Group sales revenue. The EBIT margin shows the profitability of a company's operating business over a specific period of time.

G GAS 20

German Accounting Standards (GAS, German acronym DRS) contain recommendations for group accounting. GAS 20 contains new rules in respect of the group management report and is first applicable in financial years beginning after December 31, 2012. It replaces the previous GAS 15 (management report) and GAS 5 (risk report) standards.

F Free cash flow

Free operating cash flow represents the funds freely available to the company for distribution. It is calculated by subtracting capital expenditure payments from net cash from operating activities.

Free float

Free float refers to a company's shares which can be freely traded on the exchange and which are not firmly held by certain groups of investors. According to the definition by Deutsche Börse AG, share packages under 5% are counted as part of the free float.

H HGB

Abbreviation for Handelsgesetzbuch (German Commercial Code). The financial statements of the parent company, ElringKlinger AG, are prepared in accordance with HGB.

I IFRS

Abbreviation for International Financial Reporting Standards. These contain accounting provisions for exchange-listed entities. The application of IFRS has been mandatory in the EU since January 2005. The transition from HGB to IFRS as regards ElringKlinger's consolidated financial reporting was made in 2004.

M MDAX

The Mid Cap Dax (MDAX) is a German stock market index introduced in 1996. It encompasses the stocks of 50 corporations (mostly small and medium-sized enterprises) that rank directly below the companies listed in Germany's main DAX index in terms of market capitalization and trading volume.

N Net debt

Figure that describes the level of indebtedness of a company if all liabilities were repaid by means of current assets. Net debt is calculated on the basis of interest-bearing liabilities (primarily bank borrowings) less cash and cash equivalents. Alternatively, it can be calculated on the basis of the entire liabilities recognized less cash and cash equivalents less pension provisions.

Net finance income/cost

Profit or loss arising from financial transactions, e.g. interest income and expenses, income and expenses attributable to investments or income and expenses attributable to exchange rate differences. Net finance income or cost is a component of pre-tax earnings presented in the income statement.

(P) Purchase price allocation

Purchase price allocation (PPA) refers to the allocation of the price paid in the purchase of a company or an interest in a company to the individual identifiable assets acquired as part of this transaction. These also include intangible assets, such as an existing customer base or order backlog.

(S) Statement of cash flows

The statement of cash flows shows the calculations for the flow of funds generated by a company from operating, investing and financing activities during the financial year. The statement of cash flows helps determine the company's ability to generate cash and cash equivalents.

(W) WpHG

Abbreviation for Wertpapierhandelsgesetz (Securities Trading Act).

Technology

(A) APU (Auxiliary Power Unit)

An energy generation system that operates without the need for an external power source and is used primarily for the purpose of mobile on-board power supply (vehicles, ships, aircraft). Among the fields of application targeted by ElringKlinger is fuel-cell-powered stationary air conditioning in trucks, which functions independently of the vehicle's engine. In this case, the available fuel is used to generate hydrogen gas via a reformer. This hydrogen supplies the fuel cell stack, which in turn generates electricity.

(B) Bipolar plates

Bipolar plates are the key mechanical components in fuel cell stacks (cf. "Stack"). Their function is to create an electrical interconnection between two cells. In other words, they transmit the electricity generated, supply the cells with hydrogen and oxygen, and distribute coolant. ElringKlinger develops and manufactures metal bipolar plates. Among the technical requirements for these components are high-precision metal-forming within the contact area (in the micrometer range), accurate, low-distortion laser welding of the cathode and anode plates, and suitable conductive and anti-corrosion coatings.

(C) CAFE regulations

The CAFE (Corporate Average Fuel Economy) regulations are the US equivalent of European CO_2 legislation. They impose average permitted fleet consumption limits on US manufacturers. Failure to comply with the strict CAFE regulations can result in substantial fines.

CARB (California Air Resources Board)

The Californian environmental authority that determines and monitors standards for maintaining and improving air quality. ElringKlinger gained CARB certification in 2012 for Hug's mobiclean™ R filter system, which is mainly used to retrofit on-road diesel vehicles over 6.3 metric tons as required by law.

Catalytic oxidation of carbon monoxide (CO) and hydrocarbon (HC)

Method used for the purpose of reducing carbon monoxide and hydrocarbons in the exhaust gas. Carbon monoxide is mainly produced by the incomplete burning of fossil fuels. It is a colorless, odorless and poisonous gas. When the hazardous exhaust gases pass through a catalytic converter (usually made of a ceramic material) and come into contact with its active surface featuring a precious-metal coating, a chemical reaction takes place and the gases are converted into non-toxic components (carbon dioxide and water). See also "Methane catalyst."

Cell connector/Cell contact system

The cell contact systems developed by ElringKlinger for lithium-ion batteries consist of cell connectors and a cell carrier in which the connectors are integrated as a robust laser-welded construction. Via the cell connectors, the individual battery cells are connected both in a row and parallel to one another. They act as conductors, absorb cell energy and contain sensors. The system consists of a control interface with thermal and electric monitoring.

CleanCoat™

See "DPF coating"

Combined heat/power generation (CHP)

This concept involves actively reusing the waste heat created as a by-product of electricity generation in order to heat domestic or industrial premises. This leads to a particularly high degree of overall efficiency. At present, ElringKlinger is developing fuel cell stacks (cf. "Stacks") for micro-cogeneration units designed to supply houses and apartment buildings with electricity and heat.

(D) Downsizing

In the automotive industry, downsizing is a concept that refers to a reduction in engine capacity while improving the engine's efficiency. One of the

most common ways of achieving this is to feed in air under increased pressure (compressor/turbocharger). A reduction in engine size means lower fuel consumption and therefore lower emissions. At the same time, higher injection pressures generate a greater thermal and mechanical stress in the engine. In turn, this makes greater demands in terms of gasket design and thermal management.

DPF (Diesel Particulate Filter)

The job of a diesel particulate filter is to filter out the harmful particulates (soot) from diesel engine exhaust gases. One of the most common designs involves a wall flow filter made of ceramic (e.g. silicon carbide). The porous filter walls extract over 99% of the particulates contained in the exhaust gases. Stricter Euro exhaust standards for both passenger cars and trucks prescribe specific limits on particulates. In response, virtually all new cars and commercial vehicles in the EU are now fitted with a DPF. Increasingly, filter systems are also being fitted to ships' diesel engines, which are often powered by heavy fuel oil, and to locomotives and stationary diesel and gas engines. ElringKlinger's subsidiary Hug develops filter technologies for numerous niche applications, such as the shipping industry, and for stationary plant and equipment in power stations and greenhouses.

DPF coating

The soot particles deposited in the diesel particulate filter (DPF) must be burned off in order to regenerate the filter. Most filters have a catalytic coating to accelerate the reaction. The catalytic effect lowers the temperature required to burn off the soot particles and oxidize any remaining hydrocarbons or carbon monoxide into CO_2 and water. In most cases, the catalytic coating material is based on precious metals (platinum, rhodium, palladium). However, ElringKlinger uses its own coating material known as CleanCoat™, which is based on an alkali silicate substance. CleanCoat™ is free of precious and heavy metals and is highly active even at low temperatures. It is used at the series production level in the mobiclean™ R diesel particulate filter systems made by ElringKlinger subsidiary Hug.

(E) Elastomer

Plastics/polymers can be divided into three main categories depending on their processing properties: thermoplasts, duroplasts and elastomers. The distinctive feature of elastomers is that their shape can be changed temporarily through the application of pressure or stretching before they return to their original form ("rubber"). The final material varies depending on the raw materials, manufacturing process and additives used. In the field of sealing technology, ElringKlinger utilizes its own elastomers that have been specially developed and optimized to meet individual customer requirements.

European emission standards

The emission standards prescribed by the European Parliament specify emission limits for HC (hydrocarbons), CO (carbon monoxide), NOx (nitrogen oxides) and particulates. These limits are mandatory for all newly registered vehicles in Europe. Different limits apply to diesel and petrol engines. The Euro 6 standard, which introduces much stricter limits on nitrogen oxides in diesel-powered vehicles, will come into force for passenger cars in 2014. From 2014 onwards, Euro VI will also impose drastic reductions on heavy truck emissions of HC, CO and particularly NOx.

(F) Fracking

Extraction of oil or gas by means of deep-level drilling through rock formations, combined with the use of chemicals

Fuel cell

Fuel cells are a highly effective method of converting chemical fuel energy into electrical energy. In order to perform this reaction, the cell requires oxygen and hydrogen. The hydrogen can be obtained from a hydrocarbon-based fuel. This involves a reformer providing the cell with hydrogen gas, derived from diesel or natural gas, for example. Unlike batteries, fuel cells do not store energy, but rather convert it. There are different types of fuel cell technologies that offer specific advantages depending on their application. ElringKlinger develops and manufactures components for the SOFC high-temperature fuel cell (mostly stationary applications), the PEM low-temperature fuel cell and the DMFC direct methanol fuel cell.

(H) Hybrid drive

In the automotive sector, this term refers to combinations of different drive systems. This usually involves combining a combustion engine with an electric engine.

Hydroforming

Hydroforming is a manufacturing technique that involves forming a metal tube under high pressure in a forming tool with the help of a fluid inside the tube. See also "PMH (Polymer Metal Hybrids)."

(L) Lithium-ion battery

Lithium-based batteries are rechargeable, durable, high-energy batteries with a high energy density. They are primarily used in electric and hy-

brid vehicles. ElringKlinger develops and produces, among other things, modular cell contact systems for such batteries.

(M) Meander, honeycomb and segment stoppers

Stoppers are structural features contained in the spring steel layers of cylinder-head gaskets that help to seal engine combustion chambers. Coined meander, honeycomb and segment stopper geometries have taken over from folded and laser-welded stoppers as the state of the art when it comes to making optimum use of the geometric space available. New embossing/coining and stamping technologies provide engineers with a variety of possibilities for influencing the distribution of pressure in the sealing gap.

Metal-elastomer gaskets

Gaskets made from a metal core with vulcanized elastomer profiles for sealing power-transmitting connections, for example oil pump gaskets and timing case gaskets.

Metaloflex™

Brand name of ElringKlinger metal layer cylinder-head gaskets made from beaded, elastomer-coated spring steel layers – single-layer or multilayer depending on the application.

Metaloseal™

The specialty and exhaust gaskets marketed under the brand name Metaloseal™ are based on the functional principle of linear sealing using a bead. The versatile sealing system consists of both pure metal and elastomer-coated metal gaskets to cover virtually all requirements for engines, transmissions, exhaust systems and auxiliary units.

Methane catalyst

Owing to lean-burn operation (with excess air) and low service temperatures, the methane (one of the main components of natural gas) in gas engines is not actually burned off completely. Methane catalysts remove a large part of the unburnt methane still present in the exhaust gas mixture. Methane is much more aggressive than CO_2 as a greenhouse gas. ElringKlinger's subsidiary Hug is currently developing a methane catalyst (Rekukat) that is highly effective even at low initial temperatures and can be used for large engines in gas-fired power stations or in greenhouses.

Moldflon™

See "PTFE"

MuCell

An ultralight polyamide plastic material which, thanks to its innovative pore structure, permits additional weight savings in the production of technical plastic housing modules, such as cam covers, oil pans and oil suction pipes.

(N) Nitrogen oxides (NOx)

The internationally recognized abbreviation NOx is used for compounds of nitrogen and oxygen. These gases, which form in the exhausts of combustion engines, are harmful to humans and the environment. Emissions standards are becoming increasingly stringent worldwide and now prescribe strict limits for NOx. SCR technology can be used to neutralize nitrogen oxides (cf. "SCR").

NOx

See "Nitrogen oxides"

(O) Organo sheet method

Innovative method of lightweight construction as part of which so-called organo sheets – particularly light yet extremely sturdy thermoplastic structural components with embedded fiber-reinforced composites – are processed and plastic elements for additional component functions are injection-molded in the tool itself.

(P) PEM fuel cell

PEM stands for "Proton Exchange Membrane." PEM fuel cells work at low temperatures of around 90°C and have a polymer membrane as their central element. In the synthetic reaction known as "cold combustion," oxygen and hydrogen react with one another, aided by a catalyst, releasing electricity and causing water to form. ElringKlinger has developed metallic bipolar plates for the PEM fuel cells used in cars. One single stack can contain several hundred cells.

Plug-in hybrid

This is a specific form of hybrid technology. The on-board energy storage unit is recharged not only from a combustion engine but, alternatively, also from an external electric power source. At present, however, this technology still entails relatively high production costs.

PMH (Polymer Metal Hybrid)

These are structural components made of polymers and metal that are manufactured in a single tool using a combination of hydroforming (glossary) and plastic injection molding techniques. The process involves a single step and not

only combines the strengths of both materials, but also allows for very light components with complex geometries to be manufactured. At ElringKlinger, this new technique is used to make cockpit and front-end carriers, for example.

Polyamide

Polyamides are polymers (plastics) and usually refer to synthetic thermoplastics. ElringKlinger uses polyamide in the production of lightweight plastic housing modules (cf. "MuCell").

PTFE (polytetrafluoroethylene)

The thermoplastic high-performance plastic PTFE – commonly known by the trade name Teflon – has a very low coefficient of friction and is particularly resistant to most aggressive chemicals and external influences, such as moisture and UV radiation. PTFE is resistant to temperatures as low as -200 °C and only melts at over 320 °C. With its modified material Moldflon™, which is registered as a trademark, ElringKlinger Kunststofftechnik has the first ever injection-moldable PTFE high-performance material with a wide range of potential applications, for instance in the field of medical technology.

(R) Rekukat

Product name for the exhaust gas purification system developed by ElringKlinger's subsidiary Hug. The heat needed for the reaction in the catalyst is provided by counterflow channels. This helps the catalyst to operate at relatively low temperatures. See also "Methane catalyst."

(S) SCR (Selective Catalytic Reduction)

Technology for the reduction of toxic nitrogen oxides (NOx). This technique involves adding a urea solution to the exhaust gas mixture. When this mixture passes through the catalyst, the nitrogen oxides react with the urea solution and are converted into harmless nitrogen and water. By incorporating SCR modules, the exhaust gas purification systems developed by ElringKlinger subsidiary Hug are able to reduce NOx levels by up to 99%.

SOFC (Solid Oxide Fuel Cell)

Solid oxide fuel cells are also known as "high-temperature fuel cells," owing to their high operating temperatures (approx. 800 °C). This type of fuel cell can be operated with a wide range of fossil fuels, from which hydrogen gas is obtained using a reformer. ElringKlinger is currently working with a number of partners to develop a stack module for on-board electricity generation.

Stack

In a fuel cell context, the term "stack" refers to a complete stack of individual fuel cells including bipolar plates and retaining and connecting devices. To boost performance, the individual fuel cells are connected in series. The number of combined cells in the stacks currently produced by ElringKlinger lies between 10 and approximately 100.

(T) Tier 1 / Tier 2

Automotive companies that supply vehicle manufacturers (OEMs) directly are known as Tier 1 suppliers. They generally source some of their products from their own suppliers, which are then referred to as Tier 2, Tier 3 suppliers and so on, reflecting their position in the supply chain. Most of ElringKlinger's products go directly to vehicle manufacturers, making it a Tier 1 supplier. With regard to exhaust technology and transmission components, it mostly acts as a Tier 2 supplier.

Turbocharger

Turbochargers increase the air flow rate in engines by compressing the air that is necessary for combustion. The turbocharger is one of the key factors in engine downsizing, as it permits an equivalent or even better performance with a reduced engine capacity. In turn, this creates significant potential for reducing fuel consumption.

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Disclaimer – Forward-looking Statements and Forecasts
This report contains forward-looking statements. These statements are based on expectations, market evaluations and forecasts by the Management Board and on information currently available to them. In particular, the forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialize. Whilst the Management Board is confident that the statements as well as the opinions and expectations on which they are based are realistic, the aforementioned statements rely on assumptions that may conceivably prove to be incorrect. Future results and circumstances depend on a multitude of factors, risks and imponderables that can alter the expectations and judgments that have been expressed. These factors include, for example, changes to the general economic and business situation, variations of exchange rates and interest rates, poor acceptance of new products and services, and changes to business strategy.

This report was published on March 28, 2014, and is available in German and English. Only the German version shall be legally binding.

Corporate Calendar 2014

Financial Calendar

03/28/2014	Annual Press Conference, Stuttgart Analysts' Meeting, Frankfurt/Main
05/08/2014	Interim Report on the 1st Quarter of 2014
05/16/2014	109th Annual General Shareholders' Meeting, Stuttgart, Cultural and Congress Center Liederhalle, 10:00 a.m. CEST
05/19/2014	Dividend Payment
08/07/2014	Interim Report on the 2nd Quarter and 1st Half of 2014
11/05/2014	Interim Report on the 3rd Quarter and First Nine Months of 2014
05/13/2015	110th Annual General Shareholders' Meeting, Stuttgart

Calendar Trade Fairs 2014

05/05 – 08	OTC – Offshore Technology Conference, Houston, USA
06/03 – 05	MEDTEC Europe, Trade show for medical technology, Stuttgart, Germany
09/09 – 12	SMM, Shipbuilding Machinery & Marine Technology, Hamburg, Germany
09/16 – 20	Automechanika, Frankfurt/Main, Germany
09/23 – 26	InnoTrans, International Trade Fair for Transport Technology, Berlin, Germany
09/25 – 26	MEDTEC China, Trade show for medical technology, Shanghai, China
10/06 – 08	BATTERY+STORAGE, International trade fair for battery and energy storage technologies, Stuttgart, Germany
10/06 – 08	23rd Aachen Colloquium Automobile and Engine Technology, Aachen, Germany
10/14 – 18	23rd Fakuma, International trade fair for plastic processing, Friedrichshafen, Germany
10/27 – 30	MDA ASIA, Motion, Drive & Automation, Shanghai, China
11/13 – 14	4th Aachen Colloquium China, Automobile and Engine Technology, Beijing, China
12/09 – 10	13th International CTI Symposium, Automotive Transmissions, HEV and EV Drives, Berlin, Germany

For further events and trade fairs please visit our websites:
http://www.elringklinger.de/en/press-events
www.hug-eng.ch/en-index.html

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sites worldwide

ElringKlinger is a supplier to the vast majority of the world's vehicle and engine manufacturers. This is a tribute to the work of some 6,700 employees at 42 sites around the globe.

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Leamington/Canada

ElringKlinger North America, Inc.
Plymouth, Michigan/USA

ElringKlinger USA, Inc.
Buford, Georgia/USA

ElringKlinger Engineered Plastics North America, Inc.
Buford, Georgia/USA

Hug Engineering Inc.
Austin, Texas/USA

Elring Klinger México, S.A. de C.V.
Toluca/Mexico

South America

Elring Klinger do Brasil Ltda.
Piracicaba/Brazil

As at February 2014

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Redcar/Great Britain

Elring Parts Ltd.
Gateshead/Great Britain

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Nantiat/France, Chamborêt/France, Poissy/France

Elring Klinger, S.A.U.
Reus/Spain

ElringKlinger Abschirmtechnik (Schweiz) AG
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Timisoara/Romania

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Bursa/Turkey

Codinox Beheer B.V.
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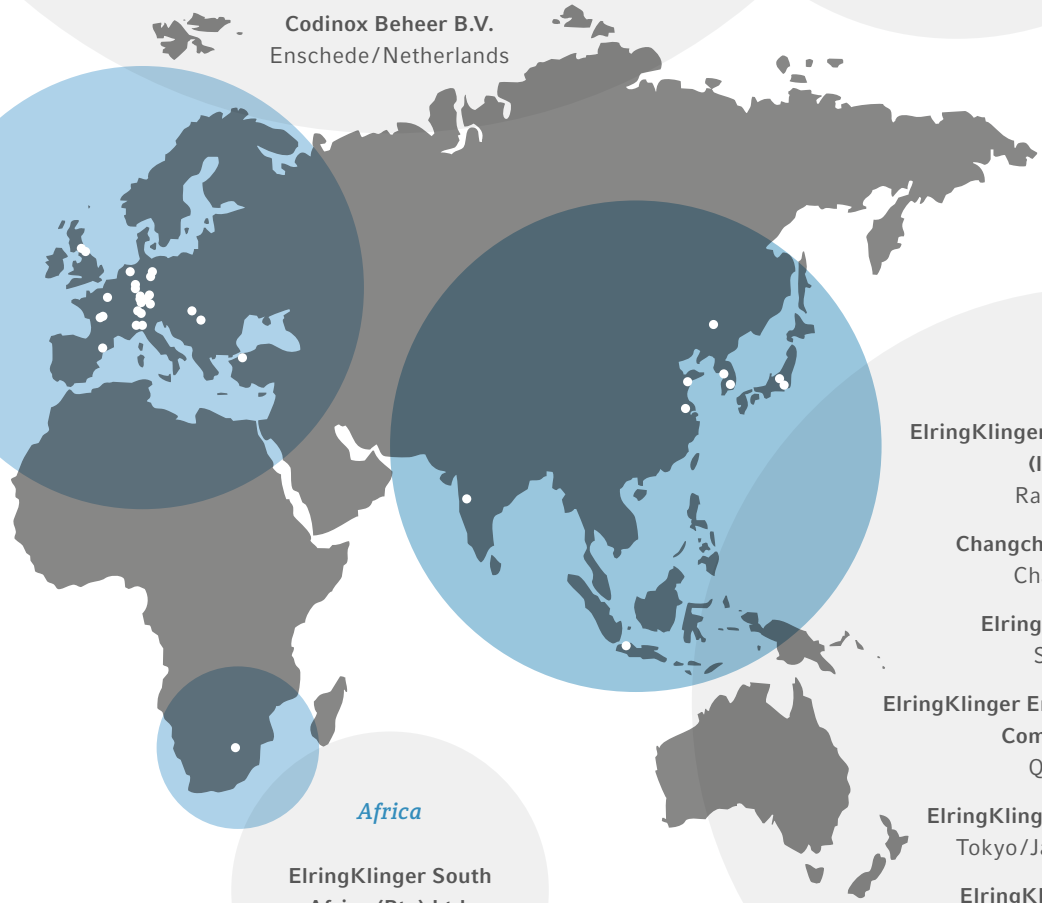

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