

ElringKlinger AG Group Management Report for the Financial Year 2012

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Overview of ElringKlinger's Activities and Structure

Profile

ElringKlinger is an independent automotive supplier with a global profile and a formidable corporate heritage that spans 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 a development partner and original equipment manufacturer, ElringKlinger supplies almost all the world's vehicle and engine manufacturers with automotive products: cylinder-head and specialty gaskets, plastic housing modules, shielding parts for engine, transmission and exhaust tract applications, 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. The Group's customer base now also includes numerous automotive suppliers, particularly in the area 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 more than 6,200 people at 41 sites all over the world (Employees*).

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Business model and core competencies

ElringKlinger's product range is geared towards the key issues facing today's automotive industry: reducing fuel consumption and emissions and the development of alternative drive technologies. Today, it is one of the few companies worldwide to have positioned itself as a supplier of high-tech components for every possible type of drive system – from the traditional combustion engine to electric applications.

ElringKlinger's core competencies lie in the combination of high-precision metal processing (stamping, coining and forming processes) with coating technologies as well as in plastics engineering. Drawing on specialized knowledge of materials acquired over a period spanning several decades and its highly efficient production processes, the Group has established a significant competitive advantage. Additionally, ElringKlinger's core competencies include tooling technology for metal forming, stamping and coining processes as well as for complex plastic injection-molding procedures. The company's in-house tooling unit designs and produces nearly all the tools used for manufacturing purposes.

ElringKlinger combines technology leadership at market level with cost leadership in production. The company's aim is to supply components of a consistently high quality on a large scale using fully automated manufacturing facilities.

ElringKlinger 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/Elastomer Technology.

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 always been known for its strong culture of innovation and develops both new applications for existing technologies and entirely new product solutions. In doing so, ElringKlinger makes a point of developing products for technologically sophisticated niche markets, e.g. in the field of turbochargers.

Group structure and organization

Headquartered in Dettingen/Erms, Germany, ElringKlinger AG as the parent company handles all the fundamental management tasks and assumes responsibility for Group-wide functions, e.g. in the areas of purchasing, IT, communications, legal affairs and human resources. As of December 31, 2012, in addition to the parent company, the ElringKlinger Group included 30 fully consolidated subsidiaries, two joint ventures with a total of five companies and one investee (Schedule of Shareholdings*, Notes).

*  CF. PAGE 150

Global footprint – locations and markets

The ElringKlinger Group has established a global presence. As of December 31, 2012, it operated 41 sites in 20 countries. Of these sites, 29 are production facilities, eight are sales offices and two are companies operating mainly within the aftermarket sector. 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 sites of 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 ■ Runkel ■ Thale ■ Idstein
ElringKlinger Kunststofftechnik GmbH	■ Bietigheim-Bissingen ■ Heidenheim
Elring Klinger Motortechnik GmbH	■ Idstein ■ Bietigheim-Bissingen
ElringKlinger Logistic Service GmbH	■ Rottenburg/Neckar
Hummel-Formen GmbH	■ Lenningen
Hug Engineering GmbH	■ Magdeburg
Rest of Europe	
Elring Klinger (Great Britain) Ltd.	■ Redcar (United Kingdom)
Elring Parts Ltd.*	■ Gateshead (United Kingdom)
ElringKlinger Meillor SAS	■ Nantiat (France) ■ Chamborêt (France)
Elring Klinger, S.A.U.	■ Poissy (France)
ElringKlinger Abschirmtechnik (Schweiz) AG	■ Reus (Spain)
Hug Engineering AG	■ Sevelen (Switzerland)
ElringKlinger Italia Srl	■ Elsau (Switzerland)
Hug Engineering S.p.A.	■ Settimo Torinese (Italy)
Technik-Park Heliport Kft.	■ Mailand (Italy)
HURO Supermold S.R.L.	■ Kecskemét-Kádafalva (Hungary)
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	■ Timisoara (Romania)
Codinox Beheer B.V.	■ Bursa (Turkey)
	■ Enschede (Netherlands)
North America	
ElringKlinger Canada, Inc.	■ Leamington (Canada)
ElringKlinger North America, Inc.	■ Plymouth/Michigan (USA)
ElringKlinger USA, 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)
Asia	
ElringKlinger Automotive Components (India) Pvt. Ltd.	■ Ranjangaon (India)
Changchun ElringKlinger Ltd.	■ Changchun (China)
ElringKlinger China, Ltd.	■ Suzhou (China)
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.	■ Qingdao (China)
ElringKlinger Korea Co., Ltd. (Joint Venture)**	■ Changwon (South Korea) ■ Gwangmyeong (South Korea)
ElringKlinger Marusan Corporation (Joint Venture)	■ Tokyo (Japan) ■ Saitama (Japan)
PT. ElringKlinger Indonesia	■ Karawang (Indonesia)
Africa	
ElringKlinger South Africa (Pty) Ltd.*	■ Johannesburg (South Africa)

* Aftermarket sales

** As of February 1, 2013, wholly-owned subsidiary

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 traditional automobile markets of Europe, North America and Japan, ElringKlinger serves the fast-growing emerging markets of Asia and South America, where the Group has its own production facilities. In 2012, the Japanese joint venture ElringKlinger Marusan Corporation formed a subsidiary in Indonesia to provide a local source of production. Based in the Greater Jakarta area, it will supply the ASEAN region. Cylinder-head and specialty gaskets are set to roll off the production lines from 2013 (Group Companies*).

*  CF. PAGE 80

The ElringKlinger Group's global manufacturing network provides the basis for locating production as close as possible to its customers. In this context, Group companies compete with each other for individual projects. When decisions are taken on where to produce, the key criteria are customer proximity, cost structures, internal value chains and the reduction of exchange rate and other risks.

In 2012, ElringKlinger generated around 70% of total Group revenue from its international markets. Details of sales by region can be found in the section "Sales and Earnings Performance"*.

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Segments and divisions

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

*  CF. GLOSSARY

ELRINGKLINGER GROUP SEGMENTS

Segment	Proportion of revenue*	Main customer groups
Original Equipment	80.4%	Car, truck and engine manufacturers, automotive suppliers
Aftermarket	10.5%	Independent aftermarket business
Engineered Plastics	8.1%	Vehicle industry, mechanical engineering, medical technology, aerospace industry
Services	0.6%	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 battery and fuel cell components. The segment's client base includes nearly all the world's vehicle and engine manufacturers. The company's product portfolio is supplemented by complete exhaust gas purification systems made by its Swiss subsidiary Hug Engineering AG. The mold and tool maker Hummel-Formen Group is also included within the Original Equipment segment.



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In the **Aftermarket** segment, ElringKlinger supplies a range of spare parts consisting mainly of cylinder-head and specialty gaskets as well as complete gasket sets and service parts. 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 mostly sold in Western and Eastern Europe, the Middle East and North Africa. ElringKlinger is currently expanding its operations in the American market. Besides independent wholesalers, the company's customer base includes all 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, the company has already emerged as one of the three largest suppliers of products for PTFE applications. Having successfully established its own production line at ElringKlinger's factory in Suzhou (China), ElringKlinger Kunststofftechnik GmbH is now making preparations for market entry in the US.

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 stations. The segment's customer base includes both vehicle manufacturers and automotive suppliers. ElringKlinger has thus established close ties with its customers' development units. ElringKlinger Logistic Service GmbH provides logistics services, both within the Group and to outside customers.

The industrial parks in Idstein (near Frankfurt, Germany) and Kecskemét (Hungary) make up the Group's **Industrial Parks** segment. The purpose of the business encompasses the lease and administration of land and buildings.

The Group is also divided into ten divisions:

SALES REVENUE BY DIVISION IN 2012 (prior year) in %



* Revenues attributable to Thale site as well as Hummel-Formen and Hug Group

ElringKlinger is the global market leader in the field of **Cylinder-head Gaskets**. The main competition within a largely oligopolistic market comes from the gaskets/sealing divisions of two US conglomerates. Some of the local markets include smaller, regional competitors.

The **Specialty Gaskets** division focuses on metal flat gaskets for high-temperature applications relating to engines, turbochargers, transmissions and exhaust systems. The competitive situation is very similar to that found within the area of cylinder-head gaskets. ElringKlinger is ranked as one of the three largest suppliers worldwide in the field of metal specialty gaskets. The division has benefited from increasingly tough requirements in the area of sealing technology and from a growing number of potential applications.

In the **Shielding Technology** division, which generates the highest revenue within the Group, ElringKlinger is one of the few suppliers in the world that manufactures combined thermal and acoustic shielding solutions for the engine and underbody. Overall, the market is more differentiated than in the area of gaskets/seals. Here, too, ElringKlinger is one of the world's top three suppliers. The number of shielding components required in vehicles will continue to increase in the coming years, providing the division with opportunities for structural growth.

In the **Plastic Housing Modules/Elastomer Technology** division, ElringKlinger develops and produces lightweight modules made of polyamide plastics, e.g. cam covers, oil pans and charge air ducts. Two key factors are stimulating growth within this area of business. First, the number of potential applications for plastics within the automotive industry is increasing. Secondly, heavy metal components are gradually being replaced also by truck manufacturers. At present, the market environment is slightly more fragmented than that of the other divisions. Other key products for this division include high-performance metal-elastomer gaskets for the commercial vehicle sector.

The **E-Mobility** division was set up in 2010 and has since expanded rapidly. Its main focus is on cell contact systems* for the lithium-ion batteries found in both pure electric and hybrid vehicles (**Research and Development***). ElringKlinger began series production of cell contact systems in 2011. As this is a completely new product, the market in this area is still highly fragmented.

Tooling Technology was established as a separate division in 2011 to underline its importance as one of the company's core areas of expertise. It comprises internal tool manufacturing at the site in Dettingen/Erms and the mold-production activities of Hummel-Formen GmbH, which was acquired by ElringKlinger in 2011.

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

*  CF. GLOSSARY
*  CF. PAGE 101



* CF. PAGE 102 ET SEQQ.

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

Legal structure

As the parent company of the Group, 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 company trades as ElringKlinger AG. As defined in the Commercial Register, the purpose of ElringKlinger AG and its subsidiaries is to develop, manufacture and market technical and chemical products, particularly gaskets, gasket materials, plastic products and components for the automotive and other general industries. In addition, the company offers services associated with the technology that forms the basis of its product range. The administration, lease and sale of real estate together constitute a further object of the company. The applicable Articles of Association are those dated June 13, 2012. They can be accessed on the company's website at www.ElringKlinger.com *.

* INTERNETLINK

Internal Control Criteria

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

Financial control criteria

The financial control criteria are primarily based on the sales and earnings performance of ElringKlinger AG and its subsidiaries. Aside from revenue, the principal indicators used are 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 as well as for individual business divisions.

* CF. GLOSSARY

Additionally, the return on capital employed (ROCE) is also adopted as a key indicator; it measures and evaluates the success of the entire ElringKlinger Group, individual business divisions and 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.

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

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

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

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

*  CF. PAGE 113 ET SEQQ.

KEY FINANCIAL CONTROL CRITERIA OF THE ELRINGKLINGER GROUP

	Target 2012	Actual 2012	2011	2010	2009	2008	2007	2006
EBIT (in € million)	145 to 150	136.0	126.0*	106.7	63.3	71.5	121.0	93.3
Earnings before taxes (in € million)	–	123.8	113.9*	94.0	49.4	60.0	114.9	87.6
Return on Capital Employed (ROCE)	20%	13.3%	14.2%*	15.2%	8.8%	13.6%	30.3%	26.7%
Net cash from operating activities (in € million)	positive	112.3	74.5	126.2	148.8	98.2	99.3	89.9
Equity ratio	>40%	50.5%	50.1%	52.7%	41.2%	37.7%	49.1%	48.5%

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

Non-financial control criteria

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

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

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

Company-specific early indicators

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

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

Key objective: sustained profitable growth

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

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

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

*  CF. PAGE 113

*  CF. PAGE 185

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

Macroeconomic Conditions and Business Environment

Debt crisis weighs heavily on economic activity

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

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

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

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

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

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

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

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

Further rise in global vehicle demand in 2012

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

Car sales in Western Europe at a 20-year low

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

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

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

German automotive market also shows signs of slowing

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

Boom in Russia

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

US automotive market shows dynamic growth

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

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

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

Sustained growth in Asia

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

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

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

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

Commercial vehicle markets under severe pressure

General economic uncertainty led to reluctance on the part of delivery and fleet companies to make purchases in 2012. It was one of the weakest years of the past decades, seeing a severe plunge in worldwide sales figures of 17.0% to only 1.5 (1.8) million heavy trucks. With around 13% of sales within the Original Equipment segment coming from business within the truck industry, the ElringKlinger Group was also affected by this market weakness. However, the dramatic market contraction seen in this segment was offset to some extent by several new product launches within the area of plastic housing modules.

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

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

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

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

Overall assessment of economic and industry-specific situation

Drawing on its global presence, the ElringKlinger Group benefited from sustained growth in the global economy as well as from the concomitant rise in vehicle demand and higher production figures.

By recording structural growth in many of its divisions, together with a significant number of new products and product variants, ElringKlinger once again managed to exceed market growth by nearly 5 percentage points.

ElringKlinger is well represented in the fast-growing emerging economies and is thus profiting from rising demand in these markets. This is true for both the sales revenue generated by the subsidiaries in these regions and the rising exports of ElringKlinger AG to these markets.

A detailed breakdown of Group sales per region for the 2012 financial year can be found in the section entitled "Sales and Earnings Performance"*.

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Thanks to its broad customer base across the globe and the market rollout of many new solutions and product refinements, ElringKlinger more than made up for the adverse effects of an extremely weak Western European market. Demand for premium cars from German manufacturers remained relatively high, which also had a positive impact on business. In 2012, ElringKlinger generated almost a quarter of its revenue from Original Equipment sales to domestic premium-brand producers. In contrast, less than 10% of revenue came from French and Italian manufacturers.

In 2012, ElringKlinger brought into service a new, fully automated plant for plastic housing modules in Dettingen/Erms. This has substantially expanded production capacity and widened the truck product portfolio. Within the Original Equipment segment, the percentage of revenue attributable to components for commercial vehicles amounted to around 13% (9%). This highlights the increasing importance of the overall performance of global truck markets for ElringKlinger. Against this backdrop, the Group may benefit greatly from an increase in demand for trucks.

Significant Events

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

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

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

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

At the date of acquisition, former ThaWa GmbH together with AGD Group Entwicklungs- und Vertriebs GmbH employed 53 people in total. In the financial year 2012, they contributed EUR 3.4 million to sales revenue within the ElringKlinger Group. The purchase consideration was EUR 1.4 million (after financial liabilities).

Sales and Earnings Performance

Revenue target for 2012 met; earnings before interest and taxes below target

The Group exceeded its 2012 target for consolidated sales, i.e. organic growth of 5% to 7% and a further contribution to sales from the consolidation of newly acquired companies. Revenue grew by 9.1%, faster than expected, to reach EUR 1,127.2 (1,032.8) million.

The Group had originally predicted that, adjusted for non-recurring items, earnings before interest and taxes (EBIT) would rise at a faster rate than sales. In the event, however, the increase in EBIT for 2012 (after adjustments) was slightly less pronounced at 7.9%.

As a result, the target of boosting adjusted EBIT into a range between EUR 145 million and EUR 150 million compared to EUR 126.0 million in 2011 was not achieved. This was mainly due to the Group's fourth-quarter results.

In the fourth quarter, EBIT was adversely affected by the significantly lower revenue and earnings contribution made by the Aftermarket and Engineered Plastics segments. Additionally, exceptional and non-recurring items exerted downward pressure on EBIT.

At EUR 277.6 (269.6) million, the fourth quarter was slightly above target in terms of sales revenue, almost matching the figure recorded for the preceding quarter (EUR 279.8 million). However, both the Aftermarket and the Engineered Plastics segment had to contend with particularly weak sales. Consequently, the pro-rata contribution made to Group earnings by these more profitable segments was extremely unfavorable in the fourth quarter. At the same time, compared to the third quarter of 2012, sales included a large proportion of lower-margin tooling revenue for serial production projects commencing in 2013.

New products and structural growth help to set new sales record

Despite collapsing demand for cars in Europe, the ElringKlinger Group recorded a solid 9.1% increase in sales for 2012. Revenue climbed to EUR 1,127.2 (1,032.8) million. Measured against car production figures, the Group again succeeded in outpacing growth within the global vehicle markets. This is a particularly impressive achievement, given that the global truck market, which accounts for around 13% of sales in the Original Equipment segment, contracted by nearly 20% in 2012.

The boost in organic sales was driven to a large extent by structural growth in product areas such as turbocharger and exhaust gaskets, thermal shielding parts and lightweight plastic housing modules. This was complemented by a number of new product ramp-ups in the company's core line of business as well as larger revenue contributions from the E-Mobility division with the start of serial production for cell contact systems used in lithium-ion batteries.

Although the rate of sales growth slowed over the year, the Group was still able to report a year-on-year increase in sales of 3.0% to EUR 277.6 (269.6) million for the fourth quarter.

First-time consolidation of acquisitions adds total of EUR 19.3 million to sales in 2012

The consolidation of those acquired companies that had not been included in the Group financial statements in 2011, or that had only been accounted for on a pro-rata basis, contributed an incremental EUR 19.3 million to Group sales in 2012.

The Swiss exhaust gas purification specialist Hug Engineering AG was included in the scope of consolidation of the ElringKlinger Group as of May 1, 2011, and the Hummel-Formen Group as of October 1, 2011. ThaWa GmbH Thaler Warenautomaten and AGD Group Entwicklungs- und Vertriebs GmbH were acquired with effect from January 1, 2012, and subsequently merged into ElringKlinger AG.

Adjusted for the additional revenue contributions from first-time consolidation of these entities, Group sales rose organically by a solid 7.3% to EUR 1,107.9 million in 2012.

Overall, the incremental contribution made to Group earnings before taxes by these entities on first-time consolidation was in negative territory in 2012 – primarily due to the negative earnings performance of the Hug Group. In total, the adverse effect on Group earnings before taxes was minus EUR 3.8 million (before consolidation).

Losses at Hug Group scaled back over the year

Revenue generated by the Swiss-based Hug Group totaled EUR 36.6 million in 2012. The figure for the fourth quarter was EUR 14.1 million. Reflecting weakness in both the European and Swiss markets, revenue was below the Group's original expectations.

Earnings before taxes stood at minus EUR 3.5 million (before consolidation). Within this context, EUR 1.9 million of the total loss was attributable to the purchase price allocation.

The cost saving and process optimization measures initiated at Hug with a view to improving its unsatisfactory earnings situation gradually produced results as the year progressed. Hug's pre-tax earnings rose from minus EUR 2.0 million in the first quarter to minus EUR 0.9 million and minus EUR 0.7 million in the second and third quarters respectively. In the fourth quarter, at EUR 0.1 million, earnings before taxes were just within positive territory (in each case before consolidation).

At the operational level, business at Hug Engineering AG continued to be impacted by the strength of the Swiss franc and associated foreign exchange losses. Although a large proportion of Hug's revenue is denominated in euros, its main costs are payable in Swiss francs.

In order to limit this exposure to currency risks and reduce manufacturing costs, ElringKlinger AG built a new factory in Thale, Germany, within the eurozone on the site of ThaWa GmbH, the Hug supplier acquired by the Group at the beginning of the year. The new facility will have space for the large-scale serial canning of diesel particulate filters and for the production of housings for complete exhaust gas purification systems. Production will commence at the new factory in the second quarter of 2013 once some of the activities from the Swiss site have been relocated.

Hug achieved a major breakthrough in the US market. In 2012, Hug's "mobiclean RTM" diesel particulate filter system received the approval from the California Air Resources Board (CARB)* for use with on-road vehicles weighing over 6.34 metric tons. On the back of this, the company managed to win a number of large contracts to retrofit trucks and other heavy commercial vehicles.

*  CF. GLOSSARY

In light of the increasing focus on emissions within the shipping industry, Hug also sees considerable potential to expand into exhaust gas purification systems for the diesel engines used in marine vessels. In 2012, the company received several orders to equip ship engines with complete exhaust gas purification systems. Furthermore, Hug is to develop and manufacture exhaust aftertreatment technology for a fleet of six river cruise ships. Hug's exhaust gas purification systems include a catalytic diesel particulate trap filter as well as oxidation catalysts to reduce hydrocarbon and carbon monoxide emissions. Hug is currently in negotiations over the fitting of its technology in a number of large ships.

In North America, meanwhile, the company is supplying the end-to-end exhaust gas purification technology for a gas- and light-oil-fired power plant with a generating capacity of 170 MW.

Former ThaWa GmbH accounted for EUR 3.4 million of Group sales in 2012. Its earnings before taxes were slightly in negative territory.

Hummel-Formen Group adds to expertise in lightweight design

Specializing in mold and tool production, the Hummel-Formen Group has been a member of the ElringKlinger Group since October 1, 2011. In acquiring the company, ElringKlinger has been able to cement its expertise in the area of lightweight construction using plastics. A significant proportion of the output of the Hummel-Formen Group was supplied to ElringKlinger AG's Plastic Housing Modules/Elastomer Technology division.

Additionally, the Hummel-Formen Group has developed its first forming dies for the production of shielding parts by ElringKlinger Abschirmtechnik (Schweiz) AG. In the past, these tools had been sourced from external suppliers. The intention is for Hummel-Formen to play an even greater role in this area of the value chain. Tool development and design, including associated services for external customers, are a valuable addition to the Group's portfolio.

In 2012, Hummel-Formen contributed EUR 8.2 million to Group sales.

Earnings before taxes stood at minus EUR 0.4 million (before consolidation). This figure includes a charge of EUR 0.4 million in respect of the purchase price allocation. Fourth-quarter sales to non-Group customers were EUR 2.5 million. Earnings before taxes were in positive territory over the same period and amounted to EUR 0.4 million.

Earnings rise at former Freudenberg companies despite market weakness

The earnings performance of the metallic flat gaskets business, which was acquired from the Freudenberg Group as of January 1, 2011, gradually improved over the course of 2012.

In this context, automated production and state-of-the-art manufacturing technology helped to provide a solid foundation. Cost structures were also streamlined.

The Gelting site in Germany was incorporated into ElringKlinger AG as an operational unit as early as 2011. Production was optimized and directed towards the specialized mica and graphite seals used in turbocharger and exhaust applications. In percentage terms, the EBIT margin for 2012 was already in the low double-figure region.

The Group's Settimo Torinese site in Italy achieved an EBIT margin in the mid-single figure area despite a particularly weak domestic market.

By contrast, the French site in Nantiat fell short of breaking even in 2012. Sales performance at this site was impacted in particular by the anemic state of the Western European car market and consequently by the much lower volume of just-in-time deliveries requested by customers in this region. However, the effects of this downturn were offset to some extent by new product ramp-ups and solid demand for specific components. Further improvements in the earnings situation are being targeted by means of additional cost-saving measures and leaner production processes. The Group's French subsidiary also aims to generate sales and earnings with a new small-scale series production facility to serve the spare parts market.

Overall, the former Freudenberg sites generated sales revenue of EUR 49.8 million in 2012 and contributed EUR 0.1 million (before consolidation) to the Group's pre-tax earnings.

European market characterized by increasing weakness – domestic sales growth driven by exports

In 2012, the ElringKlinger Group boosted its sales revenue in every single region apart from the extremely weak Western European market. The Group's strong positioning within the emerging economies of Asia and in the NAFTA region, complemented by its broad customer base, helped to cushion the impact of contracting vehicle markets in Western Europe.

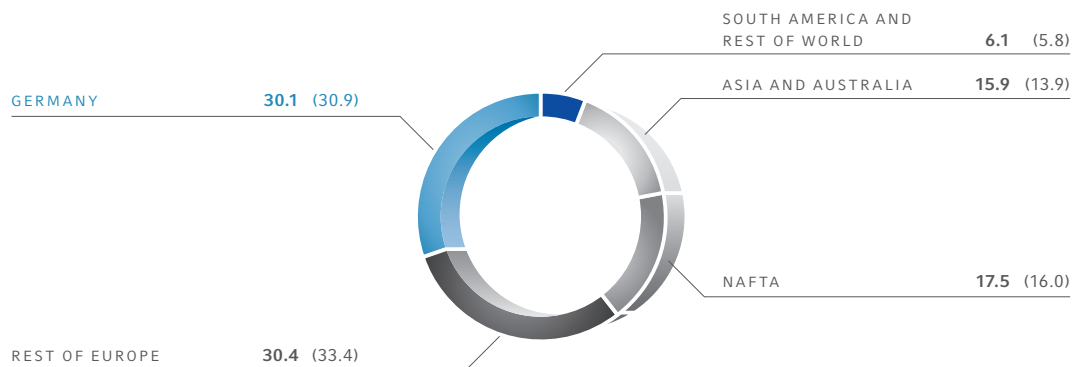
Towards the year-end, however, there was also clear evidence of a decline in demand for passenger cars in Germany. Over the year as a whole, domestic sales revenue nevertheless grew by 6.1% to reach EUR 338.9 (319.3) million.

This relatively large increase in the Group's home market was due to the launch of several new products and a greater volume of business with German premium-range car makers.

In this high-end market, in particular, domestic automobile production benefited from consistently buoyant demand throughout Asia and North America. Almost three-quarters of all the cars that rolled off German production lines in 2012 were subsequently exported. ElringKlinger also benefited indirectly from this solid international demand.

In addition, sales were boosted by contributions from former ThaWa GmbH and the Hummel-Formen Group, which were included in the consolidated results for the first time. Most of their sales revenues were attributable to the region of Germany.

GROUP SALES BY REGION IN 2012 (prior year) in %



Overall, the domestic share of total Group sales declined slightly to 30.1% (30.9%). Even so, Germany remained the ElringKlinger Group's single biggest market.

There was nothing short of a collapse in passenger car sales for 2012 in Western European markets. By contrast, there was only a moderate decline in Group sales for the "Rest of Europe" (excluding Germany) region. For 2012 as a whole, sales revenue in this region was 0.8% down on the previous year at EUR 342.7 (345.4) million. In the fourth quarter, however, revenue from sales in this region fell significantly to end the period 10% down on the previous year.

The surprisingly buoyant performance of the US car market in terms of overall light vehicle sales is also reflected in the business performance of the ElringKlinger Group. Sales revenue in the NAFTA region grew by 19.9% to reach EUR 197.8 (165.0) million. Thanks to several new product ramp-ups at the Buford plant, sales revenue in this region also expanded at a faster rate than car production.

The picture in "South America and the Rest of the World" was similarly positive. In this region, the Group recorded a 15.0% increase in revenue, with sales of EUR 68.9 (59.9) million.

In Asia, meanwhile, sales generated by the ElringKlinger Group totaled EUR 178.9 (143.2) million. This represents an increase of 24.9% on the previous year, making Asia the fastest-growing region in the Group. Results here were largely driven by rapid growth at ElringKlinger's Chinese subsidiaries, but also by an encouraging performance at ElringKlinger Marusan Corporation in Japan. The share of total Group sales generated by the Asia region rose to 15.9% (13.9%).

However, the significance of the Asian markets with regard to the overall sales performance of the ElringKlinger Group is in fact much greater than this figure suggests. It is important to note that a large proportion of the cars, transmissions and engines that are made in Germany and for which ElringKlinger supplies parts are subsequently exported to Asia. Equally, much of the production output from the Eastern European sites operated by many vehicle manufacturers is destined for end markets in Asia and the US. If these exports are taken into account, the proportion of ElringKlinger sales in the Original Equipment segment attributable to the Asian markets would in fact now be around 24%.

As a result of these developments, the level of foreign sales as a percentage of total Group revenue rose to 69.9% (69.1%).

Original Equipment grows by 9.6%

The Original Equipment segment delivered the biggest increase in Group sales. After a record year in 2011, the segment boosted its revenue by a further 9.6% to EUR 906.9 (827.2) million.

The Group's new acquisitions contributed EUR 19.3 million to total consolidated sales. All this amount was attributed to the Original Equipment segment. Excluding the contribution made by new acquisitions, segment revenue rose by 7.3% to EUR 887.6 million.

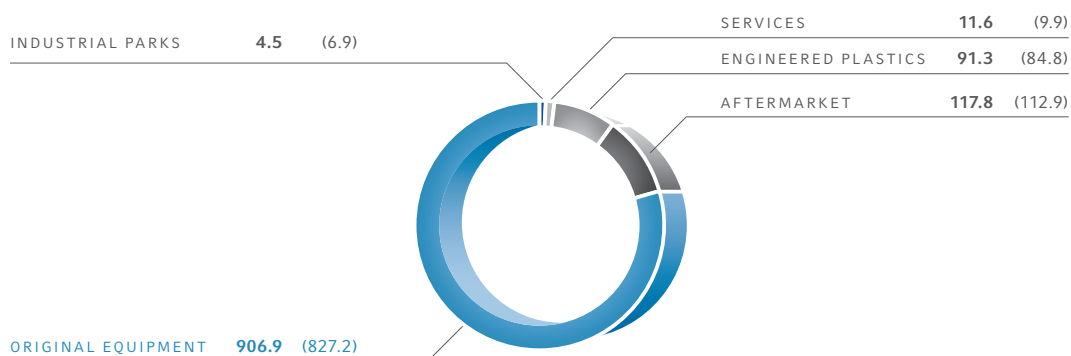
Thus, the ElringKlinger Group's Original Equipment segment grew at a faster rate than the international vehicle markets in 2012.

This relatively substantial rise in 2012 is all the more impressive given a nosedive in the European passenger car market and a 17.0% decline in global truck sales over the same period. ElringKlinger generated around 13% of its segment revenue from component sales to truck manufacturers.

In addition, results were buoyed up by growth in passenger car markets in Asia and in North and South America, regions in which the Group is well positioned. ElringKlinger's strong position in fast-growing structural niche markets and an above-average number of new product ramp-ups – in excess of a hundred – also helped to boost revenue.

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

SALES REVENUE BY SEGMENT IN 2012 (prior year) in EUR million
(before consolidation)



All of the Group's divisions reported an increase in sales in 2012. ElringKlinger has already established a market-leading position with its Cylinder-head Gaskets division, which percentage wise generated the strongest sales growth in 2012. In this context, the Group managed to propel sales in emerging countries such as China in particular. This was primarily achieved on the back of newly developed solutions for downsized, direct-injection petrol engines.

Starting from a high base, the Specialty Gaskets division also maintained its forward momentum. Growth in this area was again driven by rising customer demand for highly heat-resistant gaskets for turbocharger and exhaust system applications. Reflecting the fact that the proportion and number of turbochargers fitted to vehicles have continued to increase, the Specialty Gaskets division is benefiting from an expanding market for turbocharger gaskets, in particular high-temperature V-rings for turbochargers. Demand was again up for the control plates used in automatic transmissions and for high-alloy gaskets in the exhaust system.

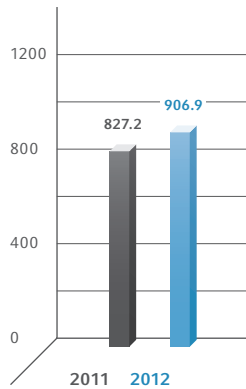
The Shielding Technology division also found itself in a strong position in 2012 thanks to the growing focus on thermal management in different areas of the engine and exhaust system. Although demand in Western Europe was significantly weaker, affecting particularly ElringKlinger AG's Langenzenn site, the Shielding Technology division recorded higher sales revenue in the period under review. ElringKlinger is one of only a small number of providers to supply complete thermal-acoustic shielding packages for the engine, vehicle underbody and exhaust system.

In 2012, an above-average increase in sales again came from the Plastic Housing Modules/Elastomer Technology division, which supplies various lightweight plastic components for the engine and the transmission. The polyamide modules produced by the division help car makers to reduce overall vehicle weight by a considerable margin and thus scale back CO₂ emissions. There was particularly strong customer demand for cam covers made of the ultra-light material MuCell. Despite the general malaise in the truck market, following the commencement of production at the company's new plastic housing modules plant in Dettingen/Erms, which primarily makes cam covers and oil pan modules for trucks, these parts contributed additional revenue. During the year under review, ElringKlinger AG also developed several new applications, e.g. charge air ducts and oil suction pipe modules, to series production level.

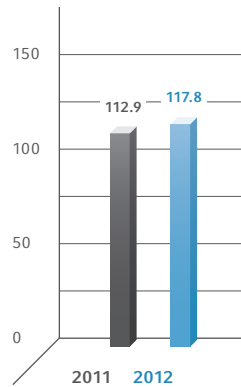
The new E-Mobility division was still gearing up for full-scale operation in 2012. With series production having commenced at the Dettingen/Erms site in the second half of 2011, in 2012 the division generated total sales revenue of EUR 6.6 (4.5) million from its cell contact systems for lithium-ion batteries.

The as yet negative overall contribution to earnings of the Group's new acquisitions, as outlined above, had a dampening effect on the segment's profit margin. Furthermore, all the costs attributable to start-up activities in the E-Mobility division were allocated to the Original Equipment segment. In total, earnings before taxes increased at a more pronounced rate than sales, rising by 12.3% to EUR 82.8 (73.7) million.

SALES IN THE ORIGINAL EQUIPMENT SEGMENT
in EUR million



SALES IN THE AFTERMARKET SEGMENT
in EUR million



Aftermarket business expands

The Aftermarket segment recorded revenue growth of 4.3% in 2012, with sales climbing to EUR 117.8 (112.9) million.

Additional market share captured in the important domestic aftermarket sector provided a further boost to revenues. In September 2012, ElringKlinger AG's contribution as an exhibitor at the Auto-mechanika trade show in Frankfurt met with a very positive response from customers. It is here that the company unveiled its new and extended service concept marketed as "Elring plus."

The spare parts markets in Western Europe showed signs of weakness in 2012. However, in acquiring the metallic flat gaskets unit from the Freudenberg Group, ElringKlinger is now in a position to expand its portfolio of cylinder-head and specialty gaskets for the French and Italian aftermarket. Having been under-represented as a supplier within these markets, ElringKlinger's Aftermarket segment is currently expanding its product range and sales channels in these countries. These markets are considered to have significant growth potential in the coming years.

In the Eastern European market, meanwhile, ElringKlinger was able to reap the rewards of consistently buoyant demand, while also benefiting from the strength of its "Elring – das Original" brand. In this region, aftermarket business produced double-digit growth.

Despite the political volatility seen in some countries in North Africa and the Middle East, together with visible hesitancy on the part of many aftermarket wholesalers, the Group managed to increase revenue from sales in this key region, too. This was driven to a large extent by dynamic business in the truck market.

Earnings before taxes for the Aftermarket segment outpaced the previous year's figure by 8.9% and rose to EUR 23.2 (21.3) million.

Further upturn in Engineered Plastics segment

The Engineered Plastics segment produced further revenue growth over the course of 2012. Despite the noticeable loss in forward momentum towards the end of the year, strong demand from the automotive, mechanical engineering and medical devices industry prompted a boost in sales revenue by 7.7% to EUR 91.3 (84.8) million. Revenue growth was driven by the introduction of a number of new products in 2012, such as sealing rings for brake systems made of the injection-moldable high-performance plastic Moldflon™. Towards the end of the year, however, some of the industries targeted by this segment showed visible signs of waning demand, albeit from a high base.

More encouragingly, efforts aimed at international expansion of activities previously restricted to the German-speaking region had a positive impact. Following the successful launch of a sales company in Qingdao, China, the first production line was put into operation at the Suzhou plant in 2012. In 2012, the ElringKlinger Group also made preparations for its entry into the important US market.

Due to relatively high start-up costs associated with new products, earnings before taxes fell by 4.3% – down from a high base in the previous year – to EUR 15.4 (16.1) million.

Revenue contribution of industrial parks shrinks after divestment in 2011

In the Industrial Parks segment operated by the ElringKlinger Group, the sale of the Ludwigsburg industrial park in 2011 had a major impact on revenues and earnings. ElringKlinger had recorded a non-recurring gain on disposal of EUR 22.7 million from this transaction in 2011. Rental income had been included in segment revenue up to and including July 2011.

Consequently, rental income for the Industrial Parks segment in 2012 was considerably lower than in the previous year, falling to EUR 4.5 (6.9) million in the period under review. Earnings before taxes dropped to EUR 0.2 (23.8) million

Demand for engineering services fueled by emissions legislation

The Services segment, an area in which ElringKlinger mainly provides engineering and testing services for car and truck manufacturers as well as other automotive suppliers, saw its revenue increase by 17.2% to EUR 11.6 (9.9) million in 2012.

Services within the area of exhaust gas technology, with a particular focus on SCR technology aimed at reducing nitrogen oxides, were in particularly high demand among customers in response to more stringent emissions legislation. This segment expanded its capacity levels and range of services in 2012.

Segment earnings before taxes rose at a more pronounced rate relative to sales, taking the figure to EUR 2.2 (1.7) million. This was attributable primarily to the high level of capacity utilization.

Gross profit margin remains largely unchanged

The overall financial performance of the ElringKlinger Group remained solid despite higher costs for some of the materials required and substantial up-front investments in the E-Mobility division. However, revenue growth and ongoing efficiency improvements were offset to some extent by substantial increases in costs attributable to personnel and an upturn in market prices associated with some of the commodity groups, particularly in the second half of the year.

In 2012, the Group's gross profit margin stood at 27.7% (27.9%), i.e. largely unchanged on the previous year's figure. The as yet lower gross profit margins reported by the acquired companies had a dilutive effect on the Group's overall margin.

Prices for high-grade steel, C-steel and aluminum – key commodities required by ElringKlinger – remained stable in 2012 or receded from the price peaks seen in 2011. By contrast, prices for polymer granules, which are now used more widely within the Group, trended upwards. From the middle of the year onwards, material prices began to edge up again with a particular impact on alloy surcharges for nickel, chromium and molybdenum.

For the purpose of counteracting the rise in raw material costs, ElringKlinger agrees supply contracts that are as long term as possible, optimizes its product designs on a continual basis and develops more cost-effective materials.

The Group's gross profit margin was adversely affected by the collective pay rise by 4.3% at sites in Germany, which came into effect on May 1, 2012. Given the fact that almost half of the workforce within the ElringKlinger Group is employed at domestic sites, the wage increase had a sizeable impact. The detrimental effects of pay rises were only partially offset by automation in manufacturing and the introduction of leaner production processes.

At the same time, however, at 3.1% staffing levels rose at a slower rate compared to the increase in output and sales revenue, despite the takeover of former ThaWa GmbH.

The staff profit-sharing bonus of EUR 1,150 (1,000) per employee for members of the ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH and Elring Klinger Motortechnik GmbH workforce, as agreed in early 2012 for the financial year 2011, resulted in additional staff costs of EUR 3.3 (2.5) million in total.

The Group's gross profit margin was significantly impacted by the as yet substantially weaker gross profit margins associated with the acquisitions transacted in 2011 and 2012. Overall, the earnings contributions made by the Hug Group, the Hummel-Formen Group, the former company ThaWa GmbH and the metallic flat gaskets business acquired from the Freudenberg Group had a quite substantial dilutive effect on the gross profit margin, equivalent to 0.5 percentage points.

In total, the cost of sales rose at a more pronounced rate than sales, up 9.5% to EUR 814.8 (744.2) million.

Higher R&D expense

The ElringKlinger Group further expanded its research and development budget in 2012, raising its expenditure by EUR 7.4 million compared to the previous year. Efforts within the field of R&D were stepped up both in the Group's core business and in the New Business Areas and E-Mobility divisions (Research and Development*). In total, research and development costs thus rose to EUR 57.3 (49.9) million.

*  CF. PAGE 92

The share of R&D expenses in Group sales increased to 5.1% (4.8%). The Group received a total of EUR 4.0 (4.1) million in government grants over the course of 2012. In parallel, ElringKlinger recorded expenses at a comparable level for development work and prototyping.

While the E-Mobility division incurred considerable start-up costs, in line with expectations, it has yet to generate corresponding sales revenues. As soon as the volumes requested by customers expand within the context of ongoing projects as well as newly initiated serial production contracts, ElringKlinger anticipates that it will be in a position to reach the profit threshold in this line of business within the next two years. In 2012, ElringKlinger was able to secure two further serial production contracts for cell contact systems to be used in a hybrid vehicle produced by a German car maker and in an all-electric vehicle built by another European manufacturer.

In the period under review, the Group capitalized development costs totaling EUR 8.4 (6.7) million. At the same time, systematic depreciation and amortization of R&D activities capitalized by the Group totaled EUR 5.6 (4.9) million in 2012. The positive effect on earnings attributable to this item was equivalent to EUR 2.8 million.

Selling expenses rose at a more pronounced rate than revenue, up 15.7% to EUR 78.0 (67.4) million. The disproportionately large increase in selling expenses relative to sales revenue was attributable partly to the first-time inclusion of acquisitions. Additionally, ElringKlinger's response to significant growth was to expand staffing levels within its sales unit.

General and administrative expenses rose at a slower rate than sales revenue, increasing by just 5.5% to EUR 45.8 (43.4) million.

In 2011, other operating income had included one-time income of EUR 22.7 million from the sale of the Ludwigsburg industrial park. This was a key factor in the marked decline in other operating income for 2012, down from EUR 34.7 million to EUR 15.4 million.

Other operating expenses fell to EUR 7.8 (11.6) million.

Slight contraction in EBITDA before exceptional items

Earnings before interest, taxes, depreciation and amortization (EBITDA) fell by 12.3% compared to the previous year, which had been buoyed by the sale of the industrial park. Thus, EBITDA totaled EUR 215.4 (245.5) million in the period under review. On a like-for-like basis – following adjustments for the above-mentioned one-time gain recorded in the previous year – EBITDA was down by only 3.3%.

In total, depreciation, amortization and write-downs dropped to EUR 79.4 (96.8) million in 2012. It should be noted, however, that the reduction in depreciation, amortization and write-downs was attributable partly to lower contributions made by tools within this area. Additionally, a substantial proportion of capital expenditure was attributable to land and buildings, which are depreciated over a longer period of time.

The purchase price allocations relating to recent acquisitions produced a charge of EUR 2.3 million in total.

Adjusted operating result up 8.2%

The Group's operating result contracted by 8.1% to EUR 138.9 (151.1) million in 2012. However, this was attributable entirely to the one-time gain recorded on the disposal of the industrial park in 2011. Adjusted for this non-recurring item, the ElringKlinger Group managed to increase its operating result by 8.2%. As yet, the contribution made by the aforementioned acquisitions, including the former Freudenberg companies, diluted the Group's operating result by minus EUR 2.5 million in 2012 and by minus EUR 0.3 million in the fourth quarter. Excluding the purchase price allocation, the Group's operating result stood at EUR 141.2 million. Having eliminated non-recurring items, the operating margin for 2012 remained virtually unchanged year on year at 12.3% (12.4%).

EBIT adjusted for non-recurring items up 7.9%

In contrast to the operating result, earnings before interest and taxes (EBIT) include foreign exchange gains and losses. Overall, foreign exchange translation produced a net dilutive effect of EUR 3.4 million, as a result of which EBIT was weaker than the Group's operating result. In 2012, EBIT thus stood at EUR 136.0 (148.7) million. Compared to EBIT for the previous year (EUR 126.0 million), adjusted for the one-time gain on disposal of the industrial park, this corresponds to an increase of 7.9%.

Adjusted EBIT before purchase price allocation amounted to EUR 138.3 million. Therefore, the EBIT margin, adjusted for non-recurring items, was slightly lower than in the previous year: at 12.1% (12.2%) and at 12.3% before purchase price allocation.

Excluding the dilution of earnings attributable to the acquisition of the Hug Group, the Hummel-Formen Group and former ThaWa GmbH – the latter having already been integrated into ElringKlinger AG – as well as to the Freudenberg companies, which as yet generate lower margins in Group comparison, the ElringKlinger Group recorded an EBIT margin of 13.5% in its core business in 2012, before purchase price allocation.

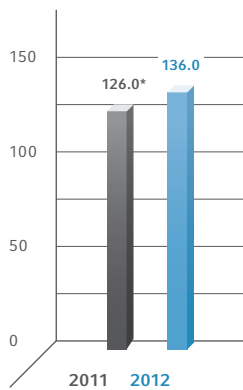
Net finance costs up due to foreign exchange effects

At EUR 15.1 million, the Group's net finance costs were up on the figure of EUR 14.5 million posted in the previous year. This was attributable largely to foreign exchange effects.

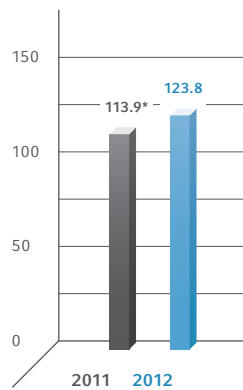
Finance costs fell by EUR 8.4 million in 2012. As a result of more extensive borrowings, interest expenses rose by EUR 0.4 million. By contrast, expenses relating to exchange differences were down by EUR 8.8 million. With the Swiss franc appreciating against the euro in 2012, the Group was again forced to increase the carrying amount of liabilities recognized in connection with a loan used to finance the acquisition of the Swiss SEVEX Group in 2008. At the time, ElringKlinger AG had financed the transaction in Swiss francs. As of December 31, 2012, the associated expenses amounted to EUR 0.4 (1.4) million.

In 2012, finance income fell by EUR 8.9 million year on year to EUR 6.9 (15.8) million. This was attributable primarily to a decline in income from foreign exchange differences by EUR 9.7 million. By contrast, interest income rose by EUR 0.3 million.

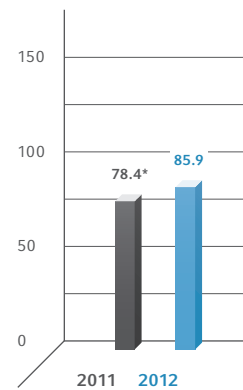
EBIT
in EUR million



EARNINGS BEFORE TAXES
in EUR million



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF ELRINGKLINGER AG
in EUR million



* Adjusted for the one-time gain from the sale of the Ludwigsburg industrial park (EUR 22.7 million before taxes, EUR 16.5 million after taxes)

Adjusted earnings before taxes grow faster than operating result

Group earnings before taxes amounted to EUR 123.8 (136.6) million. Excluding the above-mentioned exceptional income recorded in the previous year, the ElringKlinger Group managed to increase its earnings before taxes by 8.7%.

Adjusted net income after non-controlling interests up 9.6% on previous year

Tax expenses decreased to EUR 34.4 (39.0) million in the period under review. Compared to the previous year, the tax rate fell to 27.8% (28.6%).

On this basis, the ElringKlinger Group recorded net income of EUR 89.4 (97.6) million in 2012. Adjusted for the one-time gain of EUR 16.5 million (after taxes) in the previous year, the Group saw net income rise by 10.2%.

Including the one-time gain recorded in the previous year, net income after non-controlling interests stood at EUR 85.9 (94.9) million. Eliminating this one-time gain, profit attributable to shareholders of ElringKlinger AG amounted to EUR 78.4 million in 2011. On this basis, adjusted net income after non-controlling interests grew by 9.6%.

As a result, earnings per share stood at EUR 1.36 (1.50). As of December 31, 2012, the number of ElringKlinger AG shares outstanding that were entitled to a dividend remained unchanged year on year at 63,359,990.

Regular dividend to rise by 12.5%

ElringKlinger AG is committed to a consistent dividend policy that reflects the current earnings performance and allows shareholders to participate in the company's success in an appropriate manner.

In view of this, the Management Board and Supervisory Board will propose to the Annual General Meeting resolving on the 2012 financial year a dividend of EUR 0.45 (0.58) per share.

Compared to the regular dividend paid out for the previous year (EUR 0.40 per share), the proposal represents an increase of 12.5%. Last year, shareholders received an extra dividend of EUR 0.18 per share as a result of the non-recurring income generated by the disposal of the Ludwigsburg industrial park.

Financial Position

With an equity ratio of 50.5% and positive net cash from operating activities, the ElringKlinger Group remained solid in terms of its financial position and cash flows as of December 31, 2012.

Growth increases total assets to EUR 1,269 million

The level of growth generated by the ElringKlinger Group is reflected in total assets, which stood at EUR 1,268.6 (1,217.6) million as of December 31, 2012, up EUR 51.0 million on the figure reported as of December 31, 2011. This was attributable primarily to an investment-induced increase in property, plant and equipment as well as higher working capital.

The inclusion of former ThaWa GmbH and its associated company AGD Group Entwicklungs- und Vertriebs GmbH within the ElringKlinger Group had no significant impact on the balance sheet. The effects of this acquisition on the assets and liabilities of the ElringKlinger Group at the date of acquisition are discussed in detail in the notes (Notes*).

 * CF. PAGE 151

The rise in property, plant and equipment was driven by substantial investments – well in excess of depreciation and amortization – in new operational facilities as well as production systems and machinery. Property, plant and equipment totaled EUR 565.0 (537.5) million as of December 31, 2012.

Higher working capital

Inventories increased by EUR 13.1 million or 6.1% year on year and amounted to EUR 229.6 (216.5) million as of December 31, 2012. Thus, they expanded at a slower rate relative to revenue growth, which stood at 9.1%. The increase in inventories was attributable mainly to a rise in tool-related stocks, up by EUR 15.0 million, recognized in this item. Without this effect, inventories would have been lower.

Compared to September 30, 2012 (EUR 241.0 million), the Group managed to reduce inventories by EUR 11.4 million by the end of 2012 as part of improvements implemented in the area of working capital management.

As of December 31, 2012, the share of inventories in total assets rose to 18.1% (17.8%).

Trade receivables were scaled back slightly at the end of 2012, despite growth in revenue. At EUR 185.9 (187.3) million, they were down EUR 1.4 million on the figure posted at the end of the previous financial year. Compared to September 30, 2012 (EUR 204.1 million), trade receivables fell by EUR 18.2 million.

Other current assets increased by EUR 11.7 million to EUR 45.4 (33.7) million as of December 31, 2012, primarily as a result of receivables from an insurer in connection with warranty incidents.

In total, current assets amounted to EUR 517.3 (504.1) million.

ElringKlinger is planning to build a new state-of-the-art production facility at the future site in Gumi, South Korea, as part of the takeover of the remaining 50% ownership interest in the South Korean joint venture ElringKlinger Korea Co., Ltd. In view of this, ElringKlinger intends to sell the existing premises in 2013. Correspondingly, these assets were reclassified in the Group statement of financial position and recognized as "non-current assets held for sale and discontinued operations."

Equity ratio solid at over 50%

More substantial allocations were made to revenue reserves from net income. As of December 31, 2012, they amounted to EUR 424.6 (376.8) million.

By contrast, other reserves were down by EUR 19.2 million to EUR 3.0 (22.2) million at the end of the 2012 financial year. This was mainly due to the fact that increases in pension provisions were recognized directly in equity.

Group equity rose to EUR 640.3 (610.1) million in total. The equity ratio remained high at 50.5% (50.1%).

Low interest rates prompt increase in pension provisions

Totaling EUR 79.1 million at the end of the previous financial year, pension provisions had to be increased by EUR 22.5 million as of December 31, 2012, in response to the considerable decline in interest rates. Thus, pension provisions amounted to EUR 101.6 million at the end of the reporting period. The so-called actuarial losses, which led to an increase in pension provisions, are recognized directly in equity and therefore have no influence on profit or loss.

Current and non-current provisions rose by EUR 6.6 million to EUR 29.5 (22.9) million. In this context, higher staff-related provisions, e.g. for partial retirement arrangements and anniversary benefits, were a key factor.

Rise in net debt

Bank borrowings were expanded in particular for the purpose of financing investments made during 2012 as well as the dividend payout. Additionally, ElringKlinger AG took out a loan with ElringKlinger Marusan Corporation as well as with Lechler GmbH. Thus, current and non-current financial liabilities rose by EUR 27.2 million to EUR 314.7 (287.5) million as of December 31, 2012. More specifically, non-current financial liabilities amounted to EUR 131.0 (161.4) million, while current financial liabilities totaled EUR 183.7 (126.1) million.

Correspondingly, the Group saw net debt (current and non-current financial liabilities less cash) rise to EUR 260.4 (222.3) million as of December 31, 2012. Compared to September 30, 2012 (EUR 274.1 million), however, net debt was scaled back slightly.

Despite more expansive production volumes, trade payables fell by EUR 6.9 million to EUR 58.1 (65.0) million as of December 31, 2012.

Other current and non-current liabilities were also down at the end of the 2012 financial year, amounting to EUR 66.2 (89.5) million. This was attributable mainly to reduced deferrals associated with tooling revenue, which contributed to a drop in other liabilities by EUR 12.0 million. The extinguishment of a customer claim of EUR 6.0 million against ElringKlinger AG in connection with a warranty incident also contributed to the year-on-year decline (Notes*).

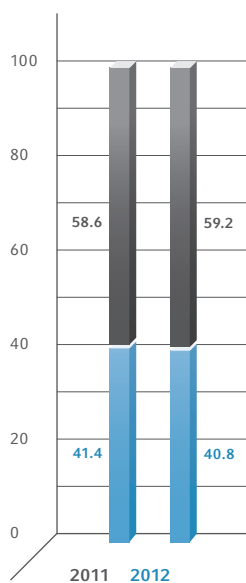
*  CF. PAGE 177

Overall, liabilities amounted to EUR 628.3 (607.5) million, which corresponds to 49.5% (49.9%) of total equity and liabilities.

BALANCE SHEET STRUCTURE ELRINGKLINGER GROUP

ASSETS

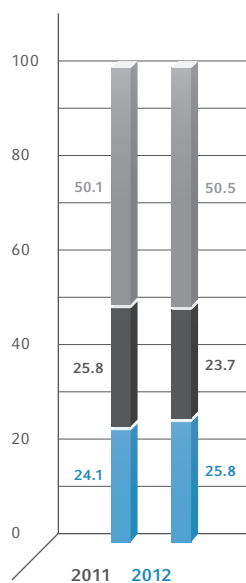
in % of Balance Sheet Total



■ Current Assets
■ Non-Current Assets

LIABILITIES AND SHAREHOLDERS' EQUITY

in % of Balance Sheet Total



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

Cash Flows

Cash flow from operating activities up 51% on previous year

ElringKlinger achieved a steady quarter-on-quarter improvement in its cash flow from operating activities over the course of the 2012 financial year. This was attributable primarily to optimizations in the area of working capital management, particularly in the fourth quarter. In total, the ElringKlinger Group recorded positive net cash from operating activities of EUR 112.3 (74.5) million in the 2012 financial year.

At EUR 123.8 million, earnings before taxes for 2012 were down EUR 12.8 million on the figure posted in 2011 (EUR 136.6 million), thus making a smaller contribution to operating cash flow. In the previous year, earnings before taxes had been propelled upwards by one-time income from the sale of the Ludwigsburg industrial park, as discussed earlier. Compared to fiscal 2011, the reduction in depreciation, amortization and write-downs of non-current assets (less write-ups) by EUR 17.4 million had an adverse effect.

In 2011, a total of EUR 17.5 million in net gains and losses from the disposal of non-current assets was deducted for the purpose of determining cash flow from operating activities. This was attributable primarily to one-time income from the sale of the Ludwigsburg industrial park. In 2012, by contrast, the adjustment relating to net gains and losses from the disposal of non-current assets amounted to just EUR 2.8 million.

During the 2012 financial year, the ElringKlinger Group increased provisions by EUR 4.5 million, having previously reduced provisions by EUR 8.1 million in 2011.

Inventories (excluding tools) were scaled back in 2012 with the support of optimized inventory management. Having said that, higher tool-related stocks recognized in inventories had a contrary effect. They rose by EUR 15.0 million. At the same time, the level of capital tied up in trade receivables was reined back in 2012, despite the significant increase in sales revenue. By contrast, receivables from an insurer in connection with warranty incidents increased in the period under review.

In total, inventories, trade receivables and other assets not attributable to investing or financing activities rose by EUR 22.4 million in the 2012 financial year. In the previous year, they had increased by a more substantial EUR 95.9 million. Alongside the increase in inventories and higher tool-related stock levels, a claim of EUR 14.4 million against an insurer (Notes*) had been a key contributor in 2011.

The much smaller increase recorded in 2012 was also attributable in particular to a focused reduction in working capital over the course of the fourth quarter. In the fourth quarter alone, the ElringKlinger Group scaled back inventories, trade receivables as well as other assets not attributable to investing or financing activities by EUR 20.8 million. The benefits to operating cash flow were significant.

In 2012, lower deferrals associated with tooling revenue saw other liabilities decline by EUR 12.0 million. The extinguishment of a customer claim of EUR 6.0 million against ElringKlinger AG in connection with a warranty incident also contributed to the reduction in other liabilities (Notes*).



Despite more expansive production volumes, trade payables were reined back by EUR 7.4 million in 2012. In total, trade payables and other liabilities not attributable to investing or financing activities fell by EUR 35.0 million. In 2011, by contrast, the Group had scaled these items back by just EUR 17.3 million. The figure posted in 2011 included a in the previous year outstanding liability of EUR 7.0 million relating to a warranty incident.

Overall, ElringKlinger saw its fiscal 2012 cash flow from operating activities rise by EUR 37.8 million compared to the previous year.

Outflow for investments lower in 2012

In 2011, cash flow from investing activities had been dominated by the sale of the Ludwigsburg industrial park. This transaction alone had resulted in proceeds of EUR 34.0 million. By contrast, 2012 saw a cash inflow of just EUR 9.0 (36.5) million from the disposal of property, plant and equipment, intangible assets and investment property.

Cash outflows relating to property, plant and equipment as well as investment property and intangible assets fell to EUR 114.3 (121.6) million in total in 2012. As a result, the investment ratio (investments in relation to sales revenue) for the ElringKlinger Group dropped to 10.1% (11.8%).

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

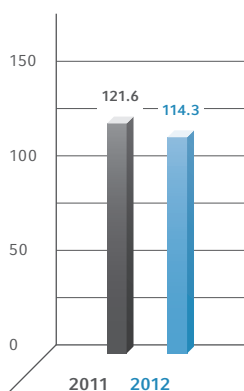
In parallel, investments were directed at the expansion of the Thale production site. Starting in the spring of 2013, this plant will be responsible for performing the precision-welding and canning of particulate filters and complete exhaust gas purification systems.

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

On the back of significant payments of EUR 62.4 million for the three acquisitions transacted in the previous year, ElringKlinger recorded an outflow of only EUR 4.1 million for the purchase of subsidiaries in 2012. This figure included the takeover of former ThaWa GmbH and the associated entity AGD Group Entwicklungs- und Vertriebs GmbH.

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

in EUR million



In total, net cash used in investing activities in 2012 amounted to EUR 108.2 (147.4) million. The ElringKlinger Group had a positive operating free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions) of EUR 8.2 (-10.5) million.

Lower financing requirements: reduction in cash flow from financing activities

In 2012, payouts to shareholders and non-controlling interests of ElringKlinger AG were increased by EUR 14.9 million to EUR 37.9 (23.0) million.

Also for the purpose of taking advantage of lower interest rates at the short end of the interest rate spectrum, the ElringKlinger Group expanded its financial liabilities by EUR 68.7 (84.5) million. In parallel, loan repayments of EUR 43.7 (31.1) million were made in the period under review. In net terms, therefore, financial liabilities increased by EUR 25.0 (53.4) million.

Net cash used in financing activities thus amounted to EUR 13.3 million in 2012, in contrast to net cash used in financing activities of EUR 35.4 million in 2011.

Cash held by the ElringKlinger Group fell to EUR 54.3 (65.2) million.

Group Companies

Integration of acquired companies

One of the key items on the agenda over the course of 2012 was the integration of the three entities acquired in 2011, together with the former ThaWa GmbH as well as AGD Group Entwicklungs- und Vertriebs GmbH, which had been purchased at the beginning of 2012. In this context, a number of measures were introduced and implemented for the purpose of further improving the profitability of these companies. For further details of these measures as well as information on the performance of the acquired companies, please refer to the chapter entitled "Sales and Earnings Performance"*. A detailed overview of the ElringKlinger Group structure and organization can be found in the chapter entitled "Overview of ElringKlinger's Activities and Structure"*.

*  CF. PAGE 61 ET SEQQ.

*  CF. PAGE 47 ET SEQQ.

ThaWa GmbH merged into ElringKlinger AG

Effective from January 1, 2012, ElringKlinger AG acquired metal-housing producer ThaWa GmbH Thaler Warenautomaten, based in Thale, Saxony-Anhalt, Germany, as well as its associated company AGD Group Entwicklungs- und Vertriebs GmbH, Gütersloh, Germany. The two entities were merged into ElringKlinger AG in 2012. Since then, the Thale site has been managed as a plant operated by ElringKlinger AG. The chapter entitled "Significant Events"* provides further information about these activities.

*  CF. PAGE 59

Full incorporation of tool manufacturer Hummel-Formen Group

In November 2012, ElringKlinger AG acquired the remaining 10% ownership interest in the Hummel-Formen Group held by the original founding family. In completing this transaction, ElringKlinger AG became the sole owner of the Hummel-Formen Group. ElringKlinger AG had previously acquired a majority interest in the manufacturer of tools for plastic injection-molding processes in October 2011. Due to the legal form and characteristics of this transaction, the interests were allocated to ElringKlinger AG in full already effective from the date of acquisition.

In order to streamline and harmonize the existing structures in accordance with the organizational standards applied to the ElringKlinger Group, Hummel-Formen Kunststofftechnik GmbH was merged into Hummel-Formen GmbH. Preparations are also being made for the amalgamation of the two Romanian companies (HURO Supermold S.R.L. and HURO Invest S.R.L. in Timisoara, Romania), the aim being to further optimize corporate structures. Additionally, it's planned to merge Hummel-Formen GmbH into ElringKlinger AG. As a center of excellence for injection-molding tools used in plastics engineering, Hummel-Formen will then complement the existing toolmaking operations of the ElringKlinger Group.

Further reduction in non-controlling interests within the Group

In the context of the Group's equity investment strategy, ElringKlinger AG has a fundamental interest in scaling back the shareholdings of non-controlling interests in the Group.

Against this backdrop, the non-controlling interests held in HURO Supermold S.R.L., Romania, and in Hug Engineering S.p.A., Italy, were acquired in full during 2012. In addition, a further 2% of the interests in Hug Engineering AG, Switzerland, were purchased by the company. The interest held

by ElringKlinger AG in the Swiss exhaust treatment specialist thus stood at 68.67% at the end of the financial year.

As already discussed, the remaining interests in the Hummel-Formen Group were also acquired in their entirety.

The US-based company Elring of North America Inc., Branchburg, USA, was closed in 2012. The activities of this company, which had been operating in the aftermarket business, are now being managed centrally by ElringKlinger AG.

Growth increasingly driven by international Group companies

In 2012, the majority of ElringKlinger's international subsidiaries benefited from global vehicle demand and production output that remained on the whole stable. The anemic European vehicle market proved detrimental to the parent company, but in particular to the subsidiaries located in the Western European region.

With a few exceptions, the Group companies saw their sales revenue rise during the period under review. The companies in the growth markets in China, India, the United States and Turkey recorded above-average growth rates.

Due to the increasingly global nature of the ElringKlinger Group and the much more dynamic direction taken by overseas car markets, the proportion of Group revenue attributable to the subsidiaries increased yet again in 2012, thus maintaining the forward momentum seen in previous years. With sales amounting to EUR 700.8 (636.7) million, the subsidiaries generated substantially more revenue in total than the parent company, which recorded sales of EUR 426.4 (396.1) million.

Compared to the previous year, the subsidiaries and joint ventures achieved revenue growth of 10.1%, while ElringKlinger AG saw its revenue increase by 7.6%. Against this background, the overall relevance of the subsidiaries operating within the ElringKlinger Group continued to grow. The share of investees in total Group revenue rose to 62.2% (61.6%).

The foreign Group companies gained forward momentum, with their aggregate share in Group revenue again amounting to a substantial 52.6% (53.0%).

The overall earnings performance of Group companies was also positive. They posted earnings before taxes of EUR 74.7 (69.5) million in 2012. Despite the negative aggregate earnings contribution by the companies acquired in 2011 and 2012, year-on-year growth still amounted to 7.5%.

Investment focus on Asia and North America

In 2012, the Japanese joint venture ElringKlinger Marusan Corporation established a subsidiary in Indonesia, trading as PT. ElringKlinger Indonesia. Operating with its own production facilities in Greater Jakarta, the ElringKlinger Group has thus created its first stepping stone for business within the burgeoning ASEAN 10 region. Alongside China, the ASEAN bloc is one of the most promising automotive markets worldwide. From 2013 onwards, cylinder-head and specialty gaskets as well as heat shields will be rolling off the production line at the local plant, primarily for Japanese car and truck manufacturers.

In addition, ElringKlinger AG acquired the full ownership interest in the Korean joint venture ElringKlinger Korea Co., Ltd. effective from February 1, 2013. In doing so, the company has further strengthened its market position in Asia (Events after the Reporting Period*).



In 2012, 49.9% (42.5%) of capital expenditure directed at investments in property, plant and equipment, investment property and intangible assets was attributable to the subsidiaries. At 8.1% (8.1%), the investment ratio at the subsidiaries remained unchanged year on year.

A substantial share of the investments made by the Group was used for the purpose of expanding production capacity for new product ramp-ups in Asia and North America. The emphasis of procurement efforts was on new production systems for the sites in Buford, USA, and Toluca, Mexico, as well as for the Chinese plants operated by the ElringKlinger Group in Changchun and Suzhou.

The Group also added to its overall production capacity at the Sevelen site operated by ElringKlinger Abschirmtechnik (Schweiz) AG and at the rapidly expanding Turkish subsidiary in Bursa.

Employees

Group headcount up 3%

Production volumes continued to expand over the course of 2012. Due to the significant number of newly initiated projects, the company had to extend its capacity levels during the reporting period. Thus, the headcount in areas associated with manufacturing operations was higher in the period under review, despite improvements in the company's productivity. The E-Mobility division also saw a further expansion in staffing levels. In response to the company's strong growth, additional members of staff were also recruited in Sales and in the central functions of Finance and Marketing. By contrast, the overall headcount at some of the entities acquired in 2011 was scaled down as part of ongoing integration measures and more extensive automation with regard to production processes.

As of December 31, 2012, the ElringKlinger Group employed 6,263 (6,075*) people worldwide. The overall increase in the Group's headcount by 188 people or 3.1% was less pronounced than the level of revenue growth generated by the Group (9.1%).

It should be taken into account that the higher headcount includes employees taken on from former ThaWa GmbH, an enterprise acquired at the beginning of 2012. At the end of 2012, 54 people were employed at the Thale site. Excluding this acquisition, the overall number of employees would have increased by only 2.2% year on year.

In 2012, the annual average number of employees within the Group totaled 6,314 (5,729*) worldwide.

* Adjustments to some prior-year figures, cf. Notes page 200

Domestic staffing levels remain high

Almost half of the people working for the ElringKlinger Group over the course of 2012 were still employed in Germany. The higher domestic headcount was attributable in part to the acquisition of former ThaWa GmbH in Saxony-Anhalt. In total, 2,918 (2,813*) people were employed at sites in Germany as of December 31, 2012. Thus, the proportion of staff members employed at domestic facilities was 46.6% (46.3%). By contrast, the share of sales revenue generated by ElringKlinger in Germany stood at a mere 30.1%.

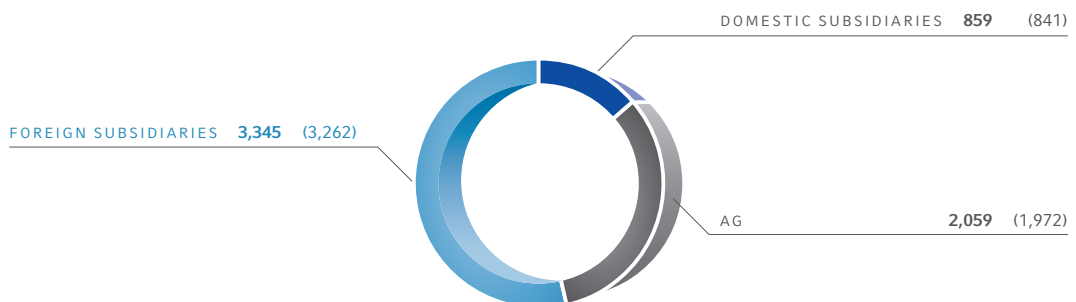
In total, the sites operated by the parent company ElringKlinger AG (Dettingen/Erms, Gelting, Runkel, Langenzenn, Thale) provided employment for 2,059 (1,972) people at the end of 2012. The largest domestic subsidiary, ElringKlinger Kunststofftechnik GmbH, had a total headcount of 592 (577) as of December 31, 2012.

Headcount up slightly in foreign markets

The Group's growth within the global business arena is also reflected in higher staffing levels at its international sites. As of December 31, 2012, the number of people employed abroad rose to 3,345 (3,262*). Thus, the share of employees based at non-domestic sites was 53.4% (53.7%).

ElringKlinger continued its recruitment drive at the company's Chinese plants as part of its efforts to expand production capacity. At the end of 2012, the factories in Changchun and Suzhou employed 518 (489*) people in total. In the United States, too, buoyant demand and the introduction of new products had an impact on the company's headcount. The US site in Buford saw its personnel base expand by 37 in the year under review. Elsewhere, the Brazilian production plant in Piracicaba recorded a 13.2% increase in staff numbers in response to more expansive revenue flows, taking the headcount to 437 (386).

ELRINGKLINGER GROUP EMPLOYEES WORLDWIDE December 31, 2012 (prior year)



* Adjustments to some prior-year figures, cf. Notes page 200

In contrast to the above-mentioned expansion in staffing levels at some of the subsidiaries, some of the companies acquired in 2011 saw a reduction in personnel as a result of measures aimed at corporate integration as well as due to sluggish demand throughout Western Europe. Committed to strengthening its competitiveness, ElringKlinger significantly expanded the overall level of automation at the French sites operated by the former Freudenberg companies as well as at the Swiss Hug Group. Cost structures were adjusted to reflect demand levels that failed to meet expectations. Against this backdrop, job cuts at the above-mentioned sites were unavoidable over the course of 2012.

For further information on staff development and HR policies within the ElringKlinger Group, as well as associated indicators, please refer to the chapter entitled "Sustainability"*.

*  CF. PAGE 90 ET SEQ.

Procurement

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

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

*  CF. GLOSSARY
*  CF. GLOSSARY

The previous year had been marked by a series of shortages as a result of temporary demand spikes and disruptions to supplies following the earthquake and tsunami in Japan. By contrast, ElringKlinger had no difficulty in obtaining the key commodities it required in 2012.

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

Purchasing volume up 8%

The renewed strong growth in sales generated by the ElringKlinger Group in 2012 was reflected in an increase in purchasing volume. Compared to the previous year, it rose by 8.0% to EUR 707.0 (654.6) million. The figure relating to the total purchasing volume encompasses externally sourced raw materials, consumables and supplies as well as merchandise for the company's independent aftermarket business and investments in land, property, plant and equipment, and real estate. The pure cost of materials in 2012 stood at EUR 506.1 (423.7) million. The year-on-year increase in the total cost of materials is largely due to a rise in procurement volumes.

Commodity prices in 2012: stable to rising

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

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

However, it generally takes three to four months before the downward price adjustments relating to alloy surcharges have an effect on ElringKlinger's purchasing costs. By contrast, the company's proceeds from the sale of scrap dropped immediately in response to the lower market prices. ElringKlinger took advantage of this pricing trend by employing derivative instruments on a rolling basis to hedge some of its requirements of alloyed high-grade steels.

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

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

RAW MATERIAL CHARGE WITHIN ELRINGKLINGER GROUP 2012 (prior year) in %



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

The increase in production output across the entire Group led to higher energy consumption in 2012. Energy consumption rose to 226,700 (199,800*) MWh (absolute energy consumption: electricity, gas and other energy sources). Adjusted for the former company ThaWa GmbH as well as the Hummel-Formen Group, neither of which was included in the 2011 figures, the increase in energy consumption was 10.8% – in line with revenue growth generated by the Group.

Higher energy consumption and price hikes relating to electricity and gas resulted in an increase in energy costs. In total, energy costs rose by 15.0% to EUR 18.4 (16.0) million. The ratio of energy costs to the Group's overall cost of sales rose again in 2012 to reach 2.6% (2.1%).

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

Two own combined heat and power (CHP) plants at the headquarters in Dettingen/Erms also contribute to an overall reduction in energy costs and provide a better basis for long-term planning. The company plans to install a further two CHP plants in 2013, one in Dettingen/Erms and another at ElringKlinger Kunststofftechnik GmbH in Bietigheim-Bissingen. During the summer months, an absorption cooling unit will help to generate cool air for the air conditioning systems from the CHP plant's residual heat. This will replace the previous energy-intensive cooling units in use at these sites (Sustainability*).

*  CF. PAGE 88

Globalization of supplier structure

At ElringKlinger, supplier management involves an ongoing process of supplier development and the identification and approval of new supply-side partners. In 2012, as part of the Group's measures to expand capacity in the fast-growing emerging markets and above all in China, the company again assessed and approved a significant number of international suppliers. By way of example, part of the Group's aluminum requirements were sourced in China in 2012. Out of the total purchasing volume, the proportion obtained from Asia is gradually increasing. By sourcing a larger volume of materials from local markets, the company is able to reduce its logistics costs and limit its exposure to currency risks.

The central purchasing department conducts regular Group-wide quality and cost analyses to provide all Group companies with the most appropriate sources of materials and optimize purchasing costs.

As a rule, all new suppliers are evaluated and certified on the basis of international ISO standards. They are also expected to comply with the exacting quality and environmental guidelines defined by the ElringKlinger Group. ElringKlinger makes every effort to achieve a balanced supplier structure and minimize its dependency on individual suppliers. In 2012, the Group's top 30 suppliers accounted for approximately 20% of its total volume of purchases.

* Adjustments to some prior-year figures

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

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

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

Sustainability

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

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

 INTERNETLINK

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

Product portfolio for green mobility

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

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

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



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

Strict quality standards also help to ensure that business operations are as sustainable as possible. With the exception of the new plant in Indonesia, all the ElringKlinger Group's production locations are certified in accordance with the automotive industry standard TS 16949 and/or ISO 9001. Certification of the Indonesian plant is scheduled for 2014. Furthermore, with the exception of the plant in Thale, all production plants operate an environmental management system according to ISO 14001. The Thale site is scheduled for ISO 14001 certification in 2013.

Indirect CO₂ emissions rise following change in method of calculation

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

The ElringKlinger Group's direct CO₂ emissions for 2012 stood at 22,780 (20,000) metric tons, an increase of 13.9% on the previous year.

By contrast, the indirect CO₂ emissions rose at a much more pronounced rate in 2012, taking the figure to 59,400 (48,000) metric tons. One of the key criteria used in calculating ElringKlinger's CO₂ emissions is the underlying emissions factor of the electricity mix. In 2012, the Group created a more stable basis for calculating its global CO₂ emissions by using the individual mix of each country. This led to a net increase in the emissions factor.

The total direct and indirect CO₂ emissions amounted to 82,180 (68,000) metric tons, with the result that in 2012, for the first time ever, the Group was unable to meet its self-imposed target of reducing its relative CO₂ output by 3% per annum. However, this target should again be achievable from 2013 onwards.

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

Furthermore, this year's annual report has been printed with an entirely neutral impact on the climate for the first time – just another way in which ElringKlinger is helping to protect the environment. This means that the CO₂ emissions generated in producing the report have been offset through accredited climate projects.

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

Other measures taken in 2012 included improvements to the roof insulation (e.g. using double insulated skylights) as part of a refurbishment program at one of the production buildings in Runkel. Following the installation of a new thermostat to optimize the temperature balance in the building, energy consumption at the new factory has improved considerably. Measures to reduce energy consumption also played an important part in expansion work at the Group's Suzhou factory in China, where production commenced in 2012. Thanks to a new heating system and better insulation, the amount of energy lost has been cut significantly.

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

The consumption of water and solvents in 2012 rose at a lower rate than sales, and the amount of waste increased proportionately less than the volume of goods produced. Around 84% of the total waste figure is accounted for by metal residues, mainly from stamping processes during production. ElringKlinger collects and sells this metal waste, which can then be reused for other purposes. The overall recycling rate for all waste produced at the Group's German sites is 96%. All waste is removed by accredited companies for recycling or disposal.

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

THE ELRINGKLINGER GROUP – KEY ENVIRONMENTAL INDICATORS

	2012 incl. acquisitions	2012 excl. acquisitions ¹	2011 ²
Total direct and indirect CO ₂ emissions in metric tons	82,180	80,100	68,000
CO ₂ emissions in metric tons per EUR 1 million in sales	72.9	71.1	65.8
Total direct CO ₂ emissions in metric tons	22,780	22,400	20,000
Of which direct CO ₂ emissions from gas, oil, engine testing stations, etc. in metric tons	22,200	21,800	19,400
Of which CO ₂ emissions for vehicle fleet ³ in metric tons	580	570	600
Total indirect CO ₂ emissions in metric tons	59,400	57,700	48,000
Of which indirect CO ₂ emissions from electricity in metric tons	56,900	55,200	46,000
Of which indirect CO ₂ emissions from air travel ⁴ in metric tons	2,500		2,000
NO _x emissions ⁵ in metric tons	26		22
Absolute energy consumption (electricity, gas and other energy sources) in MWh	226,700	221,400	199,800
Absolute energy consumption in MWh per EUR 1 million in sales	201.1	196.4	193.5
Of which electricity consumption in MWh	136,100	132,700	119,500
Electricity consumption in MWh per EUR 1 million in sales	120.7	117.7	115.7
Water consumption in m ³	168,100	165,200	162,200
Solvents in metric tons	950	940	930
Total waste in metric tons	43,100	42,800	42,600
Of which metal waste in metric tons	36,100	35,800	35,700

¹ Excluding former ThaWa GmbH acquired 2012 and the Hummel-Formen Group, neither of which was included in the 2011 figures.

² Due to the retrospective inclusion of CO₂ emissions attributable to the vehicle fleet of ElringKlinger AG and air travel, data relating to total and relative CO₂ emissions has changed; prior-year figure relating to absolute energy consumption adjusted

³ Vehicle fleet of ElringKlinger AG sites Dettingen/Erms, Gelting, Langenzenn, Runkel, Thale, disclosure of CO₂ emissions since 2012

⁴ Air travel attributable to sites in Germany, Switzerland and France as well as centrally recorded flights relating to sites in England and US

⁵ Only covers Dettingen/Erms site

Employee satisfaction delivers long-term business success

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

Seasoned employees are an important source of expertise. ElringKlinger makes every effort to generate long-term loyalty to the company. In 2012, the company's sickness rate remained at the same level as the previous year. The staff turnover rate increased to 6.7% (5.8%) as a result of an expanding workforce in countries such as China and Brazil, where higher staff turnover is relatively common.

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

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

A major element of the ElringKlinger Group's HR work involves recruiting talented young people and providing employee training. For several decades, the Group has offered vocational training programs for both commercial and technical professions, and complements these with degree courses at cooperative state universities. It also provides opportunities for pupils and students to undertake internships and complete diploma, bachelor's and master's theses with the company. In 2012, it supported approximately 70 (117) students in this way.

At ElringKlinger, all employees are offered individual training opportunities to help them develop personal and job-specific skills. In addition to training in fields relating to specific functions, the courses available include every aspect of areas such as project management, team seminars, wide-ranging software skills and foreign languages. During the year under review, the Group spent EUR 1.0 (0.8) million on training and professional development.

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

ElringKlinger ensures that its staff is given an appropriate share in the company's success. In 2012, employees at ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH and Elring Klinger Motortechnik GmbH received a bonus of EUR 1,150 each in respect of the previous financial year.

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

THE ELRINGKLINGER GROUP - KEY HR INDICATORS

	as at Dec. 31, 2012	as at Dec. 31, 2011 ¹
Absolute number of employees	6,263	6,075
Of which men	69.7%	69.4%
Of which women	30.3%	30.6%
Average number of employees	6,314	5,729
Breakdown by age group		
Less than 30 years old	24.3%	25.6%
30 to 50 years old	56.8%	55.7%
Over 50 years old	18.9%	18.7%
Percentage of vocational trainees/apprentices	2.5%	2.4%
Interns and thesis students	67	117
Staff turnover rate	6.7%	5.8%
Average number of sick days per employee	9.4	8.6
Employees covered by collective agreements	4,554	3,927
Number of qualification interviews conducted	4,844	4,616
Percentage of part-time employees	4.6%	4.6%
Employees on permanent contracts	5,433	5,413
Number of employees with severe disabilities	189	178
Number of employees in management positions ²	449	260
Of which women	55	32
Of which local nationals	420	178
Work-related accidents leading to more than 3 days off work	236	178
Work-related fatalities	0	0
Absolute number of employees		
In partial retirement	86	78
On maternity leave	46	25
On parental leave	46	45
Number of improvement suggestions submitted	916	1,150
Improvement suggestions successfully implemented	344	490
Improvement suggestions rejected	389	166

¹ Adjustments to some prior-year figures, cf. Notes page 200

² Comparability with previous year limited, as additional hierarchy level included (team leaders) since 2012

ElringKlinger expands its social commitment

ElringKlinger has been working with the Bruderhaus Diakonie foundation and the associated disabled persons' workshops in Dettingen/Erms for over ten years. The workshops independently handle

complete processes for ElringKlinger's Aftermarket division, including tasks such as the finishing and packing of gasket sets. 2012 saw a further significant expansion of the volume and range of jobs performed by the workshops. By way of example, they have now taken on the sorting of returns. ElringKlinger also launched a digital archiving project in collaboration with Bruderhaus Diakonie.

In the United States, ElringKlinger recently established a partnership with "Rehabilitation Industries of Northeast Georgia" (RING). The organization supports people with disabilities, e.g. for the purpose of job reintegration. Since mid-2012, ElringKlinger's Buford site has employed nine people with physical disabilities through RING. They carry out simple assembly work, sorting and packing tasks, and visual inspections, etc. The initial results have been very positive, and there are plans to expand the collaboration.

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

Further cuts in CO₂ emissions targeted for 2013

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

Research and Development

Embracing innovation in traditional fields while developing new business areas

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

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

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

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

The Group has focused its research and development activities entirely on optimizing combustion engines, enhancing emissions reduction technology and developing new products in the field of e-mobility.

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

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

Ever-greater demands made on development expertise

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

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

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

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

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

High R&D ratio secures long-term competitive advantages

ElringKlinger increased its research and development expenditure once again in 2012. In the Group as a whole, this figure grew by EUR 7.4 million to EUR 57.3 (49.9) million. In 2012, as in previous years, much of this can be attributed to R&D activities in its traditional core business areas. The Group stepped up its capital expenditure in the new field of electromobility as well as in exhaust technology. As of December 31, 2012, the ElringKlinger Group employed a total of 410 (416) people in R&D-related departments.

Under IFRS, R&D expenditure accounted for 5.1% (4.8%) of Group sales in 2012 – noticeably more than in the previous year. The percentage increase in R&D expenditure in relation to Group sales revenue reflects the trend for suppliers to assume more and more development work on behalf of their vehicle manufacturer customers.

If this figure had also taken into account costs relating to applications technology and the development of variants for existing products, research and development expenditure would have constituted a significantly higher proportion of Group sales.

The bulk of investments and new jobs created in R&D-related areas was at the company's Dettingen/Erms site in Germany.

Strong patent pool safeguards technology know-how

ElringKlinger has its own patent department that specializes in all issues relating to the protection of the company's technological expertise and intellectual property rights. A total of 78 (45) patents and industrial property rights were registered in the course of 2012.

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

In 2012, these technology-specific centers of excellence were responsible for the vast majority of the Group's development activities. In light of the marked increase in sales revenue in North America, China and Japan, and in response to the substantial number of new orders from these regions, the Group is expanding development capacity at its local subsidiaries to complement its existing applications technology activities.

Focus on optimizing combustion engines

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

Almost all automotive manufacturers are gearing their development activities towards reducing fuel consumption levels – and, in turn, greenhouse gas emissions – by means of engine downsizing concepts. The new generation of compact downsized engines with turbocharging are capable of further reducing fuel consumption by between 20% and 25%. The superior efficiency of this engine technology coincides with considerably higher injection pressures. At the same time, peak temperatures in the combustion chamber and ultimately in the entire engine compartment are significantly higher. This means that the performance expected of the new generation of cylinder-head and specialty gaskets is increasing noticeably.

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

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

New and increasingly demanding applications for metal gaskets

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

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

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

In 2012, the number of serial development projects in the Cylinder-head Gaskets division increased to 274 (221). While the volume of development projects commissioned by European automotive

manufacturers remained at a high level, the number of new product developments, primarily for Asian manufacturers, increased significantly. The company also succeeded in gaining a stronger foothold among Japanese manufacturers in 2012.

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

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

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

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

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

In total, the Specialty Gaskets division further increased its development capacity in 2012. In view of the growing proportion of Asian customers, the division set up a development and application center at its site in Changchun, China.

Trend towards thermal management and acoustic shielding

For the Shielding Technology division, too, 2012 brought new development work in response to engine downsizing and increasingly complex exhaust aftertreatment systems. Ambient temperatures are particularly high as a result of limited installation space in the new generation of compact engines,

together with the use of turbochargers and catalytic converters. Sensors, electrical elements and hose lines need to be protected from these influences with the aid of thermal shielding technology. This increases the number of heat shields required in the vehicle.

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

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

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

*  CF. GLOSSARY

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

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

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

*  CF. GLOSSARY

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

In 2012, ElringKlinger Abschirmtechnik (Schweiz) AG joined forces with Hug Engineering AG to develop several heat shields to be used for thermal shielding in the housings of Hug exhaust gas purification systems.

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

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

Applying expertise in lightweight design to trucks

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

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

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

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

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

Hummel-Formen developed an ultra-precise manufacturing method for complex product geometries. This involves using hot-gas welding directly in the injection mold to join together plastic parts to form an exceptionally strong and distortion-free component.

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

In response to the significant number of development projects managed by this division on behalf of Asian vehicle manufacturers in 2012, a development center is currently being built in Suzhou, China. It will oversee local projects in future.

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

Exhaust gas purification technology with high potential

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

 CF. GLOSSARY

The diesel particulate filters use a ceramic honeycomb structure. Exhaust gases are passed through the porous honeycomb walls. The exceptional texture of Hug-developed ceramics means that over 99% of all particulate sizes – including “ultra-fine particles” (PM10) – are filtered out. This is even more important given that the focus of emissions legislation is increasingly shifting to ultra-fine particles. The filters are catalytically coated with a view to improving soot burn-off. In addition, Hug develops and produces ceramic catalytic converters for the catalytic oxidation of hydrocarbons and carbon monoxide* as well as SCR catalysts*.

*  CF. GLOSSARY

*  CF. GLOSSARY

Hug’s particulate filter substrate is already used in many applications in conjunction with ElringKlinger’s CleanCoat™ material*, which is free of precious and heavy metals and thus much more eco-friendly than other coatings. Based on silicate technology, this coating helps to burn off soot particles catalytically. CleanCoat™ yielded impressive results in field tests conducted in trucks and buses and in subsequent long-term testing. The catalytic regeneration of the filter is capable of taking place at low temperatures. The post-injection of fuel – and, in turn, the level of CO₂ emissions – is significantly reduced as a result of the shortened regeneration cycles. ElringKlinger developed and licensed the coating material for applications in diesel particulate filters in close cooperation with a partner company. The environmentally friendly soot catalyst earned the company the German Materials Efficiency Award from the Federal Ministry of Economics and Technology in 2012. ElringKlinger has already secured its first major serial production order for a system coated with CleanCoat™, placed by an international construction machine manufacturer.

*  CF. GLOSSARY

The main focus of development activities in 2012 was on applications for marine engines, construction machines, diesel locomotives and commercial vehicles.

Hug also constructed systems for stationary engines and large-scale engines used for supplying electricity in power stations. In the coming years, international demand for exhaust gas purification systems in these niche markets will be driven by the introduction of relevant emissions directives.

Recuperation catalytic converter for natural gas engines

Hug technicians developed a recuperation catalytic converter for large-scale natural gas engines which, as lean engine, are used primarily for generating electricity. This recuperation catalytic converter breaks up the resulting methane, thus significantly improving the CO₂ balance. Having achieved very promising results in laboratory tests, the new catalytic converter is scheduled to enter its test phase in 2013.

Applications for commercial vehicles

In 2012, ElringKlinger also presented Hug exhaust technology to OEM customers in the commercial vehicle sector and delivered its first sample parts. Further demand will be generated, particularly in this area, when Euro VI legislation for truck emissions enters into force in 2014. In addition to complete exhaust gas purification systems, ElringKlinger also markets individual components such as particulate filters and coating material.

In 2012, the focus of development work was also on evaluating new, more high-performance and cost-effective substrate materials for oxidation and SCR catalysts as well as for diesel particulate filters. To this end, Hug engineers performed numerous tests and trial runs and are currently conducting a test phase with a mullite-based substrate.

CARB accreditation for Hug filter systems in the USA

In many cases, the increasingly strict limits for soot particle emissions worldwide are also being applied to existing vehicles. This points to great potential for retrofit solutions.

The newly developed Hug filter system "mobiclean R™" received the much sought-after accreditation from the California Air Resources Board (CARB)* in 2012. This now applies to both engines with exhaust recirculation and units without it. The Hug retrofit system consists of an oxidation catalytic converter and diesel particulate filter with a CleanCoat™ coating that is free of precious metals. In the case of the combined Hug CleanCoat™ technology, CARB measurements indicated exceptionally low regeneration temperatures compared to conventional technical solutions.

For ElringKlinger exhaust technology, CARB accreditation represents a gateway to the important US retrofit market. This is because buses and trucks with a gross vehicle weight rating of over 6.34 metric tons have to be retrofitted in accordance with state emission regulations in order to be driven on Californian roads. In 2012, 1,500 of these retrofit systems were already ordered by US customers. The Hug systems are distributed nationwide through the dealer network of a US truck manufacturer.

Low emissions on the high seas

In 2012, Hug – a specialist in retrofitting sea-going yachts – designed special exhaust-cleaning systems that can be fitted modularly in the very confined engine compartments of sea-going vessels. It is expected that there will be considerable demand for systems to be deployed in ships in coming years. This is due to forthcoming legislative measures and increased awareness among environmental organizations. Marine diesel engines, which run on heavy fuel oil, currently account for much of the emissions produced worldwide, particularly soot particles and nitrogen oxides. In October 2012, the EU Commission announced a system for observing and gaging emissions with a view to bringing about a noticeable reduction in shipping-related pollutants. In 2012, Hug had already secured several orders for retrofitting river cruise ships with exhaust-cleaning systems, which will be delivered to customers and fitted from 2013 onwards.

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

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

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

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

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

Further development projects for battery cell connectors

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

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

On board the SafeBatt research consortium

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

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

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

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

Fuel cell technology: commercialization imminent

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

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

Bipolar plates for fuel cell stacks

Among the most important product developments are stamped metal bipolar plates for PEM (Proton Exchange Membrane) fuel cells*. Significant unit volumes of these are required as key components in fuel cell stacks. Combined with an electric motor, these fuel cell stacks are expected to replace traditional combustion engines as the preferred type of drive used in vehicles. ElringKlinger works in very close cooperation with its customers in this area. At this stage, the company is using near-series production equipment to produce bipolar plates for the demonstration fleet of an international car manufacturer. In 2012, ElringKlinger developers optimized the plate design, pushing down costs through the use of new materials. To do so, the company used ultra-precise stamping and punching procedures, laser-welding techniques and progressive tooling technology.

*  CF. GLOSSARY

SOFC stacks for mobile use in trucks

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

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

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

*  CF. GLOSSARY

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

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

Fuel cells for decentralized energy supply

A concept involving the stationary use of lightweight SOFC stacks in family homes and residential apartment blocks is currently in an advanced stage of development. The stack* is designed for decentralized applications in energy supply using a number of different energy carriers, preferably gas.

*  CF. GLOSSARY

In accordance with the principle of combined power/heat generation, the unit then supplies the households with electricity and heat. The sharp rise in the price of electricity will render this technology more and more competitive in the future.

Progress in fleet applications

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

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

Strong product pipeline ensures above-average sales growth

Thanks to its high level of investment in new products in the field of electromobility and to its ongoing development of additional applications for existing product concepts and processes, the ElringKlinger Group is well positioned to continue outpacing market growth in the coming years. New developments in exhaust gas purification technology offer additional interesting opportunities for growth, including outside the automotive sector.

Compensation Report

Compensation structure for members of the Management Board

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

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

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

As a component of long-term variable compensation, members of the Management Board are granted stock appreciation rights. Holders of stock appreciation rights are entitled to a cash-settled payment. Stock appreciation rights are not furnished with any entitlements to shares in ElringKlinger AG. For two members of the Management Board, allocation occurs in five tranches, commencing as of February 1, 2008, up to February 1, 2012. For one member of the Management Board, allocation also occurs in five tranches but beginning as of January 1, 2009, up to January 1, 2013. The grant price is the average share price of the last sixty stock exchange trading days prior to the grant date. The number of stock appreciation rights is determined on the basis of fixed remuneration payable to the individual Management Board member as well as the level of the grant price (fixed compensation in relation to grant price = number of shares allocated). The amount to be remunerated is calculated on the basis of the difference between the redemption price, which is also calculated as an average of the last sixty stock exchange trading days, and the grant price. A payment is made only when the share price of ElringKlinger AG has increased more than the index in which ElringKlinger is listed, but at least by 25%. A provision is recognized in consideration of expected future obligations. Remuneration per tranche is limited to the amount of annual fixed salary payable. The vesting period for the tranches allocated on February 1, 2008, and February 1, 2009, as well as January 1, 2009, was three years; for all other tranches it was four years.

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

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

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

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

Compensation structure for members of the Supervisory Board

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

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

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

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

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

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

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

Walter H. Lechler, Stuttgart

Total of 22.0273% (of which 9.93% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG)

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

The Management Board is authorized to buy back company shares up to a total amount of 10% of share capital existing on 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*.

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

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

Report on Opportunities and Risks

Risk management system

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

The risk management system is made up of various tools and control systems. Among the key components are strategic corporate planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and far-reaching decisions. All key areas within the company are involved in 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 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 company considers risk management to be an all-embracing activity that encompasses not only the identification and assessment of risk, as outlined above, but also a system of preventive measures and contingency planning that has proven to be very effective.

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and service divisions of ElringKlinger AG as well as at the Group companies. These audits are conducted by accountancy firms and/or suitably qualified companies commissioned by ElringKlinger AG. The rationale behind the appointment of external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. Execution of these measures is controlled by the Management Board member whose remit covers this area. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weaknesses. In the 2012 financial year, amongst others, audits were conducted at Elring Klinger do Brasil Ltda., Hug Engineering AG in Switzerland and ElringKlinger Canada, Inc. as well as at the subsidiaries of Hummel-Formen GmbH, which was acquired in 2011. All internal audits showed that both statutory regulations and internal requirements had been consistently met. The recommendations submitted with regard to potential for optimization have been put in place or are currently being implemented.

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

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

Control and risk management system with regard to 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 company is the responsibility of the Management Board and Supervisory Board. In accordance with the distribution of responsibilities within the company, the Finance department, which is in charge of accounting, comes under the remit of the Chairman of the Management Board. This department, which also includes Corporate Investment Management, controls accounting within the Group and compiles the information required for the preparation of the consolidated financial statements. Corporate Investment Management is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. The Group companies report to the Head of 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 in a position to meet these requirements.

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

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

SAP is used by the German as well as some of the foreign subsidiaries within the ElringKlinger Group. As for the other companies, various IT systems are currently in use. SAP is 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. Effective from the annual financial statements for 2012, a new software application was used for the first time, on

the basis of which IFRS data are collected and consolidated within the Group. This system will be used to prepare the monthly, quarterly and annual financial statements in the future. Access to the system is restricted by authorization privileges.

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

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

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

Risks

General economic risks

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

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

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

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

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

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

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

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

*  CF. PAGE 121 ET SEQ.

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

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

Industry risks

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

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

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

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

Overall, a comprehensive slump in global vehicle production would seem unlikely in 2013, despite the extremely weak state of the European automotive market. At present, there is no evidence to suggest the emergence of a crisis scenario similar to that seen in 2008/9.

Customer risks

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

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

In the unlikely event of the insolvency of one of the five biggest customers, the default risk in respect of accounts receivable by ElringKlinger would have amounted to between EUR 8.2 and 19.5 million as of December 31, 2012.

ElringKlinger has made targeted efforts in recent years to minimize the risks potentially associated with dependency on a single customer. In this context, the customer base has gradually been extended. Particularly Asian manufacturers and other automotive supply companies feature prominently on the list of new customers. ElringKlinger has a particularly broad and regionally diverse customer structure, also in comparison with other international automotive suppliers. In 2012, the Group's top three customers together accounted for around 33% of total sales revenue.

Price risks

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

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

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

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

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

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

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

On balance, it is impossible to rule out the risk of more pronounced price rises for raw materials over the course of 2013. This may have an adverse effect on gross profit margins. Having said that, there are currently no signs of a return to the extremely dynamic commodity price trends faced in 2010 and 2011.

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

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

Use of derivative instruments

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

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

In order to limit the risk of interest rate movements, ElringKlinger AG entered into futures contracts for the purpose of securing its existing terms and conditions. This has the effect of converting variable interest rates into predictable fixed rates. (Notes, "Derivative financial Instruments,"*).

Currency risks

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

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

The Thale site, located in the eurozone, is being expanded. This also addresses the issue of as yet significant foreign exchange losses incurred at Swiss-based Hug Engineering AG in 2012 as a result of movements in the EUR/CHF exchange rate. In the future, therefore, a sizeable proportion of costs will be incurred in the eurozone, i.e. in the same currency in which the majority of sales revenues are recognized.

The direction taken by the CHF/EUR exchange rate is also of particular importance to the Group's net finance result. In 2008, ElringKlinger AG financed its acquisition of the Swiss SEVEX Group by means of a loan in Swiss francs.

As of December 31, 2012, the company's accounts still contained EUR 79.6 (47.7) million in financial liabilities denominated in Swiss francs. An appreciation in the Swiss franc with respect to the euro increases the size of liabilities expressed in euros, thus adversely affecting the net finance result of the Group. Looking ahead, this risk potential has been restricted following the decision of Switzerland's National Bank to keep a lower exchange rate limit of EUR 1.20/CHF.

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

in EUR million	Renminbi	Swiss franc	Mexican Peso	Brazilian Real	US Dollar	Others	Total
Local currency +10%	-1.5	-1.3	0.6	-0.3	-0.2	0.1	-2.7
Local currency -10%	1.5	1.3	-0.6	0.3	0.2	-0.1	2.7

Financing risks

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

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

Given the present situation on the credit markets, the overall financing risk for the automotive supplies industry is still quite considerable. In view of the fact that financing requirements, e.g.

for the development of new drive technologies, are increasing, the risk of insolvencies within the automotive industry has far from subsided.

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

Thanks to a level of debt that is significantly lower than that of other market players in this industry, the financing situation of the ElringKlinger Group is very stable. The company generates substantial cash flow from operating activities. As a result, the debt ratio – calculated on the basis of the net debt of the Group relative to earnings before interest, taxes, depreciation and amortization (EBITDA) – stood at a moderate level of 1.2 as of December 31, 2012. Agreed but currently unused credit lines available to the Group amount to approx. EUR 115 million.

Most of the Group's financing as of December 31, 2012, was based on medium- to long-term structures (Notes*). Any rapid increase in the currently low interest rates would feed into variable rate loans. This, in turn, would place a greater interest burden on the ElringKlinger Group and have an adverse effect on the Group's net finance result. Against this backdrop of the sovereign debt crisis, the likelihood of a significant rise in interest rates is considered remote in the near future.

*  CF. PAGE 184

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 the ElringKlinger Group has ample scope when it comes to financing its planned expansion. Additionally, adequate financial resources are available for early investment in new technologies.

Wage cost risks

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

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

This contrasts with China, Brazil and India, where revenues and staffing levels are expanding at a much faster rate. Wage levels in these countries are below the Group average.

There is also a fundamental risk that substantial wage increases or any sudden collapse in demand and production volume could cause a significant jump in the staff cost ratio. This, in turn, would have a negative impact on the Group's earnings performance and cash flow. The company has established a range of labor flexibility measures that would allow it to respond quickly to any unexpected and severe drop in demand. These measures include working time accounts, shift models and adjustments to temporary staffing capacity. The proportion of employees with temporary contracts is around 13% within the ElringKlinger Group, the rationale being to provide ample flexibility in terms of capacity.

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

Technology risks

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

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

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

Looking beyond its solutions that focus on optimized combustion engines, ElringKlinger was quick to pursue a future-proof position by also embracing new product technology tailored to the requirements of electromobility and exhaust gas purification. It is currently making a committed effort to further cement its position within this area. Its R&D ratio, which is above the industry average, bears testimony to the company's ardent support of this line of business. What is more, from 2005 to 2012, the Group spent between 9 and 21% of sales per annum on investments that have been instrumental in extending its technology portfolio.

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

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

External growth/Acquisitions

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

External circumstances may cause delays with regard to measures implemented for the purpose of corporate integration. It is impossible to entirely rule out the necessity of restructuring measures that may initially have an adverse effect on the Group's earnings. This would exert pressure on the Group profit margin, at least on a temporary basis. Additionally, larger investments may be required, leading to more extensive financing requirements than originally planned.

The Group is invariably exposed to the risk of goodwill impairment losses as part of the impairment tests to be conducted at the end of the year under the provisions of IFRS.

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

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

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

Legal risks/Warranty risks

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

IT risks

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

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

Redundant data storage methods and double systems are in place to back up the IT systems used in production areas. Potential risks are mitigated by advance planning and through the implementation of transitional solutions and additional back-up systems, e.g. in connection with the rollout of new systems at the subsidiaries.

In 2012, an additional level of protection was established through the centralized back-up of all data inventories of the international sites.

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

Opportunities

Market prospects: potential in emerging markets

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

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

ElringKlinger has been quick off the mark when it comes to cementing its position in Asia – with two major production facilities in China, its joint venture ElringKlinger Marusan Corporation in Japan as well as a plant in India. In the ASEAN region, meanwhile, the Group's first production site in Jakarta, Indonesia, is currently progressing through the start-up stage – in cooperation with a Japanese partner. Including exports, almost a quarter of the Group's sales revenue generated in 2012 was already attributable to the Asian markets.

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

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

Growth drivers: climate change and new emissions rules

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

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

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

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

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

*  CF. PAGE 95 ET SEQQ.

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

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

*  CF. GLOSSARY

The product portfolio offered by Hug Engineering AG – from diesel particulate filters to complete exhaust gas purification systems – provides a suitable launch pad for sales in a wide range of markets, particularly when one considers the challenges posed by climate change. Over the coming years, emission standards introduced by the majority of industrialized and emerging countries will necessitate the use of exhaust gas purification systems in many engine applications. This applies not only to the mobile segment but also to stationary units or applications in construction machines, agricultural vehicles as well as diesel locomotives and ships.

Opportunities arising from industry consolidation

Many companies within the automotive supply industry are still feeling the aftermath of the crisis that buffeted the sector in 2008/9, as well as having to contend with substantial financing requirements. The number of insolvencies remained high in 2012. In many cases, equity ratios are low and companies are unable to tap the capital markets for additional funds, a situation that poses considerable risk in the event of a more pronounced downturn in the market. As a result of new rules stipulating that the banks themselves have to meet higher capitalization requirements, there is also a risk that it will become harder to obtain external financing and that the cost of capital may rise.

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

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

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

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

Overall assessment of risks and opportunities

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

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

Benefiting from a solid balance sheet underpinned by an equity ratio of 50.5%, in conjunction with the Group's considerable financial strength, ElringKlinger has the ability to weather even more protracted crises.

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

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

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

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

Report on Expected Developments

Outlook – Market and Sector

Sovereign debt crisis continues to loom over global economy in 2013

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

The eurozone continues to grapple with problems. It is due to the decisive action of the European Central Bank, however, that the monetary union remains intact. While economic output in the eurozone as a whole is again expected to drop slightly in 2013, the downward spiral is likely to

come to a halt over the course of the year. Looking further ahead, the European economy should be able to return to more tangible growth in 2014.

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

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

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

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

Wide divergence across global car markets

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

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

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

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

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

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

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

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

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

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

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

Commercial vehicle market set for slight recovery

ElringKlinger currently generates around 13% of its Group revenue from Original Equipment sales to the commercial vehicle industry. Due to the significant number of product innovations within this area, the commercial vehicle business is expected to become increasingly important for ElringKlinger.

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

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

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

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

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

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

Outlook – Company

Competitive climate remains challenging

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

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

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

Suppliers are now responsible for an increasingly large proportion of value creation relating to new vehicle production. In response to the latest trends in drive technology, companies are having to invest substantial funds in research and development.

This, coupled with the increasingly international nature of business, as evidenced by expansion within the ASEAN region for example, calls for strong financing capabilities. Exposed to these multifaceted challenges, the automotive supply industry is likely to see further, progressively dynamic consolidation.

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

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

Order intake in positive territory for annual period

As of December 31, 2012, the substantial levels of order intake within the ElringKlinger Group continued to point upwards. In 2012, order intake rose by 4.2% to EUR 1,134.8 (1,089.0) million.

At EUR 260.8 (272.6) million, order intake in the fourth quarter of 2012 was down 4.3% on the figure recorded in the same quarter of the previous year.

The ElringKlinger Group is supported by a solid order backlog when it comes to achieving sales growth targeted for 2013. As of December 31, 2012, it was up 1.7% on the previous year's figure and stood at 456.0 (448.4) million in total.

Acquired entities with improved financial performance

The dilutive effects on the Group's profit margin as a result of the consolidation of entities acquired in 2011 and 2012 – with a negative aggregate contribution to earnings before taxes in 2012 – will be scaled back further in fiscal 2013.

In particular, exhaust gas specialist Hug Engineering AG, which severely impacted Group earnings before taxes by contributing a loss of EUR 3.5 million in 2012, is expected to see a turnaround in profitability in 2013. ElringKlinger is looking to gradually improve the company's earnings situation. For 2013 as a whole, the EBIT margin is to be guided towards the middle of the single-digit percentage range. Adjusted for the ongoing purchase price allocation estimated at approx. EUR 2 million, the EBIT margin is expected to be close to the double-digit percentage range.

Huge potential for Hug in North America following CARB accreditation

Retrofit business centered around mobiclean R™ diesel particulate filters, in particular, has been gaining momentum recently in the North American market, as a result of which revenue contributions are expected to increase (“Sales and Earnings Performance”^{*}). In addition, the potential for end-to-end nauticlean™ exhaust gas purification systems used in the maritime industry is considered to be very interesting. The issue of retrofitting engines generally powered by heavy fuel oil with exhaust-cleaning systems is becoming increasingly important. These developments are being driven to a certain extent by legislation, for example by the EU Commission for the purpose of reducing CO₂ levels and other harmful emissions. Besides, Hug has been meeting with customers to present prototypes tailored to applications in the commercial vehicle and construction machinery sector.

By utilizing the low-cost facility in Thale, Saxony-Anhalt, as an extended workbench of Hug Engineering AG, the adverse effects that a strong Swiss franc has on Hug’s operating margin will be reduced over the course of 2013. State-of-the-art manufacturing technology deployed in the production of housings and systems will help to scale back costs.

The former companies of the Freudenberg Group are also committed to further improving their earnings performance. In 2013, ElringKlinger will be implementing additional measures aimed at streamlining costs and raising efficiency levels at the site in Nantiat/Chamborêt, France, operated by ElringKlinger Meillor SAS. Costs are to be reined back with the help of extensive automation and an alignment of production processes and product designs. At the same time, the parent company will assume responsibility for central functions. Given the dire situation of the French car market, however, earnings performance for the Nantiat site is only expected to improve gradually and at a modest pace over the course of 2013. This will be underpinned by the introduction of small-batch production for the aftermarket business.

Cost streamlining remains focus throughout the Group

In keeping with its streamlining efforts, ElringKlinger will again be looking to optimize the Group’s production processes during 2013. The Group intends to cut its costs by introducing more extensive automation and implementing intelligent process technology. The aim is to improve efficiency by at least 3%. Within this context, the emphasis of streamlining programs will be on the subsidiaries and investees.

In 2012, prices for some of the key commodities of relevance to ElringKlinger’s operations, particularly alloy surcharges for high-grade steel, retreated from their peaks in 2011. By contrast, revenue generated by the company from scrap materials fell markedly. ElringKlinger AG took advantage of the more favorable price climate and entered into hedging agreements for alloy surcharges (nickel) relating to part of the overall volume of high-grade steel required by the company. The second half of 2012 saw a gradual rise in commodity prices.

Based on the supply agreements concluded within this area, ElringKlinger anticipates that the overall price situation will remain relatively stable in 2013, depending on the respective types of material required. By contrast, the market prices of specific raw materials are expected to rise, e.g. in the case

of polymer granules. Requiring more extensive volumes of this raw material, the company is likely to be faced with higher unit prices in this area. Having said that, there is currently no evidence to suggest that commodity prices will advance strongly at a rate similar to that seen in 2010 and 2011.

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

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 collective bargaining agreement associated with the domestic metal-working industry. Wages and salaries are expected to rise yet again in 2013 with regard to those members of the workforce employed at the German sites of the ElringKlinger Group and covered by the aforementioned collective agreement. The collective pay increase is currently being negotiated between the IG Metall trade union and employer federations.

Given the sustained pricing pressure, wage rises will have to be offset by appropriate streamlining measures and cost reductions. In view of the revenue gains targeted for 2013, staffing levels are expected to rise. However, any increase in the overall headcount will be less pronounced relative to revenue growth. ElringKlinger has set itself a clearly defined target of keeping any percentage increase in total staff costs below the growth rate for sales revenue.

Following an above-average rise in administrative expenses in 2012, this expense item is to increase at a less pronounced rate relative to revenue growth targeted by the Group in 2013. This is to be achieved by means of further centralization of administrative functions at the parent company.

Increase in revenue and earnings targeted for 2013

On the basis of the economic projections outlined above, the ElringKlinger Group is targeting organic revenue growth of 5 to 7% in 2013. Should global car production only stagnate in 2013, revenue growth is more likely to be positioned at the lower end of this range.

The operating margin attributable to ElringKlinger's core business will be adversely affected in 2013 as a result of the below-average aggregated profit margins of the acquired entities and the associated purchase price allocations. However, thanks to the measures outlined earlier, the level of dilution will be lower in 2013. Additionally, the substantial up-front costs incurred in the E-Mobility division, which will be working on several projects as they progress through the start-up phase in 2013, also have to be taken into account.

Despite these adverse effects, ElringKlinger is confident that earnings before interest and taxes (EBIT), adjusted for one-time effects, will increase at a more pronounced rate than sales revenue. Against this backdrop, adjusted EBIT is expected to range from EUR 150 to 155 million in 2013 (EUR 136.0 million in 2012).

Outlook for segments

Given the level of structural growth achieved in product groups such as turbocharger gaskets, shielding components and control plates for automatic transmissions, together with scheduled ramp-ups, the Original Equipment segment is expected to generate further growth in revenues and earnings in 2013.

Around 80% of Group revenue and 67% of earnings before taxes were attributable to Original Equipment in 2012. Against this background, this segment is again likely to contribute the largest proportion of revenue and earnings growth within the Group in 2013.

Buoyed by rising demand for PTFE components from a number of industries and the progressive market penetration in China, India and North America, the Engineered Plastics segment is also expected to generate forward momentum in both revenues and earnings in 2013. Within this context, the start of production for a new generation of gaskets used in injection systems, compressor pistons made of the injection-moldable material Moldflon™ as well as Moldflon™ sealing rings for controllable cooling circuits will provide significant impetus.

In addition to expanding its product range in 2013, the Aftermarket segment is planning to step up its sales activities in Western Europe in particular over the coming months. Furthermore, ElringKlinger Meillor SAS intends to introduce small-batch production for spare parts at the former Freudenberg site in Nantiat, France.

After the introduction of car scrappage incentives by many countries throughout Europe in 2009, the average vehicle age has fallen markedly 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 will have a temporary impact on the general sales opportunities within the Aftermarket segment.

From today's perspective, however, these adverse effects will be more than offset by additional market share and growth within the international business arena. Whereas the political risks emanating from some of the North African markets remain opaque, ElringKlinger's Aftermarket business will benefit primarily from forward momentum generated in Eastern Europe and the Middle East.

In total, the Aftermarket segment is thus expected to produce further revenue growth in 2013. Earnings before taxes are to increase at a similar rate in percentage terms.

The ElringKlinger Group is also in a strong position for 2014 and beyond, having occupied technology niches that are undergoing structural growth and benefiting from the introduction of many new products. Additionally, it has established a promising vantage point in the emerging markets. 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. This will to a large extent be depending on the future performance of the acquired companies and the ramp-up of new products in the E-Mobility division.

Investment ratio returns to more normal levels

The past years have been dominated by significant investments in new production plants as well as the funding of large-scale projects such as the new logistics center in Dettingen/Erms, Germany. The investment ratio at Group level, i.e. investments in relation to Group sales, rose to levels of close to 17% in the last three years, which is well above average.

By contrast, expenditure on investments attributable to property, plant and equipment will return to more normal levels again in 2013 and 2014. The investment ratio will be scaled back in the coming years and is likely to account for between 8 to 10% of sales revenue.

After a moderate figure of EUR 103.1 million in 2012, the ElringKlinger Group has earmarked around EUR 100.0 million in 2013 for investments in property, plant and equipment as well as investment property. These investments will be directed primarily at new production buildings, machinery and operating systems required for scheduled production ramp-ups as well as streamlining projects.

Growth within the automotive industry will be driven primarily by Asia in the coming years. With this in mind, business expansion in Asia will be one of the focal points of investment spending in 2013. In 2013, ElringKlinger plans to commence construction work on a new state-of-art plant at the future site in Gumi, South Korea, which will be capable of manufacturing all product groups. Total investments for the building and production machinery will amount to approx. EUR 10 million. ElringKlinger will thus further cement its business relationship with Korean vehicle manufacturers and prime itself for growth in the years ahead. The new plant in Indonesia is to be equipped with additional production machinery. Furthermore, a development center is to be built at the site in Suzhou, China, as well as an additional building for production purposes.

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

In preparation for dynamic growth from new projects relating to the PTFE material Moldflon™, in particular, a new extension is to be added to the facility operated by ElringKlinger Kunststofftechnik GmbH in Bietigheim-Bissingen, Germany. Including the newly purchased machinery, investments within this area are estimated at EUR 10 million.

The 2013 budget also includes investments of around EUR 8 million relating to the construction of a new center for the assembly and packing of spare part sets at the site in Rottenburg/Neckar, Germany.

Sufficient scope for financing organic growth and acquisitions

The cash flow expected from operating activities in 2013 and 2014 respectively is likely to exceed payments currently planned for investments in property, plant and equipment. Thus, future funding of organic growth within the Group, with a focus on Asia, as well as continued expansion in the areas of electromobility and exhaust gas purification technology have been safeguarded. The Group's overall financing requirements for 2013 and 2014, as anticipated at present, will be covered to a large extent by the existing inflow of funds attributable to internal financing.

In addition, the ElringKlinger Group has the option of accessing outside capital in the form of lines of credit provided by several banks, amounting to approx. EUR 115 million in total.

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

Scaling back net debt

Having risen to EUR 416.3 (366.6) million as a result of the acquisitions transacted in 2011 and 2012, the construction of new plants and financing implemented in support of buoyant growth, debt (financial liabilities including pension obligations) is to be scaled back gradually from the second half of 2013 onwards with the help of cash flows from operating activities. The first half of the year is generally dominated by disproportionately large payments as a result of the distribution of dividends.

Therefore, the Group's net financial debt (financial liabilities less cash) will be lower at the year-end 2013 than it was on December 31, 2012. The ElringKlinger Group will also be looking to further reduce its net financial liabilities in the subsequent financial year 2014.

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

Events after the Reporting Period

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

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

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

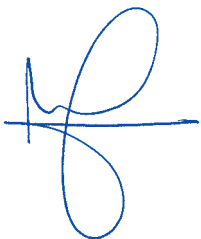
Additionally, ElringKlinger AG acquired the remaining 49% ownership interest in the South African company Elring Gaskets (Pty) Ltd. effective from January 1, 2013. In this context, the name of the company was changed to ElringKlinger South Africa (Pty) Ltd.

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

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

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

Dettingen/Erms, March 13, 2013
The Management Board



Dr. Stefan Wolf



Theo Becker



Karl Schmauder