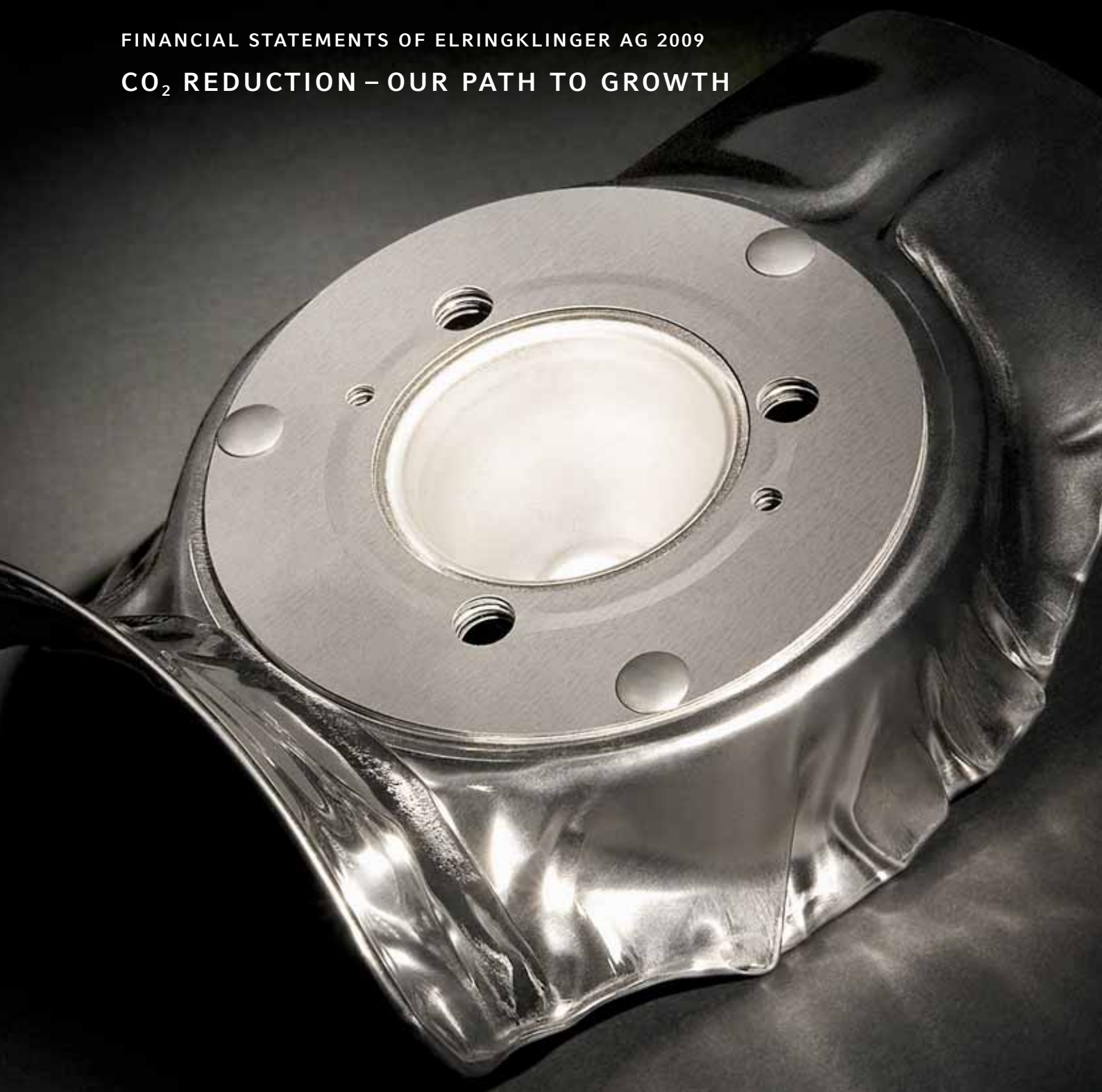


FINANCIAL STATEMENTS OF ELRINGKLINGER AG 2009

CO₂ REDUCTION – OUR PATH TO GROWTH



elringklinger

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CO₂ Reduction – Our Path to Growth

As a global development partner and original equipment manufacturer (OEM) for cylinder-head and specialty gaskets, housing modules and shielding components for engines, transmissions and exhaust systems, ElringKlinger supplies the majority of vehicle manufacturers in Europe and in North and South America as well as a large and growing number of Asian car makers. Our products play an important role in reducing fuel consumption and emissions. We also develop innovative products to the series production stage for use with alternative drive technologies. To round off our portfolio, the ElringKlinger Kunststofftechnik supplies products made of high-performance PTFE plastics to other manufacturers outside the automobile industry. We make full and targeted use of our ability to innovate as a way of promoting environmentally compatible forms of mobility, while generating sustained and highly profitable growth. ElringKlinger's 4,100-plus employees at 28 sites across the world are committed to achieving these aims.

ElringKlinger AG Balance Sheet

as at December 31, 2009

	Dec. 31, 2009 EUR '000	Dec. 31, 2008 EUR '000
ASSETS		
Fixed assets		
Intangible fixed assets	1,076	1,412
Tangible fixed assets	179,398	176,127
Financial assets	239,331	225,318
	419,805	402,857
Current Assets		
Inventories	48,972	67,108
Receivables and other assets	84,605	106,560
Cash in hand and bank balances	267	1,114
	133,844	174,782
Prepaid and deferred expenses	256	202
	553,905	577,841
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' Equity		
Share capital	57,600	57,600
Capital reserve	2,747	2,747
Revenue reserves	161,458	151,889
Retained earnings	11,520	8,640
	233,325	220,876
Untaxed Special Reserve	0	1,747
Provisions		
Provisions for pensions	38,668	38,292
Provisions for taxes	3,769	1,688
Other provisions	21,358	33,695
	63,795	73,675
Liabilities	256,477	281,543
Deferred income	308	0
	553,905	577,841

ElringKlinger AG Income Statement

for the period from January 1 to December 31, 2009

	2009 EUR '000	2008 EUR '000
Sales	307,055	387,697
Change in inventories of finished goods and work in progress	-8,190	1,341
Other own work capitalized	12,443	9,056
Other operating income	30,722	34,172
Cost of materials	-139,659	-181,609
Personnel expenses	-84,343	-95,026
Amortization and depreciation on intangible fixed and tangible fixed assets	-37,475	-38,300
Other operating expenses	-47,371	-81,887
Income from affiliated companies	-927	-5,057
Net interest result	-7,023	-6,813
Income from ordinary activities	25,232	23,574
Taxes on income	-4,099	-12,432
Other taxes	-44	-165
Net income	21,089	10,977
Transfer to other revenue reserves	-9,569	-2,337
Retained earnings	11,520	8,640

ElringKlinger AG Notes to the Financial Statements for the year 2009

General statements

The financial statements of ElringKlinger AG, Dettingen/Erms, are prepared in accordance with the provisions of the German stock corporation act and the German commercial code that apply for large-sized corporations.

In order to improve the clarity of presentation, we have prepared the financial statements with figures given in thousand Euros (EUR '000), have combined items in the balance sheet and the income statement, and have itemized these amounts in the notes. Moreover, all annotations required by law for items of the balance sheet and the income statement have been included in the notes and amended with supplementary comments.

Accounting and valuation principles

Fixed assets

Additions to intangible fixed assets, tangible fixed assets and financial assets are recognised at acquisition or manufacturing costs. The manufacturing costs include direct material and production costs as well as the overhead cost and the amortisation and depreciation as specified for obligatory capitalization by German tax law.

Assets with finite useful lives are depreciated using the highest rates allowed under German tax law and the expected life times are taken from the fiscal amortization tables. Acquisitions until December 31, 2007 and subsequent to December 31, 2008 are depreciated using the declining balance method, as far as permitted by German tax law. Acquisitions of the financial year 2008 are depreciated by using the straight-line method only.

Low-value assets, which are assets with acquisition or manufacturing costs up to and including EUR 150, are entirely depreciated in the year of acquisition. For assets, whose acquisition or manufacturing costs exceed EUR 150, but do not exceed EUR 1,000, a collective item is recorded. The respective collective item is released with an effect on profit in the year of building and the following four fiscal years with one fifth in each year.

If necessary or permissible, impairments are made and depreciations allowed under German tax law are made. The impairment tests for shares in affiliated companies and participations are based on annual impairment tests. These valuations reflect the capitalised earnings value calculated by using the mid-term budgets for each shareholding. In addition, the calculations assume that after the last mid-term planning period a perpetual income amount is earned. If the carrying value of an asset exceeds its capitalised earnings value, an impairment is recorded.

As a consequence of the economic crisis the corporate planning for the affiliated companies and participations was updated in 2009, which lead to reduced earnings prospects for several companies. To determine company values for purposes of the impairment test, the terminal value has been derived for the first time from the last detailed planning period of the mid-term planning. In prior peri-

ods, a weighted average of past and current planning periods has been used as a basis for the estimate. This approach eliminated the extraordinary effects from the economic crisis related to the past and emphasized the valuation's future orientation. The update of the appraisal method lead to significantly higher company values for several affiliated companies compared to the method previously applied.

If the reasons for impairments are no longer applicable, the impairment charges are reversed but the write-up is limited to historical cost less scheduled depreciation.

Current assets

Current assets are recognised at acquisition or manufacturing costs or, if lower, their fair value as of the balance sheet date. Raw materials, supplies & consumables as well as merchandise are measured at their average acquisition costs. Partially, agreed values for a 3-years-period are used.

The valuation of the finished products and work in progress includes direct cost of the goods and adequate allocations of the necessary material and production overhead cost. The overhead costs are determined at the minimum amounts required by German tax law. If replacement costs are lower than acquisition or manufacturing cost, these lower replacement cost are recognised. Impairment charges are recorded due to obsolescence for slow moving goods, the quality of goods and due to lower net realisable values.

Valuation adjustments are set up for individual risks of receivables and other assets. The general credit risk is taken into account through a lump sum valuation adjustment.

Short-term securities are measured at acquisition cost or, if lower, their fair values at the balance sheet date.

Cash on hand and bank balances are valued at nominal amounts.

Untaxed special reserve

Untaxed special reserves are recorded if permissible.

Provisions and liabilities

Provisions for pensions are recognised in full at the entry age value determined on actuarial principles using an interest rate of 6 % and applying the mortality tables 2005 G established by Prof. Dr. Klaus Heubeck.

In accordance with the IDW Accounting Standard IDW RS HFA 3: Accounting of obligations arising from partial retirement schemes under IAS and German GAAP, the provision for obligations arising from partial retirement agreements includes both, (i) the indemnification credits for wages and salaries and (ii) the benefit increases and severances for the maturity period of the employees partial retirement. The provisions for benefit increases and severances are set up for partial retirement contracts agreed as at the balance sheet date and – based on an agreement with the workers council – for partial retirement contracts that have to be accepted prospectively during the term of the agreement with the workers council.

Provisions are established for all recognisable risks, of onerous contracts and uncertain liabilities. They are measured in accordance with the judgement of a reasonable business person as a measure.

Liabilities are recognised at their repayment amounts.

Foreign currency items and currency translation

Receivables and payables in foreign currency are measured at the rate when incurred. Losses from unfavourable changes in exchange rates as at the balance sheet date are recognised.

Explanations in relation to the balance sheet

Fixed assets

The development of the individual items of the fixed assets of the ElringKlinger AG and the schedule of shareholdings are shown on the following pages.

Financial assets include shares in affiliated companies, participations, loans and securities.

Changes in fixed assets

in the year 2009

Acquisition and Construction Cost

	Jan. 1, 2009 EUR '000	Additions EUR '000	Reclassifi- cations EUR '000	Disposals EUR '000	Dec. 31, 2009 EUR '000
Intangible fixed assets					
Patents, licences	19,618	454	19	297	19,794
Advance payments on intangible fixed assets	0	34	0	0	34
	19,618	488	19	297	19,828
Tangible fixed assets					
Property and buildings	123,922	3,476	340	1,604	126,134
Technical equipment and machines	234,764	19,178	23,637	7,023	270,556
Other machines, furnitures and fixtures	98,180	904	993	1,971	98,106
Advance payments and fixed assets under construction	26,414	18,974	-24,989	338	20,061
	483,280	42,532	-19	10,936	514,857
Financial assets					
Shares in affiliated companies	213,352	21,843	2,867	0	238,062
Loans to affiliated companies	27,464	6,711	-2,867	8,792	22,516
Participations	11,466	0	0	0	11,466
Non-current securities	623	415	0	413	625
Other financial investments	36	0	0	6	30
	252,941	28,969	0	9,211	272,699
	755,839	71,989	0	20,444	807,384

Accumulated amortisation and depreciation

Net carrying value

Jan. 1, 2009 EUR '000	Charge in year EUR '000	Write-ups EUR '000	Reclassifi- cations EUR '000	Disposals EUR '000	Dec. 31, 2009 EUR '000	Dec. 31, 2009 EUR '000	Dec. 31, 2008 EUR '000
18,206	843	0	0	297	18,752	1,042	1,412
0	0	0	0	0	0	34	0
18,206	843	0	0	297	18,752	1,076	1,412
60,421	2,797	0	-6	1,604	61,608	64,526	63,501
157,366	31,689	0	0	4,768	184,287	86,269	77,398
89,366	2,146	0	6	1,954	89,564	8,542	8,814
0	0	0	0	0	0	20,061	26,414
307,153	36,632	0	0	8,326	335,459	179,398	176,127
25,063	6,500	2,068	0	0	29,495	208,567	188,289
2,560	245	615	0	621	1,569	20,947	24,904
0	2,304	0	0	0	2,304	9,162	11,466
0	0	0	0	0	0	625	623
0	0	0	0	0	0	30	36
27,623	9,049	2,683	0	621	33,368	239,331	225,318
352,982	46,524	2,683	0	9,244	387,579	419,805	402,857

Schedule of shareholdings and Scope of Consolidation

as at December 31, 2009

Name of company	Domicile	Capital share in %
Parent company		
ElringKlinger AG	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Domestic		
Gedächtnisstiftung KARL MÜLLER BELEGCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg/Neckar	76.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	74.50
Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Schweiz)	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (Großbritannien)	100.00
Elring Klinger S.p.A.	Mazzo di Rho (Italien)	100.00
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Ungarn)	100.00
Elring Parts Ltd.	Gateshead (Großbritannien)	90.00
Elring Klinger, S.A.U.	Reus (Spanien)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Türkei)	90.00
KITEK Kalip Ve Ileri Teknoloji Makina Sanayi Ve Ticaret Ltd. Şirketi	Bursa (Türkei)	70.00
ElringKlinger Canada, Inc.	Leamington (Kanada)	100.00
ElringKlinger North America, Inc.	Plymouth/Michigan (USA)	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexiko)	100.00
EKASER, S.A. de C.V.	Toluca (Mexiko)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brasilien)	100.00
Elring of North America, Inc.	Branchburg/New Jersey (USA)	60.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
Elring Gaskets (Pty) Ltd.	Johannesburg (Südafrika)	51.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (Indien)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.	Qingdao (China)	74.50
Shares in joint ventures (included in the consolidated financial statements using proportionate consolidation)		
Foreign		
ElringKlinger Korea Co., Ltd.	Changwon (Südkorea)	50.00
ElringKlinger Marusan Corporation	Tokio (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd.	Tokio (Japan)	50.00
Marusan Kogyo Co., Ltd	Tokio (Japan)	26.00

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

Statutory accounts Shareholders' equity in LC '000	Statutory accounts Profit/Loss in LC '000	Local currency (LC)	Exchange rate ¹⁾ on closing date	Statutory accounts Shareholders' equity in EUR '000	Statutory accounts Profit/Loss in EUR '000	Most recent financial statements
14	-3	EUR	100.0000	14	-3	31.12.2009
3,391	-120	EUR	100.0000	3,391	-120	31.12.2009
1,579	346	EUR	100.0000	1,579	346	31.12.2009
28,703	3,585	EUR	100.0000	28,703	3,585	31.12.2009
38,420	9,286	CHF	67.4036	25,896	6,259	31.12.2009
5,610	187	GBP	112.3596	6,303	210	31.12.2009
1,514	57	EUR	100.0000	1,514	57	31.12.2009
1,823,446	54,352	HUF	0.3702	6,750	201	31.12.2009
1,894	362	GBP	112.3596	2,128	407	31.12.2009
8,580	465	EUR	100.0000	8,580	465	31.12.2009
1,895	-612	TRY	46.4554	880	-284	31.12.2009
-2	9	TRY	46.4554	-1	4	31.12.2009
33,567	587	CAD	66.2252	22,230	389	31.12.2009
3,245	545	USD	69.4203	2,253	378	31.12.2009
233,204	-25,565	MXN	5.3118	12,387	-1,358	31.12.2009
20,774	3,089	MXN	5.3118	1,103	164	31.12.2009
52,937	10,464	BRL	39.8454	21,093	4,169	31.12.2009
2,073	326	USD	69.4203	1,439	226	31.12.2009
71	-2,210	USD	69.4203	49	-1,534	31.12.2009
8,526	1,944	ZAR	9.3677	799	182	31.12.2009
234,987	-77,678	INR	1.4925	3,507	-1,159	31.12.2009
52,020	1,472	CNY	10.1730	5,292	150	31.12.2009
177,004	34,866	CNY	10.1730	18,007	3,547	31.12.2009
2,733	2,106	CNY	10.1730	278	214	31.12.2009
3,824,899	-1,356,312	KRW	0.0596	2,278	-808	31.12.2009
4,358,334	31,043	JPY	0.7515	32,755	233	31.07.2009
369,091	19,770	JPY	0.7515	2,774	149	31.07.2009
613,541	-45,855	JPY	0.7515	4,611	-345	31.07.2009

Current assets

Inventories	Dec. 31, 2009 EUR '000	Dec. 31, 2008 EUR '000
Raw materials, consumables and supplies	13,312	19,587
Work in progress	4,317	4,405
Finished goods and merchandise	31,246	43,083
Prepayments made	97	33
	48,972	67,108

Accounts receivable and other assets	Dec. 31, 2009 EUR '000	Dec. 31, 2008 EUR '000
Trade receivables	45,226	43,302
Receivables from affiliated companies	26,050	43,932
Receivables from participations	4,206	4,303
Other assets	9,123	15,023
	84,605	106,560

Receivables from affiliated companies include EUR '000 8,263 (p.y. EUR '000 28,827) relating to financial transactions and the rest to trade. Unchanged to the previous year the receivables from participations relate to trade.

Other assets include EUR '000 4,323 (p.y. EUR '000 4,764) with a residual term of more than one year. All other receivables and other assets have remaining terms of less than one year.

Shareholders' equity

The nominal capital is divided unchanged into 57,600,000 individual shares. The shares are registered.

At the shareholders' meeting held on June 8, 2005, the authorized capital was approved to EUR '000 28,800. The Management Board is entitled, under precondition of approval by the Supervisory Board to call this capital in until June 15, 2010.

An amount of EUR '000 9,569 was transferred from the net profit for 2009 to other revenue reserves.

As at December 31, 2009, the revenue reserves comprise a reserve required by the provisions of the German stock companies Act amounting to EUR '000 3,013 (p.y. EUR '000 3,013) and other revenue reserves of EUR '000 158,445 (p.y. EUR '000 148,876).

The **retained earnings** developed as follows:

	EUR '000
Retained earnings as at December 31, 2008	8,640
Profit distribution for 2008	- 8,640
Profit brought forward	0
Net profit for 2009	21,089
Appropriation to other revenue reserves	- 9,569
Retained earnings at December 31, 2009	11,520

Untaxed special reserve

As at December 31, 2008, the untaxed special reserve relates to planned investments to replace buildings and machines as a consequence of the fire at Runkel plant in 2007, as well as capital gain from a real estate sale. As of December 31, 2009 the special reserve was completely reversed due to transfer to newly acquired fixed assets.

Provisions

The other provisions relate to:

	Dec. 31, 2009 EUR '000	Dec. 31, 2008 EUR '000
Relating to employees	8,226	8,631
Warranty obligations	3,856	3,592
Onerous sales contracts	3,008	598
Derivative risks	1,180	16,162
Litigation costs	793	345
Other risks	4,295	4,367
Total	21,358	33,695

The other risks mainly comprise outstanding purchase invoices and credit notes.

Liabilities

	Total amount as at Dec. 31, 2009 EUR '000	thereof with a remaining term				Total amount as at Dec. 31, 2008 EUR '000
		up to one year EUR '000	from one up to five years EUR '000	more than five years EUR '000	thereof secured EUR '000	
Bank debts	195,885	50,460	101,938	43,487	16,741	234,961
Prepayments received	158	158	0	0	0	119
Trade payables	15,321	15,321	0	0	0	14,427
Payables to affiliated companies	6,930	6,881	49	0	0	791
Other liabilities	38,183	19,399	18,784	0	0	31,245
	256,477	92,219	120,771	43,487	16,741	281,543
Prior year		128,952	76,508	76,083	11,861	

Bank debts include EUR '000 16,741 (p. y. EUR '000 11,861) that are secured by mortgage on own property. The other liabilities are unsecured, except for the reservation of title until the purchase price payment with respect to trade payables.

As in the previous year the liabilities to affiliated companies, relate almost exclusively to financial transactions. EUR '000 49 (p. y. EUR '000 47) have a remaining term of more than one year.

Other liabilities of EUR '000 1,055 (p. y. EUR '000 1,305) relate to tax and EUR '000 410 (p. y. EUR '000 203) relate to social security charges.

Explanations in relation to the income statement

Sales

Breakdown by geographical markets

	2009 EUR '000	2008 EUR '000
Domestic	111,368	153,759
Foreign	195,687	233,938
Total sales	307,055	387,697

In terms of areas of activity, sales of EUR '000 219,235 (p. y. EUR '000 296,279) relate to OEM deliveries, EUR '000 83,356 (p. y. EUR '000 87,125) to Spare Parts and EUR '000 4,464 (p. y. EUR '000 4,293) to "Industrial Parks".

Other operating income

The other operating income includes out-of-period income of EUR '000 6,009 (p. y. EUR '000 6,582). This is comprised mainly of income from the release of provisions (EUR '000 4,721, p. y. EUR '000 5,517), income from the release of the untaxed special reserve is included in the amount of EUR '000 1,747 (p. y. EUR '000 4,268) and gains on disposals of fixed assets (EUR '000 748, p. y. EUR '000 872).

Additionally, other operating income mainly contains income from the fair value changes of raw material related derivative contracts of EUR '000 9,494 (p. y. EUR '000 0), foreign currency gains of EUR '000 2,690 (p. y. EUR '000 6,112), government grants of EUR '000 2,685 (p. y. EUR '000 1,187), licence income of EUR '000 2,246 (p. y. EUR '000 2,665) and income from the disposal of machinery of EUR '000 397 (p. y. EUR '000 6,832).

Cost of materials

	2009 EUR '000	2008 EUR '000
Expenses for raw materials, supplies and consumables and for merchandise	127,055	165,532
Expenses for purchased services	12,604	16,077
	139,659	181,609

Personnel expenses

	2009 EUR '000	2008 EUR '000
Wages and salaries	67,721	77,239
Social security charges and expenses for retirement pensions	16,622	17,787
-- of which, for retirement pensions --	(3,842)	(3,745)
	84,343	95,026

Amortisation and depreciation

Amortisation and depreciation of the financial year 2009 include EUR '000 1,747 (p. y. EUR '000 5,686) impairment charges for fixed assets. They relate to buildings and machines in the amount of EUR '000 1,661 (p. y. EUR '000 4,731). They resulted from the transfer of untaxed special reserves to the replacing assets.

Other operating expenses

The other operating expenses include out-of-period items of EUR '000 1,077 (p. y. EUR '000 1,859) from the disposal of fixed assets (EUR '000 502, p. y. EUR '000 676) and from the loss of receivables (EUR '000 575, p. y. EUR '000 1,183). Additions to untaxed special reserves are not included (p. y. EUR '000 86).

Income from affiliated companies

	2009 EUR '000	2008 EUR '000
Income from affiliated companies	5,811	2,943
Reversal of write-downs on financial fixed assets	2,066	0
Write-downs on financial fixed assets	-8,804	-8,000
	-927	-5,057

Of the income from affiliated companies, EUR '000 5,811 (p. y. EUR '000 2,848) is derived from affiliated companies.

Net interest result

	2009 EUR '000	2008 EUR '000
Income from other securities and long-term loans	1,393	1,258
Other interest and similar income	830	1,356
Reversal of write-downs on loans and securities	532	2
Write-downs on loans and securities	-244	-1,572
Interest and similar expenses	-9,534	-7,857
	-7,023	-6,813

The interest result includes income from loans to affiliated companies of EUR '000 1,372 (p. y. EUR '000 1,236), interest income from affiliated companies in the amount of EUR '000 557 (p. y. EUR '000 733) and interest expense to affiliated companies of EUR '000 235 (p. y. EUR '000 163).

Taxes on income

Taxes on income include an out-of-period net gain of EUR '000 202; in the previous year taxes on income included out-of-period net expenses of EUR '000 1,183.

Other taxes

The other taxes include tax expenses relating to other periods amounting to EUR '000 151 (p. y. EUR '000 1).

Contingent liabilities

There are contingent liabilities from the issue and transfer of bills in the amount of EUR '000 227 (p. y. EUR '000 274), from sureties granted and guarantees of contract fulfilment in the amount of EUR '000 8,809 (p. y. EUR '000 9,002), of which on behalf of affiliated companies EUR '000 8,809 (p. y. EUR '000 9,002).

There is an acceptance of a guarantee from a share purchase in favour of the previous shareholder, which values on December 31, 2009 with TTRY '000 250 (converted EUR '000 116).

ElringKlinger AG has undertaken to furnish an affiliated company with funds such that it will at all times be able to meet its payment obligations from a contract for work and services.

ElringKlinger AG has undertaken to suppliers of subsidiaries to stand in for future receivables of the suppliers of subsidiaries, in case the subsidiaries fail to meet their payments obligations within a certain period.

Other financial obligations

Financial obligations due to loan agreement concerning a subsidiary amount to EUR '000 6,614.

Moreover, there are financial obligations under current business transactions in the magnitude that is usual in business.

Other disclosures

Number of employees

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

	2009	2008
Workers	1,019	1,105
Salaried staff	567	565
	1,586	1,670
Apprentices	67	62
	1,653	1,732

Related party transactions

According to the new version of section 285 clause 1 no. 21 of the German Commercial Code transactions with related parties have to be disclosed in the notes, unless the represent transactions between companies that are 100 % shareholdings, which are included in the consolidated financial statements.

With companies which are not wholly owned subsidiaries of the ElringKlinger Group, there were the following transactions in the financial year 2009:

	EUR '000
Sale of goods	4,613
Licence fees	698
Services performed	1,422
Disposals of machinery and implements and other revenues	2,308
Services received and other expenses	3,524
Interest income	73
Interest expenses	211
Loans granted as at the balance sheet date	3,829
Other receivables as at the balance sheet date	8,241
Loans received as at the balance sheet date	6,614
Other liabilities as at the balance sheet date	251

Furthermore there are

- Agreements relating to the cooperation concerning the apprenticeship and the supply with canteen food between ElringKlinger AG and Lechler GmbH, Metzingen. The income of the ElringKlinger AG in the reporting period is EUR '000 225 (p. y. EUR '000 226). The open balance as at the balance sheet date amounted to EUR '000 4 (p. y. EUR '000 4).
- a blanket supply agreement regarding the acquisition of stocks/material between Rich. Klinger Dichtungstechnik GmbH & Co. KG., Gumpoldskirchen, Österreich and companies of the ElringKlinger Group. Within this contract, Elring Klinger AG has purchased material of EUR '000 1,014 (p. y. EUR '000 2,462) in 2009. The open balance as at the balance sheet date amounted to EUR '000 250 (p. y. EUR '000 65).
- a blanket supply agreement regarding the acquisition of stocks/material between Klinger AG Egliswil, Schweiz and ElringKlinger AG. Within this contract, Elring Klinger AG has purchased material of EUR '000 58 (p. y. EUR '000 155) in 2009. There are no open liabilities as at the balance sheet date (p. y. EUR '000 19).

Off-balance-sheet transactions

Transactions, which permanently remain off-balance or lead to a permanent disposal of assets or liabilities, are executed in the form of operating lease contracts. As at the balance sheet date, ElringKlinger AG has open liabilities from irredeemable contracts of EUR '000 1,692 (p. y. EUR '000 1,800).

Derivative financial instruments

As at the balance sheet date, December 31, 2009, the following financial derivatives that serve to hedge risks arising from changes in interest rates and to even out fluctuations in the procurement prices for raw materials (nickel):

	Fair market value EUR '000	Carrying value EUR '000	Provision EUR '000
Interest-related derivatives			
Interest swaps	-392	-392	-392
Derivatives relating to raw materials			
Nickel forward contracts	-788	-788	-788
	-1,180	-1,180	-1,180

The negative fair market values are classified as other provisions in the balance sheet.

Interest rate swaps relate to the conversion of variable interest obligations into fixed interest obligations. The underlying loans all in all have a nominal value of EUR '000 10,600. The interest swaps have maturities until 2013 and 2014, respectively.

The nickel forward contracts safeguard a price range for the price development of the nickel, in which ElringKlinger's average nickel cost rate lies. Those forward contracts have maturities until April 2010.

All forward contracts are contracted with financial institutions, which are rated with "A" (according to Standard & Poors-Classification) at the minimum.

The computation of the bank-confirmed market values of the financial derivatives uses generally accepted mathematical methods and the market data available as at the balance sheet (mark-to-market method).

Corporate bodies

Supervisory board

Dr. Helmut Lerchner, Aichtal,
Chairman

Corporate advisor

Member of the supervisory board of Deutz AG, Cologne
Member of the advisory board region southwest of
Commerzbank AG

Walter Herwarth Lechler, Stuttgart,
Deputy Chairman

Managing shareholder

Positions on advisory boards or administrative boards at
Lechler Inc., St. Charles, USA
Lechler Ltd., Sheffield, United Kingdom
Lechler India Pvt. Ltd., Thane, India
Lechler Kft, Kecskemét, Hungary
Lechler France S.A., Montreuil, France
Lechler AB, Hagfors, Sweden
Lechler SA, Wavre, Belgium
Lechler S.A., Madrid, Spain and
ELEX India Pvt. Ltd., Thane, India

Gert Bauer, Reutlingen,
Employee Representative

First commissioner and collector of IG Metall
Reutlingen/Tübingen

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

Dr. Rainer Hahn, Stuttgart

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

Supervisory board seats at
Robert Bosch GmbH, Stuttgart
Bosch Rexroth AG, Stuttgart

Member of TÜV SÜD Gesellschafterausschuss GbR,
Munich, and member of the administrative board of
TÜV SÜD e.V., Mannheim

Karl-Uwe van Husen, Waiblingen	Managing director
	Member of the supervisory board of Schaltbau Holding AG, Munich
Dr. Thomas Klinger-Lohr, Egliswil, Switzerland	President of the board
	Dr. Klinger-Lohr is a member of the advisory or administrative council, as the case may be, of the following subsidiaries of Betal Netherland Holding B. V., Rotterdam, Netherlands, of which holding company he is also the managing director:
	Klinger Holding Ltd., Sidcup, United Kingdom
	Klinger S. p. A., Mazzo di Rho (MI), Italy
	Saidi S. A., Madrid, Spain
	Klinger AG, Egliswil, Switzerland
	Uni Klinger Ltd., Mumbai, India
Manfred Rupp, Pfullingen, Employee Representative	Simulation technician
Markus Siegers, Altbach, Employee Representative	Chairman of the workers' council of ElringKlinger AG
Manfred Strauß, Stuttgart	Managing partner of M&S messebau und service GmbH, Neuhausen a. d. F.
	Member of the shareholders' meeting in the Pro Stuttgart Verwaltungs GmbH, Stuttgart
	Member of the advisory council in the Pro Stuttgart Verkehrsverein, Stuttgart

Remuneration of the supervisory board

In 2009 the total remuneration of the supervisory board of ElringKlinger AG amounted to EUR '000 286 (p.y. EUR '000 311).

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

	fixed (prior year) EUR	variable (prior year) EUR	total (prior year) EUR
Dr. Helmut Lerchner	40,000 (38,000)	19,276 (24,400)	59,276 (62,400)
Walter Herwarth Lechler	31,000 (31,000)	14,457 (18,300)	45,457 (49,300)
Gert Bauer	14,000 (14,000)	9,638 (12,200)	23,638 (26,200)
Dr. Rainer Hahn	14,000 (14,000)	9,638 (12,200)	23,638 (26,200)
Karl-Uwe van Husen	26,000 (26,000)	9,638 (12,200)	35,638 (38,200)
Dr. Thomas Klinger-Lohr	18,000 (18,000)	9,638 (12,200)	27,638 (30,200)
Manfred Rupp	14,000 (14,000)	9,638 (12,200)	23,638 (26,200)
Markus Siegers	14,000 (14,000)	9,638 (12,200)	23,638 (26,200)
Manfred Strauß	14,000 (14,000)	9,638 (12,200)	23,638 (26,200)
Total amount	185,000 (183,000)	101,199 (128,100)	286,199 (311,100)

The variable remuneration reflects the expense for which provisions have been set up, based on the provisional consolidated income before taxes prepared under IFRS for the year 2009.

The difference between the provision for the variable remuneration for the financial year 2008 and the amounts actually paid was EUR 2,047.11. This amount is included in the other operating income.

Management board

Dr. Stefan Wolf, Leinfelden-Echterdingen, responsible for the group companies, the central divisions Chairman finance, controlling, law, human resources, investor relations, IT and public relations as well as the business divisions spare parts and industrial parks.

Theo Becker, Metzingen responsible for the business divisions cylinder head gas-gaskets/central research & development, special gaskets, casings/modules/elastomer technology, shielding technology and the central divisions quality and environment, procurement and Runkel plant

Karl Schmauder, Hülben responsible for the distribution of original equipment and new business fields

Memberships in supervisory boards and similar bodies

Dr. Stefan Wolf is a member of the supervisory board of Micronas Semiconductor Holding AG, Zürich (since November 27, 2009)

Remuneration of the management board

The remuneration of the management board in the financial year 2009 totalled EUR '000 1,927 (p. y. EUR '000 1,488). This is composed of fixed (EUR '000 802; p. y. EUR '000 761) and variable (EUR '000 1,124; p. y. EUR '000 728) parts. The variable parts are composed of short-term performance-related remunerations in the amount of EUR '000 1,030 (p. y. EUR '000 671) and long-term performance-related remuneration in the amount of EUR '000 94 (p. y. EUR '000 57). Up to and including 2008, the short-term performance-related remuneration relates to the respective financial year; from 2009 on, it is based on a three-year average. The long-term performance-related remuneration relates to Stock Appreciation Rights.

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

	fixed components (prior year) EUR	Short-term per- formance-based remuneration (prior year) EUR	Long-term per- formance-based remuneration (prior year) EUR	Total (prior year) EUR
Dr. Stefan Wolf	328,473.48 (302,016.50)	441,335.91 (304,861.00)	39,269.12 (32,514.51)	809,078.51 (639,392.01)
Theo Becker	235,559.98 (237,963.46)	294,548.54 (182,917.40)	25,440.24 (0.00)	555,548.76 (420,880.86)
Karl Schmauder	238,209.99 (220,534.92)	294,548.54 (182,917.40)	29,782.72 (24,643.70)	562,541.25 (428,096.02)
Total	802,243.45 (760,514.88)	1,030,432.99 (670,695.80)	94,492.08 (57,158.21)	1,927,168.52 (1,488,368.89)

Short-term variable remuneration reflects accrued expenses, calculated as a percentage of the average Group earnings before taxes for the last three years. In addition, differences between the provisions recognized as at December 31, 2008 and the amounts actually disbursed in 2009 are included. For Stock Appreciation Rights the fair value as of the grant date is used.

The Stock Appreciation Rights refer to a right for cash settlement, but not for shares of ElringKlinger AG. The currently outstanding Stock Appreciation Rights will be granted in three annual instalments, starting on February 1, 2008 and January 1, 2009 respectively. They have a maturity of 3 years. The strike price is the average stock price of the last 60 trading days before the day of assignment. The number of the Stock Appreciation Rights is calculated based on the fixed remuneration of the respective board member and the strike price. The cash payments are the difference between the exercise price, which is calculated as an average from the stock price of the last 60 trading days, and the strike price. A payment only occurs in case of the stock price increases more than the market index in which the ElringKlinger share is listed, but at least 25 %. The payment per tranche is limited to the amount of the yearly fixed salary amount.

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

For the fiscal year 2009 the following data arose:

	Tranche 2008	Tranche 2009
Date of issue	2008	2009
Number of granted Stock Appreciation Rights	20,341	108,754
Average Strike Price	24.63	6.95
Number of existing Stock Appreciation Rights (not exercisable yet)	20,341	129,095
Average remaining time to maturity	2.08	1.91
Value of Participation Rights held by members of the management board		
December 31, 2009 (EUR '000)	28	74
December 31, 2008 (EUR '000)	1	0

The additions to pension provisions for the members of the management board amount to EUR '000 117 (p. y. EUR '000 117) and are related to Dr. Stefan Wolf amounting to EUR '000 40 (p. y. EUR '000 40), Theo Becker amounting to EUR '000 45 (p. y. EUR '000 45) and Karl Schmauder amounting to EUR '000 32 (p. y. EUR '000 32).

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

Provisions of EUR '000 8,902 (p. y. EUR '000 9,051) have been set up for pension obligations to former members of the management board, the management of merged companies and their surviving dependants. The total remuneration of former members of the management board – including remuneration of former members of corporate bodies of merged companies – came to EUR '000 856 (p. y. EUR '000 837) in the financial year 2009.

Disclosure of the **fees of the auditor** is refrained from as these disclosures are made in the notes to consolidated financial statements, in which the company is included.

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

As of the balance sheet date 2009 the following participations exist and were announced pursuant to sec. 21 para. 1 German Securities Trading Law (WpHG):

1. Voting rights notification

Details about the person obligated to give notice:

Name: Fidelity Funds SICAV

Place: Luxembourg

State: Luxembourg

Published on November 11, 2009

Content of the voting rights notification:

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

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

2. Voting rights notification

Details about the person obligated to give notice:

Name: FIL Investments International

Place: Hildenborough, Kent

State: England

Published on August 14, 2009

Content of the voting rights notification:

ElringKlinger AG has received the following notification on August 13, 2009:

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

On 12 August 2009 FIL Investments International crossed above the threshold of 3% of the voting rights in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany. On that date, FIL Investments International held 3.09% of the voting rights in ElringKlinger AG arising from 1,778,147 voting rights.

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

3. Voting rights notification

Details about the person obligated to give notice:

Name: FIL Limited

Place: Hamilton HMCX, Bermuda

State: USA

Published on May 4, 2009

Content of the voting rights notification:

ElringKlinger AG has received the following notification on April 30, 2009:

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

On 29 April 2009 FIL Limited crossed above the threshold of 3 % of the voting rights in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany. On that date, FIL Limited held 3.01 % of the voting rights in ElringKlinger AG arising from 1,733,723 voting rights.

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

4. Voting rights notification

Details about the person obligated to give notice:

Name: FIL Investment Management Limited

Place: Hildenborough, Kent

State: England

Published on May 4, 2009

Content of the voting rights notification:

ElringKlinger AG has received the following notification on April 30, 2009:

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

On 29 April 2009 FIL Investment Management Limited crossed above the threshold of 3 % of the voting rights in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany. On that date, FIL Investment Management Limited held 3.01 % of the voting rights in ElringKlinger AG arising from 1,733,723 voting rights.

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

5. Voting rights notification

Details about the person obligated to give notice:

Name: Lechler GmbH

Place: Metzingen

State: Deutschland

Published on April 29, 2009

Content of the voting rights notification:

ElringKlinger AG has received the following notification from the Lechler GmbH on April 29, 2009:

“We hereby notify, pursuant to sec. 21 para 1 of the WpHG, that on October 24, 2008 our voting interest in ElringKlinger AG exceeded the threshold of 10 % and amounts to 10.02 % (5,770,527 voting rights) on this day.

0.02 % of these voting rights (10.527 voting rights) are attributed to us in accordance with sec. 22 para. 1 no. 1 WpHG.

Voting rights attributed to us are held by the following companies controlled by us, whose voting interest in ElringKlinger AG amounts to 0.02 % on October 24, 2008:

Lechler International GmbH, 72555 Metzingen.”

6. Voting rights notification

Details about the person obligated to give notice:

Name: Walter Herwarth Lechler

State: Germany

Published on December 2, 2008

ElringKlinger AG received the following notification from Mr Walter Herwarth Lechler on December 1, 2008:

“I hereby notify, pursuant to sec. 21 para 1 of the WpHG, that on November 25, 2008 my voting interest in ElringKlinger AG exceeded the threshold of 25 % and amounts to 25.001 % (14,400,800 voting rights) on this day.

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

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

7. Voting rights notification

Details about the person obligated to give notice:

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

Place: Ludwigsburg

State: Germany

Published on April 2, 2008

We received the following notification on April 1, 2008:

“Notification pursuant to sec. 21 para. 1 WpHG

Persons obligated to give notice: 1. KWL GmbH i. Gr., Ludwigsburg, Germany 2. Elrena GmbH, Basel, Switzerland

We, the Klaus Lechler Beteiligungs- GmbH, hereby notify you pursuant to sec. 21 para. 1 WpHG on behalf of the following companies as follows:

1. KWL GmbH i. Gr.

The percentage of voting rights of KWL GmbH i. Gr. in ElringKlinger AG on March 20, 2008 exceeded the threshold of 3 %, 5 %, 10 %, 15 % and 20 % and amounts to 20.02 % (3,843,560 voting rights) on this day.

10.02 % (1,922,912 voting rights) of these voting rights are attributed to KWL GmbH i. Gr. in accordance with sec. 22 para. 1 sent. 1 no. 1 WpHG and further 10.003 % (1,920,648 voting rights) are attributed in accordance with sec. 22 para. 2 sent. 1 WpHG.

The voting rights, which were attributable to KWL GmbH i. Gr., were held by the following shareholder that holds 3 % or more of the voting rights in ElringKlinger AG:

- Elrena GmbH.

The voting rights, which were attributable to KWL GmbH i. Gr., were held by the following companies that were controlled by it and hold 3 % or more of the voting rights in ElringKlinger AG:

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

2. Elrena GmbH

The percentage of voting rights of Elrena GmbH in ElringKlinger AG exceeded the thresholds of 15 % and 20 % on March 20, 2008 and amounts to 20.02 % (3,843,560 voting rights) on this day.

10.02 % (1,922,912 voting rights) of these voting rights are attributed to Elrena GmbH in accordance with sec. 22 para. 2 sent. 1 WpHG.

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

- Elgarta GmbH, - Eroca AG, - Klaus Lechler Beteiligungs- GmbH, - KWL GmbH i. Gr.“

8. Voting rights notification

Details about the person obligated to give notice:

Name: Paul Lechler Stiftung gGmbH u. a.

Place: Ludwigsburg

State: Germany

Published on March 31, 2008

We received the following notification on March 27, 2008:

“Notification pursuant to sec. 21 para. 1 WpHG

Persons obligated to give notice: 1. Mrs Lieselotte Lechler, Stuttgart, Germany 2. Paul Lechler Stiftung gGmbH, Ludwigsburg, Germany

We, the Klaus Lechler Beteiligungs- GmbH, hereby notify you pursuant to sec. 21 para. 1 WpHG on behalf of Mrs Lieselotte Lechler and Paul Lechler Stiftung gGmbH as follows:

1. Lieselotte Lechler

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

2. Paul Lechler Stiftung gGmbH

The percentage of voting rights of Paul Lechler Stiftung gGmbH in ElringKlinger AG exceeded the thresholds of 3 %, 5 % and 10 % on March 20, 2008 and amounts to 10.02 % (1,922,912 voting rights) on this day.

10.02 % (1,922,912 voting rights) of these voting rights are attributed to Paul Lechler Stiftung gGmbH in accordance with sec. 22 para. 1 sent. 1 no. 1 WpHG.

The voting rights, which were attributable to Paul Lechler Stiftung gGmbH, were held by the following companies that were controlled by it and hold 3 % or more of the voting rights in ElringKlinger AG:

- Elgarta GmbH, - Eroca AG, - Klaus Lechler Beteiligungs- GmbH.“

9. Voting rights notification

Details about the person obligated to give notice:

Name: Elrena GmbH, and others

Place: Basel

State: Switzerland

Published on May 7, 2007

Parties required to give notice:

1. Elrena GmbH, Basel, Switzerland

2. Karl Uwe van Husen, Germany

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

“On behalf of Elrena GmbH, Basel, Switzerland, and Mr Karl Uwe van Husen, we inform you pursuant to sec. 41 para. 2 and sec. 21 para. 1 WpHG (in the respective current version) for the purpose of correction and supplement to notifications made in the past by the parties on which notification is incumbent as follows:

1. Karl Uwe van Husen, Germany:

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

2. Elrena GmbH, Basel, Switzerland:

- a. The percentage of voting rights of Elrena GmbH in ElringKlinger AG at April 1, 2002 amounted to 10.69 % (512,012 voting rights).
- b. Today, at May 3, 2007, the percentage of voting rights of Elrena GmbH in ElringKlinger AG amounts to 10.003 % (1,920,648 voting rights).“

10. Voting rights notification

Details of the parties required to give notice:

Name: Elgarta GmbH, and others

Place: Basel

State: Switzerland

Published on May, 7, 2007

Parties required to give notice:

1. Elgarta GmbH, Basel, Switzerland
2. Eroca AG, Basel, Switzerland
3. Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany
4. Lechler Beteiligungs- GmbH, Ludwigsburg, Germany
5. Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany
6. INLOVO GmbH, Ludwigsburg, Germany
7. Frau Lieselotte Lechler, Germany

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

“On behalf of Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany, and on behalf of the following companies and Mrs Lieselotte Lechler, we inform you pursuant to sec. 41 Abs. 2 and sec. 21 Abs. 1 WpHG (in the respective current version) for the purpose of correction and supplementary to notifications made in the past by the parties required to give notice as follows:

1. Elgarta GmbH, Basel, Switzerland:
 - a) The percentage of voting rights of Elgarta GmbH in ElringKlinger AG at April 1, 2002, amounted to 13.25 % (635,878 voting rights).
 - b) Today, May 3, 2007, the percentage of voting rights of Elgarta GmbH in ElringKlinger AG amounts to 10.004 % (1,920,712 voting rights).
2. Eroca AG, Basel, Switzerland:
 - a) The percentage of voting rights of Eroca AG in ElringKlinger AG at April 1, 2002, amounted to 13.25 % (635,878 voting rights). These voting rights were in the percentage of 13.25 % (635,878 voting rights) attributable to Eroca AG pursuant to sec. 22 para. 1 sent. 1 No.1 WpHG.
 - b) The voting rights, which were attributable to Eroca AG, were held by the following company that was controlled by it and hold at least 3 % or more of voting rights in ElringKlinger AG:
 - Elgarta GmbH.
 - c) Today, May 3, 2007, the percentage of voting rights of Eroca AG in ElringKlinger AG amounts to 10.004 % (1,920,712 voting rights). These voting rights are entirely attributable to Eroca AG pursuant to sec. 22 para. 1 sent. 1 no. 1 WpHG.
 - d) The voting rights, which are attributable to Eroca AG, are held by the following company that is controlled by it and holds at least 3 % or more of voting rights in ElringKlinger AG:
 - Elgarta GmbH.

3. Klaus Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:

- a) The percentage of voting rights of Klaus Lechler Beteiligungs- GmbH in ElringKlinger AG at May 8, 2002, exceeded the thresholds of 5 % and 10 % and amounted to 10.35 % (496,678 voting rights) on this day. These voting rights were entirely attributable to Klaus Lechler Beteiligungs- GmbH pursuant to sec. 22 para. 1 sent. 1 no. 1 WpHG.

The voting rights, which were attributable to Klaus Lechler Beteiligungs- GmbH, were held by the following companies that were controlled by it and hold at least 3 % or more of voting rights in ElringKlinger AG:

- Elgarta GmbH,
- Eroca AG.

- b) Today, May 3, 2007, the percentage of voting rights of Klaus Lechler Beteiligungs- GmbH in ElringKlinger AG amounts to 10.02 % (1,922,912 voting rights). These voting rights are in the percentage of 10.004 % (1,920,712 voting rights) attributable to Klaus Lechler Beteiligungs- GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

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

- Elgarta GmbH,
- Eroca AG.

4. Lechler Beteiligungs- GmbH, Ludwigsburg, Germany:

1. The percentage of voting rights of Lechler Beteiligungs- GmbH in ElringKlinger AG at November 30, 2001, exceeded the thresholds of 5 % and 10 % and amounted to 12.13 % (582,012 voting rights).
2. The percentage of voting rights of Lechler Beteiligungs- GmbH in ElringKlinger AG at April 1, 2002 amounted to 12.13 % (582,012 voting rights).
3. Today, at May 3, 2007, the percentage of voting rights of Lechler Beteiligungs- GmbH in ElringKlinger AG amounts to 10.0003 % (1,920,048 voting rights).

5. Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany:

- a) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at November 30, 2001, exceeded the thresholds of 5 % and 10 % and amounted to 12.13 % (582,012 voting rights). These voting rights were in the percentage of 12.13 % (582,012 voting rights) attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG (essentially corresponding with sec. 22 para. 1 No. 2 WpHG valid on 30. November 2001).

The voting rights, which were attributable to Paul Lechler Gesellschaft bürgerlichen Rechts, were held by the following company that was controlled by it and hold 3 % or more of the voting rights in ElringKlinger AG:

- Lechler Beteiligungs- GmbH.

b) The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG at April 1, 2002, amounted to 12.13 % (582,012 voting rights). These voting rights were entirely attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

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

- Lechler Beteiligungs- GmbH.

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

6. INLOVO GmbH, Ludwigsburg, Germany:

a) The percentage of voting rights of INLOVO GmbH in ElringKlinger AG at December 4, 2003, exceeded the thresholds of 5 % and 10 % and amounted to 10.04 % (482,012 voting rights). These voting rights were in the percentage of 10.04 % (482,012 voting rights) attributable to INLOVO GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

The percentage of voting rights, which were attributable to INLOVO GmbH, were held by the following company that was controlled by it and hold at least 3 % or more of the voting rights in ElringKlinger AG:

- Lechler Beteiligungs- GmbH.

b) Today, May 3, 2007, the percentage of voting rights of INLOVO GmbH in ElringKlinger AG amounts to 10.0003 % (1,920,048 voting rights). These voting rights are entirely attributable to INLOVO GmbH pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG.

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

- Lechler Beteiligungs- GmbH.

7. Klaus Lechler, Germany:

a) The percentage of voting rights of Mr Klaus Lechler in ElringKlinger AG at April 1, 2002 amounted to 25.37 % (1,217,890 voting rights). These voting rights were in the percentage of 13.25 % (635,878 voting rights) attributable to Mr Klaus Lechler pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG and in the percentage of 12.13 % (582,012 voting rights) pursuant to sec. 22 para. 1 sent. 1 No. 2 WpHG.

The voting rights, which were attributable to Mr Klaus Lechler, were held by the following companies that were controlled by him and hold at least 3 % or more in ElringKlinger AG:

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

The voting rights of the following shareholder, who hold 3 % or more in ElringKlinger AG, were assigned to him:

- Lechler Beteiligungs- GmbH.

b) The percentage of voting rights of Mr Klaus Lechler in ElringKlinger AG at June 18, 2003 fell below the threshold of 25 % and amounted to 23.29 % (1,117,890 voting rights). These voting rights were in the percentage of 13.25 % (635,878 voting rights) attributable to Mr Klaus Lechler pursuant to sec. 22 para. 1 sent. 1 No. 1 WpHG and in the percentage of 10.04 % (482,012 voting rights) pursuant to sec. 22 para. 1 sent. 1 No. 2 WpHG.

The voting rights, which were attributable to Mr Klaus Lechler, were held by the following companies that were controlled by him and hold at least 3 % or more in ElringKlinger AG:

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

The voting rights of the following shareholder, who hold at least 3 % or more in ElringKlinger AG, were assigned to him:

- Lechler Beteiligungs- GmbH.“

Statement of compliance with the German Corporate Governance Code

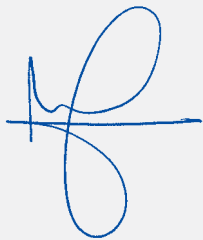
The management board and the supervisory board issued on December 4, 2009 a declaration of compliance pursuant to sec. 161 AktG on the German Corporate Governance Code and published it on the internet site of ElringKlinger AG on December 4, 2009. This declaration of compliance will be available on the Internet and therewith made durably accessible to shareholders. It will be published in the Annual Report as part of the Corporate Governance Report.

Proposal for the appropriation of profits

In agreement with the Supervisory Board, the Management Board proposes to the Shareholders' Meeting to appropriate the retained earnings as at December 31, 2009 amounting to EUR '000 11,520 to distribute a dividend of EUR 0.20 per share.

Dettingen/Erms, March 22, 2010

The Management Board



Dr. Stefan Wolf

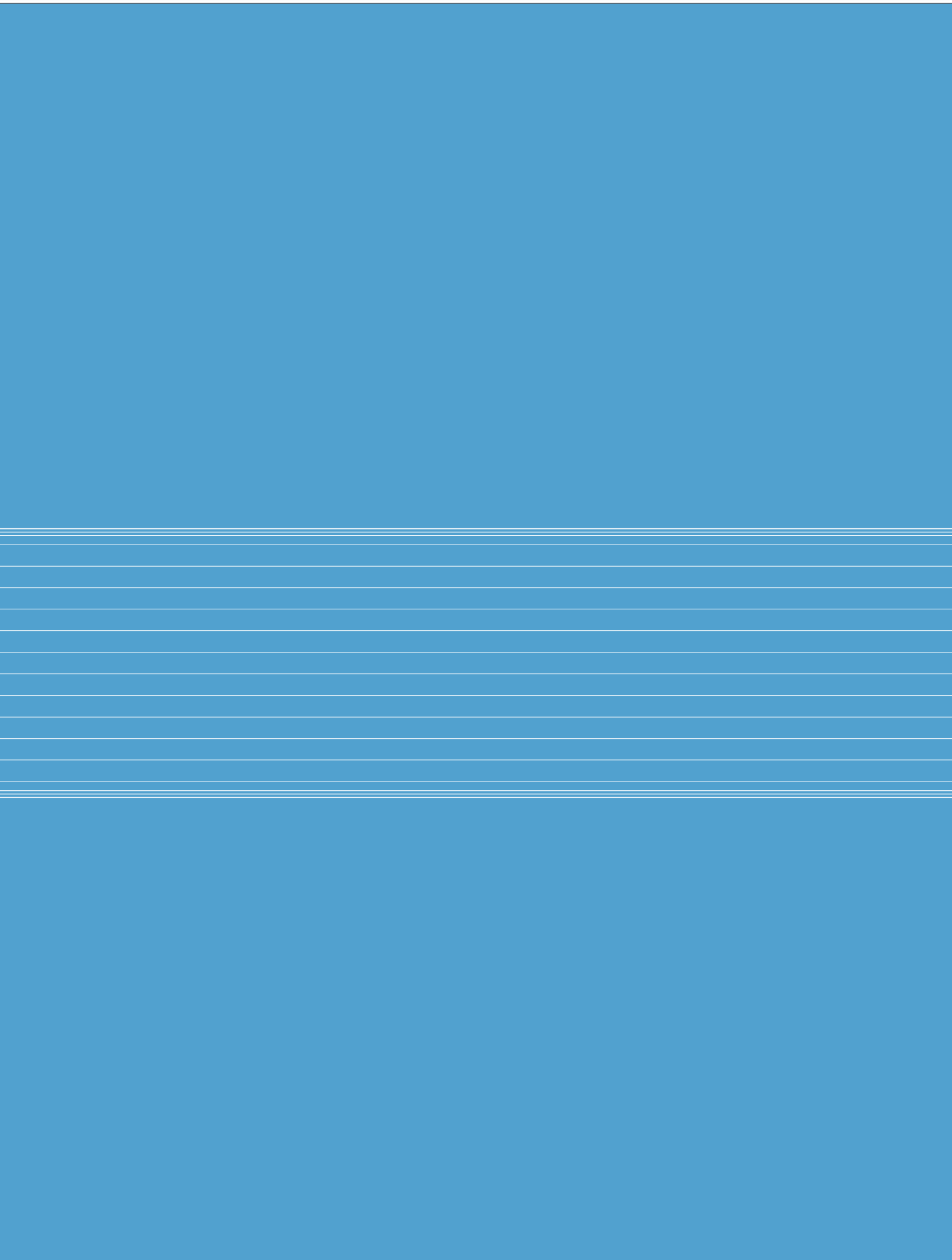


Theo Becker



Karl Schmauder





ElringKlinger AG Management Report for the 2009 Financial Year

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Macroeconomic Conditions and Business Environment

Difficult year 2009

After the rapid economic downturn witnessed in the fall of 2008, 2009 was marked by a severe recession. In the fall of 2008, large parts of Germany's industrial sector were impacted by plummeting order intake. The severity of this crisis was reflected in the sudden slump in production by more than one-third within just a few months. By May 2009, global trade had contracted by 21% year-on-year. The relatively stable economic situation in the emerging markets of South America and Asia helped to stem the tide of economic decline somewhat.

Deploying economic stimulus packages of unprecedented proportions, combined with state investment programs, governments managed to combat the worldwide recession. By the fall of 2009, the global economy had begun to emerge from its lowest point. The following months saw a period of gradual recovery, buoyed in particular by Asia's economies.

In 2009, global economic output contracted by 1.1%. By contrast, economic growth had stood at 3.4% a year earlier.

Owing to its significant dependence on exports, Germany was hit particularly hard by the severe downturn in global trade. The German economy shrank by 4.8% in 2009, thus contracting at a more pronounced rate than the majority of its peers. Benefiting from an upturn in orders from abroad over the course of 2009, however, the German economy returned to moderate growth in the fourth quarter.

In the fall of 2009, Europe as a whole also recorded a slight improvement in growth. In aggregate, however, economic output for this region was down 3.9% year-on-year.

Russia, which had experienced dynamic growth of 5.6% in its GDP in 2008, was severely buffeted by the crisis, with economic output plunging by 7.9% in 2009.

The US economy recovered comparatively quickly from the global economic malaise. Having contracted for four quarters in succession, the US economy saw its economic output rise by 2.2% as early as the third quarter of 2009. At minus 2.6%, the year-on-year decline in economic output for 2009 as a whole was less pronounced than in other industrialized countries.

Buoyed by a marked increase in consumer demand and dynamic foreign direct investment, the South American economy was less severely affected by the global crisis. South America's largest market, Brazil, saw its GDP contract by a marginal 0.3%.

After a temporary period of weakness in the first quarter of 2009, the emerging countries of Asia succeeded in escaping the clutches of the global crisis and returned almost to the levels of growth

experienced in previous years. China's GDP grew by 8.7% in 2009 as a whole, which was just slightly down on the previous year's figure. India also remained on track with regard to growth, with economic output rising by 5.5% in 2009.

By contrast, the Japanese economy, which was affected in particular by a rising Yen, was severely impacted by the international economic crisis – regardless of the slight recovery seen over the course of the second half of 2009. Compared with the previous year, Japan's GDP contracted by 5.3% in 2009.

Global automobile markets in the grip of economic recession

2009 proved a particularly challenging year for the international automobile industry. In the late fall of 2008, virtually all of the world's automobile markets had to contend with a more or less simultaneous slump in the wake of the global financial and economic crisis. Whereas the majority of the Asian vehicle markets were faced with only a temporary dip in demand, the automobile markets of Europe and North America were severely impacted by plummeting sales. Hesitance on the part of consumers, limited financing options for vehicle purchases and, in particular, warehouses brimming with unsold stock had a detrimental effect. In response, many vehicle manufacturers opted for extensive production cuts by up to 50% at times. This low level of output continued well into the first half of 2009.

Towards the middle of the year, state-funded programs aimed at stabilizing domestic car markets provided the necessary stimulus for vehicle sales in Western Europe and the United States. The gradual upturn in the world economy provided fresh impetus for potential vehicle purchasers. With automobile manufacturers having completed scaling back the overall inventory levels over the course of the year and car sales gradually picking up, the automobile industry as a whole saw its situation improve slightly.

In the third quarter of 2009, therefore, the extent of production downsizing by vehicle manufacturers was less pronounced than in the previous quarters. Several of the major automobile manufacturers expanded their production output in the third and, even more so, in the fourth quarter of 2009, albeit from an extremely low base. Suppliers benefited from this trend.

In total, however, global automobile sales for 2009 remained down 6.5% year-on-year at 62.3 (66.6)¹ million units. At minus 13.8%, the overall vehicle production figure was even more pronounced than the slump in demand. This was attributable to efforts on the part of vehicle manufacturers to scale down the considerable levels of unsold stock. In 2009, worldwide production of passenger cars and light commercial vehicles stood at just 56.9 (66.0) million units.

Car sales contracted by 11.9% in aggregate in the well-established vehicle markets of Western Europe, the US and Japan. By comparison, the downturn in production was much more pronounced at minus 25.9%.

¹ Figures in parentheses refer to the previous year

The emerging economies of Brazil, Russia, India and China (BRIC) continued to become increasingly important for the automobile industry in 2009. These markets accounted for as much as 30% of global automobile sales in the period under review. Within this context, India and China performed particularly well. In aggregate, automobile sales in the BRIC states rose by 17.1% to 18.8 million vehicles. In parallel, vehicle production in these emerging markets also increased at a dynamic rate, despite a sluggish Russian market. On the back of output in the region of 14.9 million automobiles in 2008, vehicle production rose to 18.0 million units in 2009.

Domestic market stimulated by scrappage scheme and recovering exports

In Germany, new car registrations rose by 23.2% to 3.8 (3.1) units in 2009, according to data published by the Verband der Automobilindustrie (VDA), the association representing the domestic automobile industry.

This pronounced upturn was attributable mainly to a revamp of Germany's vehicle taxation policy and a car-scrappage incentive aimed at reducing the number of older vehicles. The program launched by the German Government proved particularly successful when it came to stimulating domestic demand for small and compact cars.

The severe slump in demand from abroad led to a significant fall in German car exports, down 35% in the first six months of 2009. Over the course of the remaining year non-domestic automobile sales gained considerable momentum again as the general economic climate improved. At minus 17.1%, however, total exports by German vehicle manufacturers in 2009 were still significantly lower than in the previous year.

Benefiting from rising order intake and a reduction of stock levels, domestic vehicle production gradually recovered, having slumped by 33.0% in the first quarter of 2009. For 2009 as a whole, however, car makers and automotive suppliers had to contend with a marked downturn in German automobile production, down 10.3% on an annual basis.

European automobile market supported by state-funded stimulus packages

In Europe, new car registrations plunged by a massive 17.2% in the first three months of 2009. Nascent economic recovery and car scrappage schemes introduced in Europe's major automobile markets – particularly in Germany, Spain, Italy, France and the UK – as an incentive to replace old vehicles helped to guide the European auto markets back towards stability in the second half of 2009. By the end of 2009, new car registrations in Europe stood at 14.5 million, down 1.6% on the previous year's figure. At minus 16.9%, however, the downturn in European production output was particularly severe.

Whereas new vehicle registrations in Western Europe were up 0.5% year-on-year at 13.6 million units in 2009 as a whole, car production for the region contracted sharply. Compared to the previous year, the number of vehicles manufactured in Western Europe fell by 17.6% year-on-year to 12.0 million units.

Russia: collapse of Europe's second-largest auto market

Eastern Europe bore the brunt of the crisis, having previously recorded steady growth in the number of vehicles sold. In 2009, sales figures plummeted by 26.6%. Russia, previously acknowledged as Europe's second-largest vehicle market, saw the number of vehicle registrations slump by a hefty 49.4%.

North American automobile market plunges to 1960s sales levels

The United States also saw a sharp decline in vehicle sales over the course of 2009, with registrations of new cars and light trucks falling by 21.2% year-on-year, down from 13.2 million units in 2008 to just 10.4 million units in 2009. With manufacturers slashing their stock levels, the decline in US vehicle production was even more pronounced than the fall in sales. In the first half of the year, car makers scaled back their output figures by up to 40%, as a result of which 2009 as a whole saw the number of vehicles produced nosedive by 34.1% compared with the previous year.

The "Cash for Clunkers" scrappage scheme targeted at used vehicles with high fuel consumption, which had been introduced by the US government for a limited period of two months midyear, provided fresh impetus in terms of consumer demand, although the benefits were relatively short-lived due to the program's limited funding. With stock levels having been cut in the first half of the year and demand gradually rising from a low base, car sales began to improve again slightly in the final months of 2009.

In contrast to the situation in North America, the South American automobile industry continued to develop well, buoyed by a significant rise in domestic demand. In Brazil, new registrations of passenger cars and light commercial vehicles stood at 3.0 million units, which corresponded to an 8.8% increase in sales compared to the previous year.

China: the world's largest auto market in 2009

The emerging markets of Asia proved a pillar of support for the global automobile industry during the crisis year of 2009. The Chinese vehicle market grew by 44.4% in 2009, with sales rising to 12.4 million units, buoyed in part by a reduction in sales tax on new cars. In 2008, sales had stood at just 8.6 million units. On this basis, the Chinese vehicle market has more than doubled over the course of the last four years, finally overtaking the US as the world's largest sales market in 2009.

After a temporary dip in demand at the beginning of the year, India's automobile market also showed dynamic growth in 2009 as a whole, expanding by 17.2% based on the number of cars sold.

In Japan, by contrast, demand for new cars was severely affected by the general economic downturn. New car registrations fell by an additional 10.9%, having already languished in 2008.

Commercial vehicle market heavily impacted by economic crisis – no signs of recovery

The fallout from the global recession and the concomitant decline in freight traffic had a severe impact on the international commercial vehicle markets in 2009, much more so than in the case of car markets. In Europe and North America production of heavy commercial vehicles plunged by 42.9% in total compared to the previous year. Indeed, it was not until the second half of the year that the downward spiral seen within the commercial vehicle industry came to a gradual halt. Order intake picked up slightly towards the end of the year, albeit from an extremely low base. As yet, however, there are no signs of a sustained recovery.

The international economic and financial crisis also wreaked havoc on the solid performance displayed by Europe's commercial vehicle market in recent years. In Germany, production figures for heavy trucks were more than halved. The segment for heavy trucks weighing in excess of six tons bore the brunt, with production plummeting by 65.7%.

In Europe as a whole, 2009 saw new truck registrations fall by 43.8% year-on-year. While Western Europe recorded a contraction of 40.2% in the number of heavy commercial vehicles sold during 2009, sales in the new EU member states of Eastern Europe came close to a standstill at times. In 2009, commercial vehicle sales in Eastern Europe fell by 63.6% compared to the previous year.

New truck registrations also continued to plunge in the United States over the course of 2009, with sales falling by 29.6% to 227,700 (323,400) units.

Ultimately, Asia was the only market to record growth in 2009, with commercial vehicle production rising by 7.0% despite the extremely weak Japanese truck market. Within this context, however, growth was driven entirely by the buoyant Chinese market. Truck production in China stood at 660,000 (550,000) units in 2009, up 20.0% on the previous year's figure.

Significant Events – Acquisitions

Stake in Chinese subsidiary Changchun ElringKlinger Ltd. rises to 88%

Within the key growth market of China, in the first half of 2009 ElringKlinger AG acquired an additional 10.0% interest in the subsidiary Changchun ElringKlinger Ltd. from the state investment company State Machinery, Electronics, Light and Textile Industry Investment Corporation, Changchun. The increase in ElringKlinger's ownership interest to now 88.0% was executed effective from June 30, 2009, following entry in the Companies Register and the conclusion of the official authorization procedure by the competent supervisory authority. The purchase price was EUR 2.2 million. Changchun ElringKlinger Ltd. had already been included within the consolidated accounts of the ElringKlinger Group. The enterprise supplies the Chinese automotive industry with cylinder-head and specialty gaskets. In addition, the portfolio includes thermal and acoustic shielding components and plastic housing modules used in engines, transmissions and exhaust tracks.

ElringKlinger AG acquires 90% stake in Ompaş A.Ş., Turkey

Effective from October 27, 2009, ElringKlinger AG acquired a 90% interest in the Turkish automotive supplier Ompaş A.Ş., based in Bursa. The former owner family will retain an interest of 10%. As a result of the acquisition, ElringKlinger AG now has its own production company in Turkey's expanding automotive market. The purchase price for the interest acquired was EUR 0.8 million, plus existing liabilities at Ompaş. Employing 45 people, the company generated sales revenue of approx. EUR 3 million in 2008; its operating margin was within the single-figure range. The core products manufactured by Ompaş are heat shields for the thermal and acoustic shielding of engines, transmissions and exhaust tracts. Among the company's customers are BMC, vehicle producer and Fiat importer Tofas as well as Ford Otosan. The new enterprise now trades under the name of ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.

Intragroup acquisition of interests

For the purpose of simplifying the Group structure, ElringKlinger AG acquired the entities ElringKlinger China, Ltd. (formerly SEVEX China Ltd.) and SEVEX Holdings, Inc. from the subsidiary ElringKlinger Abschirmtechnik (Schweiz) AG in the 2009 financial year. Subsequently, SEVEX Holdings, Inc. was merged into its subsidiary, ElringKlinger USA, Inc.

Internal Control Criteria

The financial performance indicators used at ElringKlinger AG constitute a significant basis for decision-making by the Management Board as regards governance of the Group of companies. They play an integral role in the overall evaluation of all issues to be assessed within the parent company and therefore also provide the basis for successful business performance.

The financial performance indicators are based on sales and earnings performance within the parent company. In terms of earnings, the focus is primarily on EBIT (Earnings Before Interest and Taxes) and EBT (Earnings Before Taxes). The success of individual divisions within the parent company is measured on the basis of ROCE (Return on Capital Employed). The level of tied-up capital is thus also significant in relation to investment decisions.

All performance indicators are planned, calculated and monitored for the Original Equipment, After-market and Industrial Parks segments and for the divisions within each segment.

ElringKlinger AG's control system also includes financial management. The main emphasis here is on controlling the company's liquidity, the capital structure and any market price risks that may have been identified, especially with regard to currencies, interest rates and materials costs. Credit risks are also subject to continuous monitoring. A detailed explanation of the different elements of the financial management system is contained in the "Report on Opportunities and Risks" of this management report.

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

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

Financial instruments are also only employed in the normal scope of business. They are monitored within each division and centrally. The principles governing the use of derivative financial instruments are described in the risk report under the heading "Risks associated with use of derivatives". The nature and scope of the derivative instruments held by the company as at December 31, 2009, are detailed under the heading "Derivative financial instruments" in the Notes to these financial statements.

Sales and Earnings Performance

Revenue impacted by economic crisis and sluggish auto markets

ElringKlinger AG was unable to escape the global economic slump and the associated downturn in demand for automobiles.

Against this backdrop, sales generated by ElringKlinger AG fell by 20.8% to EUR 307.1 (387.7) million in 2009. Within this context, the first quarter of 2009 in particular was dominated by an unprecedented level of downsizing on the part of automobile manufacturers, with production figures falling by up to 50%.

In response to the crisis, the initial route taken by car makers was to slash their stock levels, as a result of which demand gradually began to rise as of the middle of the year. Despite the protracted weakness of the commercial vehicle market, sales generated in the fourth quarter of 2009 were up on the same period a year ago, which, however, had been heavily affected by the crisis.

Larger share of AG revenue attributable to foreign sales

The economic and financial crisis had a detrimental effect on sales throughout the majority of regions covered by the company. The only exceptions were China, India and South America. However, these markets generate a relatively low level of direct sales for ElringKlinger AG, as the company operates local subsidiaries in these regions. Despite this, the share of sales generated by ElringKlinger AG in markets outside Germany rose to 63.7% in 2009 (60.3%).

Pressure exerted on domestic sales

In Germany, sales revenue attributable to ElringKlinger AG was EUR 111.4 (153.8) million in 2009, down 27.6% on the previous year. Within this context, far-reaching production cuts as well as the slashing of stock levels by German car manufacturers proved detrimental. The decline in sales within the commercial vehicle sector was particularly pronounced.

Original Equipment: decline in sales and earnings followed by recovery

The slump experienced by vehicle markets worldwide had a particularly severe impact on ElringKlinger AG's Original Equipment segment. Despite the recovery seen in the second half of the year, segment revenue receded by 26.0% in the year as a whole. Thus, sales in 2009 stood at EUR 219.2 (296.3) million. Correspondingly, the share of Original Equipment sales in total revenue generated by ElringKlinger AG fell to 71.4% (76.4%).

Those areas worst affected were the divisions within the Original Equipment segment with a particularly strong exposure to commercial vehicle business. Against this backdrop, the Elastomer Technology/Modules division, whose portfolio also includes cylinder-head gaskets used in commercial vehicles, had to contend with a significant decline in business.

The downturn in vehicle markets around the globe also weighed heavily on the Cylinder-Head and Specialty Gaskets divisions. Despite a steady ramp-up of production relating to newly designed cylinder-head gaskets and an expansion of supply within the area of high-temperature gaskets for turbochargers, the company was unable to offset the decline in volumes requested by customers as part of their delivery schedules. As a result, sales revenue within this area was significantly lower than in the previous year.

By contrast, the Shielding Technology division fared better in the period under review. It benefited in particular from new ramp-ups and growing customer demand in end-to-end shielding solutions for use in the engine, underbody and exhaust system.

Aftermarket business largely stable during crisis

Following considerable growth in 2008, the Spare Parts segment of ElringKlinger AG proceeded at a slightly slower pace in 2009, but nevertheless displayed a high level of stability under challenging international conditions in the wake of the economic crisis.

In particular, stricter financing conditions prompted by the economic and financial crisis had an adverse effect on customer purchasing behavior at an international level, particularly in Eastern Europe, North Africa and the Middle East.

What is more, given the uncertainties associated with the economic crisis, many vehicle owners decided to postpone major servicing and repair work to the greatest extent possible.

Due to the scrappage schemes introduced in Germany and elsewhere in Europe, the number of used vehicles with an age of nine years and over declined considerably in 2009. Consequently, demand for repair work, mechanic services and, ultimately, spare parts within this segment declined in 2009.

These adverse effects were partially offset by additional market share achieved with the Elring brand as well as an expansion of the company's product range.

In aggregate, sales revenue generated in the Aftermarket segment contracted by 4.2% to EUR 83.4 (87.1) million. The share of Aftermarket business in total sales rose to 27.1% (22.5%).

Slight upturn in rental income from Industrial Parks

Rental income generated by the industrial parks operated by ElringKlinger AG in Ludwigsburg and Idstein rose to EUR 4.5 (4.3) million in 2009. This was attributable partly to rental increases as well as a new tenancy agreement in Idstein.

Reduction in inventories of finished goods and work in progress

In response to the significant fall in production output, ElringKlinger AG scaled back its procurement volumes and inventories in the period under review. Following an increase of EUR 1.3 million in 2008, the company reduced its inventories of finished goods and work in progress by EUR 8.2 million in 2009.

Increase in work performed by the entity and capitalized

Work performed by the entity and capitalized rose by 36.3% to EUR 12.4 (9.1) million. A significant proportion was attributable to the manufacture of tools needed for new projects.

Cost streamlining helps lower AG's profit threshold

In response to what is widely considered the most severe slump to have hit the automobile market in recent decades, ElringKlinger AG initiated an extensive cost-reduction program as early as fall 2008. This was targeted at general expenses and staff costs as well as measures aimed at raising the efficiency of production processes. The thus resulting savings had an increasingly positive effect on the company's earnings performance over the course of 2009, as did savings relating to the cost of materials.

Bottom-line result benefits from commodity price hedging

Despite settlement payments for commodity price hedging in 2009, ElringKlinger AG was able to cut its cost of materials by 23.1%, i. e. at a more pronounced rate than the decline in sales.

Settlement payments associated with derivative hedging instruments for alloy surcharges (nickel) put an additional EUR 9.6 million onto the cost of materials in 2009. ElringKlinger AG deployed derivative instruments for the purpose of hedging the price of commodities in the medium term, with a particular emphasis on nickel-related alloy surcharges. Within this context, the objective was to restrict the significant fluctuations seen within the area of purchasing prices. Some of the hedging instruments will remain in place up to April 2010.

At the same time, in view of the general trend towards higher nickel prices since the end of the first quarter of 2009 and the concomitant changes to the fair value of commodity-related derivatives as well as the significantly reduced volumes hedged, ElringKlinger was able to reverse in part the provisions previously recognized by the company. This reversal resulted in other operating income of EUR 13.2 million in 2009.



With the prospect of nickel alloy surcharges remaining at an acceptable level in the medium term – making purchase price hedging superfluous – ElringKlinger AG disposed of the majority of its hedging contracts in the third quarter of 2009. The reduction in settlement payments achieved as a result of this decision had a sustained positive impact on the cost-of-materials ratio.

The net result of the reduction of provisions on the one hand and the settlement payments on the other was a positive contribution of EUR 3.6 million to income from ordinary operations. In 2008 the recognition of a provision for the negative fair values of commodities-related hedging transactions had adversely affected earnings by EUR 15.9 million.

As early as the fourth quarter of 2008, ElringKlinger AG began focusing on streamlining its purchasing volumes for the purpose of optimizing the company's working capital.

In the first half of the year, the company was unable to benefit fully from the general decline in commodity prices witnessed since the beginning of the crisis. The majority of the material processed during this period came from existing inventories, which had been purchased a year earlier at higher prices. Furthermore, prices for some of the raw materials sourced by ElringKlinger AG were trending slightly higher from the spring of 2009 onward, but nevertheless remained at an acceptable level based on long-term comparisons.

Due mainly to the effects outlined above, the cost of materials at ElringKlinger AG fell by 23.1% to EUR 139.7 (181.6) million in 2009. Material expense as a percentage of sales revenue declined from 46.8% to 45.5%, benefiting in particular from inventory downsizing in 2009. Taking into consideration these changes in inventories (materials expense less inventory changes in relation to sales), the ratio would have increased from 46.5% to 48.2%.

Higher personnel expense ratio

In view of the crisis, together with significantly lower capacity utilization, ElringKlinger AG made appropriate adjustments aimed at scaling back staff costs. In particular, the termination of temporary employment contracts as well as the introduction of short-time work for large parts of the workforce as from February 1, 2009, had a positive impact on cost structures. Additionally, the company took advantage of the option it had to postpone the 2.1% collective wage increase from May to December 2009. Furthermore, the performance bonus usually paid in recognition of business growth was no longer applicable in the year under review.

Thanks to these measures, the company managed to secure jobs for its core workforce. The scale of short-time work was gradually reduced from September 2009 onward. In aggregate, personnel expenses were scaled back by EUR 10.7 million to EUR 84.3 (95.0) million. However, as the reduction in personnel expenses was less pronounced than the decline in sales, the personnel expense ratio, i. e. personnel expense as a percentage of sales, of ElringKlinger AG rose to 27.5% (24.5%) in 2009.

Depreciation and amortization remain largely unchanged

As was the case in the two previous financial years, ElringKlinger AG maintained a high level of investment during the crisis year of 2009 – focusing in particular on streamlining measures and preparations for future product rollouts – as a result of which amortization and depreciation of intangible fixed assets and tangible fixed assets totaled EUR 37.5 (38.3) million, just slightly down on last year's figure.

Within this context, it should be noted that depreciation/amortization includes write-downs of EUR 1.7 (4.7) million relating to exceptional items. These were attributable to the optional transfer of non-taxable reserves and are to be viewed mainly in connection with insurance reimbursements for the fire at the company's Runkel facility in 2007.

Slight fall in other operating income

Despite the contribution from the partial reversal of provisions for commodity price hedging amounting to EUR 13.2 (0.0) million, other operating income for 2009 receded by EUR 3.5 million in total to EUR 30.7 (34.2) million.

The year-on-year decline is attributable chiefly to reduced income from the sale of machinery (EUR -6.4 million), lower gains from foreign currency translation (EUR -3.4 million) and a fall in income from the reversal of the special tax-allowable reserve (EUR -2.5 million). The gains from financial instruments relate mainly to loans granted to subsidiaries.

Additionally, ElringKlinger AG received subsidies of EUR 2.7 (1.2) million from state-funded development programs for new R&D projects, which are also included in other operating income.

Other operating expenses down 42%

Compared to the previous year, other operating expenses fell by 42.1% in 2009, totaling just EUR 47.4 (81.9) million.

Within this context, it should be noted that the figure for 2008 had included provisions of EUR 15.9 million for the negative fair values of commodities-related hedging transactions.

Additionally, the company managed to scale back foreign currency losses by EUR 7.6 million year-on-year, which were attributable mainly to loans granted to subsidiaries.

Cost streamlining implemented in 2009 within the area of outsourced services, external maintenance contracts as well as administrative and travel expenses had a positive impact and led to a reduction in other operating expenses.

Furthermore, expenses associated with the sale of machinery as well as losses incurred from the disposal of non-current assets were lower than in the previous financial year.

Income from affiliated companies buoyed by higher distributions from subsidiaries

Against the backdrop of a significant decline in sales revenue at some of the company's subsidiaries in 2009 as a result of the crisis, the company was able to achieve considerable savings thanks to the rapid execution of targeted restructuring measures. This helped to secure earnings performance, as well as providing a basis for the distribution of prior-year profits by some of the subsidiaries. As a result, ElringKlinger AG recorded an increase in income from affiliated companies by EUR 2.9 million, taking the figure to EUR 5.8 (2.9) million.

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

Due to the downturn in sales and earnings as a result of the prevailing economic and sector-specific crisis, ElringKlinger AG performed write-downs of investment carrying amounts relating to the subsidiaries Elring Klinger (Great Britain) Ltd, Redcar, United Kingdom, ElringKlinger Korea Co., Ltd., Changwon, South Korea, and Elring Gaskets (Pty) Ltd., Johannesburg, South Africa. By contrast, the carrying amount relating to ElringKlinger North America, Inc., Plymouth, Michigan, was increased in the period under review. In aggregate, i. e. accounting for the above-mentioned write-up, write-downs of investment carrying amounts stood at EUR 6.7 million.

By contrast, the previous year's figure had included a write-down of EUR 8.0 million relating to Elring Klinger México, S.A. de C.V., Toluca, Mexico. Despite the above-mentioned write-downs, the company managed to improve its income from affiliated companies by EUR 4.2 million in 2009, taking the total to EUR -0.9 (-5.1) million.

Net interest result largely unchanged year-on-year

Affected mainly by an increase in interest expense to EUR 9.5 (7.9) million, the company's net interest result deteriorated in 2009. The year-on-year rise in interest expense was attributable to the extension of loans attributable to medium- to long-term financing agreements. In parallel, financing in connection with the acquisition of the former SEVEX Group was included for the full twelve-month period in 2009, whereas the accounts for 2008 had included a pro-rata amount in respect of a shorter period of just nine months.

Currency-related write-downs of EUR 0.2 (1.6) million in connection with loans to subsidiary companies had an adverse effect on the net interest result. In total, net interest result remained largely unchanged year-on-year at EUR -7.0 (-6.8) million.

Income from ordinary activities up on last year's figure

Benefiting from the rapid execution of cost-reduction measures, ElringKlinger AG managed to keep its result from ordinary activities well within positive territory over the course of the year, despite having been impacted heavily by production downsizing on the part of customers, particularly in the first half of 2009. During the remainder of the year, a market-induced rise in customer demand together with the gradual effects of cost streamlining helped to lift ElringKlinger AG's sales and earnings performance. Furthermore, the above-mentioned partial reversal of provisions in connection with hedging of nickel alloy surcharges had a positive impact, as did the gradual improvement in the company's material expense as a percentage of sales over the course of the year.

In aggregate, income from ordinary activities rose by EUR 1.6 million compared to the previous year and stood at EUR 25.2 (23.6) million at the end of the reporting period. Within this context, it should be noted that last year's income from ordinary activities had been adversely affected by the recognition of provisions of EUR 15.9 million for commodity-related hedging transactions.

Lower tax expense due to exceptional items

Income taxes fell by EUR 8.3 million to EUR 4.1 million in 2009. The significant reduction in tax expense for 2009 was attributable largely to the partial reversal of provisions recognized in 2008 in consideration of contingent losses associated with commodity price hedging for alloy surcharges. The provision was not deductible for tax purposes upon recognition in 2008. Correspondingly, this had a positive effect on the figure for 2009.

Similarly, the write-downs of EUR 6.7 (8.0) million relating to the carrying amounts of investments in subsidiaries were not tax deductible. The higher dividend income from subsidiaries is not taxable.

In aggregate, income taxes totaled EUR 4.1 million, whereas last year's tax expense was EUR 12.4 million. Thus, the tax rate (income taxes in relation to income from ordinary activities) stood at just 16.2% (52.7%) in 2009.

Net income rises to EUR 21 million

Due to the significant decline in income tax expense, net income generated by ElringKlinger AG in 2009 rose at a much more pronounced rate than income from ordinary activities, surging by 91.8%, or EUR 10.1 million, to EUR 21.1 (11.0) million.

Income exceeds earnings outlook

In its management report accompanying the annual financial statements for 2008, ElringKlinger AG outlined – as part of its sales and earnings outlook – the significant risks associated with forecasting as a direct result of extremely hazardous market conditions during the economic and financial crisis. For this reason, the company looked at three separate scenarios as part of its forecast.

In the case of sales revenue, the company only managed to perform within the lower range of the middle scenario, which had anticipated a decline in revenues by up to 20%.

As regards income from ordinary activities, by contrast, ElringKlinger AG performed slightly better than the original best-case scenario, which had been to match the previous year's result. Within this context, however, one must take into account the one-off benefits associated with the net positive effect from a reduction in provisions for commodity price hedging and settlement payments.

Dividend to rise

After allocation of EUR 9.6 (2.3) million to other revenue reserves, net retained earnings, i. e. distributable profit, for ElringKlinger AG amounted to EUR 11.5 (8.6) million. With the consent of the Supervisory Board, the Management Board will propose to the Annual General Meeting a higher dividend of EUR 0.20 (0.15) per share for the 2009 financial year.

Net Assets

Despite the severe and protracted crisis to have engulfed the automobile industry, ElringKlinger AG's financial position remained very solid as at December 31, 2009.

At the end of the reporting period, total assets had contracted by 4.1% to EUR 553.9 (577.8) million, mainly as a result of the cutbacks in inventories performed during the first half of 2009 and the reduction of receivables.

Investments directed at property, plant and equipment in 2009 – despite the crisis – exceeded depreciation and write-downs of non-current assets, as a result of which tangible fixed assets of ElringKlinger AG rose by 1.9% to EUR 179.4 (176.1) million as at December 31, 2009.

Intangible fixed assets totaled EUR 1.1 (1.4) million as at December 31, 2009, accounting for just 0.2% of total assets.

The carrying amount of financial assets rose by EUR 14.0 million to EUR 239.3 (225.3) million. The year-on-year increase within this area was driven by the expansion of the company's interest in the subsidiary Changchun ElringKlinger Ltd. and the additional purchase of 90% of the ownership interest in the Turkish automotive supplier Ompaş A. Ş. Other contributing factors were the intragroup acquisition of a 100% interest in the two subsidiaries of ElringKlinger Abschirmtechnik (Schweiz) AG (formerly SEVEX AG) – i. e. ElringKlinger China, Ltd. (formerly SEVEX China Ltd.) and ElringKlinger USA, Inc. (formerly SEVEX USA Inc.) – by ElringKlinger AG as well as measures by affiliated companies to raise capital levels. By contrast, write-downs of investment carrying amounts stood at EUR 6.7 (8.0) million.

In total, non-current assets rose by EUR 16.9 million to EUR 419.8 (402.9) million. As at December 31, 2009, non-current assets accounted for 75.8% of total assets, up from 69.7% in the previous year.

Less capital tied up by inventories and receivables

Over the course of 2009, ElringKlinger AG continued – with visible success – to scale back procurement volumes and inventories, thus following up on measures initiated as early as the fourth quarter of 2008 in response to the severe downturn in automobile markets.

Compared to December 31, 2008, capital allocated to inventories was reduced by EUR 18.1 million in total to EUR 49.0 (67.1) million. At EUR 13.3 (19.6) million, raw materials, consumables and supplies were down EUR 6.3 million on last year's figure. Work in progress was scaled back by EUR 0.1 million as at December 31, 2009, while finished goods and merchandise was reduced by EUR 11.8 million year-on-year. Although working capital increased, as anticipated, in the fourth quarter following more expansive production, inventories accounted for just 8.8% (11.6%) of total assets as at December 31, 2009.

Receivables and other assets were scaled back by EUR 22.0 million in total to EUR 84.6 (106.6) million.

As a result of higher production volumes in the second half of 2009, as outlined above, the company recorded a slight increase in trade receivables in 2009 as a whole, up EUR 1.9 million year-on-year. By contrast, receivables from affiliated companies fell by EUR 17.9 million compared to December 31, 2008, mainly as a result of loan repayments to ElringKlinger AG.

Cash in hand, bank balances and checks totaled EUR 0.3 (1.1) million at the end of the reporting period.

In aggregate, current assets accounted for just 24.2% (30.3%) of total assets, which was significantly lower than the figure posted at December 31, 2008.

AG equity ratio rises beyond 40%

At EUR 8.6 (26.9) million, the dividend paid in 2009 for the 2008 financial year was EUR 18.3 million lower than in the previous year. At the same time, the allocation of EUR 9.6 (2.3) million to revenue reserves for 2009 was significantly higher compared to last year. Thus, as at December 31, 2009, revenue reserves stood at EUR 161.5 (151.9) million.

In total, ElringKlinger AG's equity rose by EUR 12.4 million year-on-year to EUR 233.3 (220.9) million at the end of the reporting period. Having fallen to 38.2% in the previous financial year as a result of acquisitions financed mainly with external funds, the equity ratio edged up beyond the target of 40% as at December 31, 2009, to 42.1%. The return on equity (income from ordinary activities in relation to average equity of the AG) improved to 11.1% (10.3%).

Total provisions fell by EUR 9.9 million. As at December 31, 2009, they stood at EUR 63.8 (73.7) million. The year-on-year decline was attributable largely to the reduction in other provisions by EUR 12.3 million to EUR 21.4 (33.7) million. This, in turn, was due mainly to the favorable development of the fair values of commodity-related derivatives.

By contrast, warranty provisions rose in the period under review, as did provisions for contingent losses relating to order backlog. The latter was attributable in particular to higher order backlog at December 31, 2009, and products with lower contribution margins included within this backlog.

Due to an increase in benefit rights for entitled staff, pension provisions had to be expanded by EUR 0.4 million to EUR 38.7 (38.3) million as at December 31, 2009. Provisions for taxes also rose by EUR 2.1 million. As at December 31, 2009, the carrying amount of tax provisions was EUR 3.8 (1.7) million.

In aggregate, the share of provisions in total equity and liabilities fell to 11.5%, down from 12.8% in the previous year.

ElringKlinger AG succeeded in scaling back its bank borrowings by EUR 39.1 million to EUR 195.9 (235.0) million in 2009, thus reducing the significant level of borrowings seen in 2008 as a result of acquisitions and an above-average level of investment in property, plant and equipment.

Financial liabilities within the maturity class of one to five years increased as a result of restructuring of short-term bank borrowings into loans with longer contractual maturities. Within the context of their remaining terms, long-term financial liabilities fell by EUR 32.6 million in total compared to December 31, 2008. In addition, ElringKlinger AG reduced its short-term financial liabilities by EUR 45.4 million compared to December 31, 2008.

In response to extremely sluggish demand, particularly during the first half of 2009, the company focused on reining back its purchasing volumes in the period under review. Despite an increase in production volumes in the second half of the year, the year-on-year rise in trade payables as at December 31, 2009, was EUR 0.9 million.

In aggregate, ElringKlinger AG scaled back its liabilities by EUR 25.1 million to EUR 256.5 (281.5) million in the period under review. Thus, liabilities accounted for 46.3% of total equity and liabilities, down from 48.7% in the previous year.

Reduction in net debt

Despite its dividend payment of EUR 8.6 million, ElringKlinger AG managed to reduce net debt (financial liabilities less cash) considerably in 2009 by taking advantage of its cash flow. Compared with December 31, 2008, the parent company scaled back net debt by EUR 38.2 million to EUR 195.6 (233.8) million.

Cash Flows

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

Cash flow from operating activities reaches EUR 88 million

In 2009, ElringKlinger AG recorded a significant increase in cash flow from operating activities, which rose to EUR 87.8 (52.7) million.

Within this context, the figure of EUR 10.1 million in net income generated in 2009 had a positive impact on cash flow. Cash flow from operating activities also benefited from depreciation/amortization and write-downs of intangible assets, property, plant and equipment, tools and financial assets (less reversals of write-downs) amounting to EUR 44.2 (46.3) million.

Whereas provisions had increased by EUR 1.6 million in total in 2008, the company recorded reversals and use respectively of provisions totaling EUR 9.9 million in 2009, mainly due to the development of fair values associated with commodity-related hedging transactions aimed at counteracting fluctuations in alloy surcharges for nickel as well as the progression of hedging quantities.

However, more extensive working capital management in response to the crisis proved to be the key factor contributing to positive cash flow from operating activities in the period under review. ElringKlinger AG took the active decision as early as the fourth quarter of 2008 to adjust its procurement volumes in line with falling demand and to scale back its inventories. Although revenues increased markedly in the second half of 2009, the company managed to scale back the amount of capital tied up in inventories by EUR 18.1 (0.9) million.

As production volumes began to expand in the fourth quarter of 2009, trade receivables, trade receivables due from affiliated companies as well as trade receivables from other long-term investees rose by EUR 4.2 million in total. By contrast, this figure had contracted by EUR 1.4 million in the preceding financial year.

Due to income tax reimbursements, other assets decreased by EUR 5.8 (-0.03) million, which had a positive effect on cash flow from operating activities.

Other liabilities came in higher because of higher partial payments received for tooling. The second half of the year saw a rise in the volumes requested by customers as part of their production scheduling, and thus the purchasing quantities of raw materials trended higher. Among other factors, this led to an increase in trade payables. In total, liabilities (excluding bank borrowings) rose by EUR 14.0 (-4.1) million in 2009. In contrast to the previous financial year, cash flow from operating activities increased as a result of these factors.

In aggregate, ElringKlinger AG generated net cash of EUR 87.8 (52.7) million from operating activities, up 66.6% on last year's figure. The cash return (cash flow from operating activities in relation to sales) thus stood at 28.6% (13.6%).

Decline in cash flow from investing activities – capital expenditure on property, plant and equipment unchanged

In 2009, investment spending by ElringKlinger AG was focused on streamlining measures and equipment for ramp-ups that had already been planned by the company.

Capital expenditure on intangible assets was slightly down compared with the previous year, at EUR 0.5 (0.7) million, and was directed primarily at the purchase of software licenses.

The outflow of cash for buildings and land, machinery, equipment and tools totaled EUR 42.5 (60.3) million, down on last year's figure. Compared to the long-term averages, the investment ratio – capital expenditure on property, plant and equipment as well as intangible assets in relation to sales – remained at an above-average 14.0% (15.7%).

ElringKlinger AG purchased land for EUR 2.0 million at the site of its headquarters in Dettingen/Erms, for the planned extension of its production premises and the expansion of New Business Areas.

The parent company invested a total of EUR 3.8 million in existing buildings, the emphasis being on refurbishment measures and additional testing and laboratory facilities for the company's R&D unit. At the end of 2009, construction work commenced for a new logistics center at the company's site in Dettingen.

Within the area of Cylinder-head Gaskets no expansion investments were needed at parent company sites in 2009. Purchases were limited to equipment needed for newly launched projects or for the purpose of achieving efficiency gains.

The Specialty Gaskets division expanded its expertise within the area of exhaust technology and invested in a new, fully automated production system for the manufacture of gaskets used in turbochargers.

Following the fire at the Runkel facility in 2007, the company started construction work on a new building that will in future operate as a hub for the provision of tools. At present, tools are housed in rented storage facilities outside the company premises. In 2009, ElringKlinger AG purchased additional machinery for the production of transmission control components used in modern automatic transmission systems.

The Shielding Technology division saw the introduction of an additional full-scale production line for the manufacture of thermal and acoustic shielding components as well as a milling center.

Focusing on the start of production of new plastic housing modules, the Elastomer Technology/Modules division invested in a new production line as well as in an automated production cell in 2009.

As regards New Business Areas, ElringKlinger AG channeled investments into additional partially automated SOFC fuel cell stack production. The company also introduced the required test stand technology for the measurement of fuel cell stack performance and efficiency. Among the other purchases were laboratory equipment and testing systems needed in connection with the production of prototypes and small-scale batches within the area of battery technology, particularly with regard to components for lithium-ion batteries.

Driven by sizeable acquisitions, investments in affiliated companies and joint ventures rose to EUR 79.5 million last year. In 2009, by contrast, this figure stood at just EUR 21.8 million.

In total, net cash used in investing activities contracted from EUR 140.9 million to EUR 65.3 million.

On this basis, ElringKlinger AG had an operating free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for net investments in financial assets) of EUR 47.6 (-7.2) million in 2009.

Cash flow from financing activities

Net cash used in financing activities amounted to EUR 23.3 million in 2009. This stands in contrast to net cash from financing activities of EUR 89.2 million last year.

Cash flow from financing activities benefited in particular from the lower dividend payment in 2009, amounting to just EUR 8.6 (26.9) million.

Whereas bank borrowings had increased by EUR 136.9 million in 2008 as a result of externally financed acquisitions, ElringKlinger AG managed to reduce its bank loans by a net amount of EUR 39.1 million in 2009.

As regards cash flow from financing activities, ElringKlinger AG also benefited from loan repayments by subsidiaries as well as proceeds from time deposits, which amounted to EUR 24.4 million in total. By contrast, loans granted to subsidiaries in 2008 had totaled EUR 20.8 million.

As at December 31, 2009, cash and cash equivalents amounted to EUR 0.3 (1.1) million.

Procurement

Global procurement for the companies within the ElringKlinger Group was again managed largely by the Central Purchasing department of ElringKlinger AG, based in Dettingen/Erms, Germany.

The principal challenge, particularly in the first half of 2009, was centered around adjusting material flow to requirements against the backdrop of a sudden slump in vehicle production, compounded by a reduction in the number of parts requested by customers as part of their production scheduling.

Significant reduction in purchasing volumes

The severe reduction in the number of components requested by customers as part of their production scheduling in the fourth quarter of 2008 and the first quarter of 2009 prompted a cut in unit output by up to 45% in some of the company's divisions. This, in turn, necessitated a rapid adjustment to purchasing volumes and inventory management. Effective from the fourth quarter of 2008, purchasing volumes were realigned with market requirements and scaled down significantly. Inventories were reduced further over the course of the first six months of 2009. From mid-2009 onwards, the company raised its procurement volumes slightly in response to more expansive customer scheduling. Thanks to well-judged planning and a policy of maintaining long-term supplier relations, the compa-



ny managed to combat shortages experienced in some supply-side markets towards the end of the year with regard to specialist materials. Owing to the close working relationship with suppliers in a year dominated by extreme volatility, the company managed to avoid protracted periods of excess inventories and funds tied up in working capital, as well as safeguarding an appropriate level of material flow for its operations.

ElringKlinger AG's overall purchasing volume, which encompasses externally sourced raw materials, consumables and supplies as well as merchandise for the company's aftermarket business, in addition to investments in land, property, plant and equipment, and real estate, contracted by 33.8% to EUR 168.8 (254.8) million, i. e. at a slightly higher rate than the decline in sales.

Turnaround for commodity prices

Compared to the previous year, the market saw a reduction in the average prices for key raw materials used by ElringKlinger AG, which include C steel, high-grade steel and associated alloys as well as aluminum, polymer granules and rubber. This was mainly due to the fact that prices had reached a very high level in 2008. In parallel, the severe downturn in demand for these commodities in the wake of the general economic crisis and thus resulting excess capacities within the supply markets exerted downward pressure on prices. In order to rein back costs and maintain efficient logistics within the international production network operated by the ElringKlinger Group, the company increasingly focused on awarding contracts to regional suppliers. This approach also helped to address the issue of potential currency risks. To a large extent, raw materials are procured in the same currency area as the sales market served by the company with products from which the materials are made.

The company managed to secure more favorable prices by pooling its requirements even further, thereby cushioning pricing pressure exerted by customers. Within this context, for instance, aluminum volumes required by ElringKlinger AG were added to those of ElringKlinger Abschirmtechnik (Schweiz) AG, an enterprise acquired the year before.

ElringKlinger AG was only able to take limited advantage of declining commodity prices in the first half of 2009, as the majority of material processed during this period came from existing inventories.

Although market prices for commodities trended lower at times, it was only just possible to match the computed prices for materials in the company's sales prices.

In the case of some of the raw materials and alloys sourced by ElringKlinger, prices have already increased visibly since their annual lows in the spring of 2009. Looking back over an extended period of time, however, the majority of commodity prices of relevance to the Group remained at an acceptable level.

Energy prices continue to rise

ElringKlinger AG's energy consumption fell by approx. 18.0% in 2009, mainly due to the significant decline in production volumes, but also as a result of optimization measures and savings with regard to production processes. In spite of the fact that energy prices rose by 15.0% on average compared to the previous year, overall energy costs were thus scaled back by around 11% in 2009.

In 2009, ElringKlinger AG concluded long-term supply agreements for most of its electricity requirements. These agreements will remain valid up to and including 2011, allowing the company to mitigate the risk of further increases in electricity prices.

Expansion of supplier structures with a focus on Asia

As part of continuing efforts over the course of 2009 to expand capacity levels at the Asian sites operated by the ElringKlinger Group, the Central Purchasing department of ElringKlinger AG assessed additional suppliers in this region and performed audits in accordance with international ISO standards as well as its own highly demanding quality and environmental guidelines.

In implementing these measures, the company paved the way for local sourcing activities and cost streamlining with regard to logistics, as well as opening up new opportunities for other Group companies to take advantage of more cost-effective supply-side arrangements. For this purpose, the Central Purchasing department of ElringKlinger AG again regularly conducted extensive global quality and cost benchmark analyses over the course of 2009.

Working in close collaboration with Quality Management, the Central Purchasing department also enhanced the supplier structures of ElringKlinger companies in China during 2009 and qualified several Chinese suppliers as part of this project. Furthermore, procurement was extended to include other countries in Asia. For the first time, for instance, the company established links with a component supplier in Vietnam and audited the company on the basis of ISO standards.

Due to the larger quantities of serial parts produced at the company site in Ranjangaon, India, the company is also having to select and develop local suppliers in India. Auditing of these suppliers has yet to take place.

Additionally, the Central Purchasing department of ElringKlinger AG established links with new suppliers to cover the material requirements of the Elastomer/Modules division, which produces an extensive number of polyamide-based plastic housing modules. Working in cooperation with a business partner specializing in plastics, ElringKlinger AG has now commenced testing of special recycled intermediate plastic products. In future, these recycled materials are to be used as admixtures.

Environmental, Quality and Occupational Safety Management

Company-wide quality and environmental measures

As an automotive supplier operating within the global arena, ElringKlinger AG remained committed throughout 2009 not only to the principles of quality management but also to the idea of sustainability in the way business is conducted. The three production sites operated by ElringKlinger AG are governed by the Group's quality management system and certified in accordance with the automotive industry standard TS 16949 as well as ISO 9001. As required on a regular basis, the Quality Management unit conducted follow-up audits at all sites during 2009. All entities received three-year extensions with regard to the quality certifications.

Additionally, Quality Management, which is directly connected with Environmental and Occupational Safety Management, expanded its Web-based process architecture. With standards that are applied uniformly throughout, the company is in a position to guarantee high product quality on a consistent basis.

Building on its clearly defined objective of zero-defect quality in all of its processes, ElringKlinger AG succeeded in maintaining its customer satisfaction figures at a very solid level in 2009.

In order to ensure that manufacturing methods are as environmentally-friendly and resource-efficient as possible, all sites operated by ElringKlinger AG are also certified in accordance with the ISO 14001 environmental standard. The extension of the company's environmental certification, which was again due in 2009, was successfully completed without exception.

Additionally, the three production sites of ElringKlinger AG were assessed with regard to the environmental compatibility of all their processes as well as the efficient use of resources and consumables. For this purpose, the company established an extensive system of key environmental indicators, which has now become an essential element within the integrated management system applied at Group level. The environmental indicators determined as part of this process are assessed in relation to other sites and refined on a regular basis. Where required, Quality and Environmental Management immediately initiates appropriate measures aimed at rectifying any shortcomings identified by the system.

Drawing on a comprehensive product portfolio that is designed to scale back fuel consumption, reduce emissions and facilitate the fast-track development of alternative drive systems for automobiles, ElringKlinger AG has been making a direct contribution to climate protection. The key component of the company's business model in 2009 was the development of new products capable of contributing both directly and indirectly to climate protection. The focus was on the introduction of new products aimed at helping customers within the automotive industry to meet demanding targets with regard to CO₂ reduction as well as strict Euro standards.

Investments in energy efficiency

Over the course of 2009, ElringKlinger AG again channeled considerable investments into the modernization of machinery, the emphasis being on more efficient and environmentally-friendly manufacturing methods. When it comes to buying new machines and equipment, improved energy efficiency is one of the primary requirements guiding any investment decision. In pursuing this approach, ElringKlinger AG is able to make a contribution to climate protection, as well as improving the cost structures associated with its production processes.

The new buildings constructed in 2009 as well as the refurbishments performed by the company during this period were governed to a significant degree by the aspect of optimum energy utilization. A case in point is the new gas cogeneration system planned in 2009 at the company's site in Dettingen/Erms, which is capable of supplying electricity and heat to both the production facility and administrative building with high efficiency levels. It is scheduled to commence operation in 2010. All investment decisions are made on the basis of potential energy efficiency, the use of renewable energies and environmental compatibility.

Occupational safety management and staff qualification

In order to ensure the highest possible level of safety in the workplace and make appropriate refinements within this area, all sites operated by ElringKlinger AG underwent an audit in 2009 with regard to the occupational safety system. Additionally, extensive training courses were carried out with the express purpose of advising staff on the operation of machinery and the handling of hazardous substances.

These were preventative measures aimed at encouraging staff to act even more responsibly and reduce even further the number of work-related accidents, which are already at a low level. The successful implementation of the company's occupational safety programs as well as the corporate guidelines "Quality and Environmental Policy" and "Occupational Safety Policy" led to a visible reduction in work-related incidents, which, encouragingly, fell by a further 37.2% year-on-year.

The company used the periods of short-time work for the purpose of providing staff training as part of a program specially created by the central HR Development unit. Alongside group workshops focusing on team work, the program included quality-specific measures, language courses, computer training and seminars centered around the topic of project management.

Research and Development – Embracing Innovation during the Crisis

Against the backdrop of difficult market conditions in 2009, ElringKlinger AG established a solid foundation for its future position within the competitive arena by maintaining an extensive level of funding for its development activities.

The automotive industry was, and continues to be, at a crossroads, the emphasis being on contributing a wide range of solutions that combine environmentally-friendly technology with cost-effective operations, particularly within the area of propulsion systems. The 2009 financial year saw a further rise in the demands placed by car makers on their suppliers in terms of the ability to drive innovation and thus also with regard to financial strength.

ElringKlinger AG has identified a growing interest among manufacturers to establish closer ties with those long-term development partners within the automotive supply sector who are capable of developing and implementing highly sophisticated technological solutions, particularly in the area of CO₂ reduction. Increasingly, innovative suppliers are seen as sources of inspiration.

As one of the few global automotive suppliers, ElringKlinger AG has developed expertise not only with regard to the internal combustion engine and its optimization but also in the field of fuel cell technology and, more recently, battery components. Drawing on an extensive portfolio of technical solutions and products, the company is in a position to make a major contribution to the industry and generate sufficient revenue irrespective of the future route taken by manufacturers in the field of powertrain development.

The emphasis placed on development is reflected in the company's R&D ratio. In 2009, ElringKlinger AG invested 10.2% (8.5%) of sales revenue in research and development, thus significantly outpacing the industry average.

Research and development expenses incurred by ElringKlinger AG totaled EUR 31.4 (33.1) million, which in absolute terms was just slightly down on last year's figure. The marginal decline was attributable chiefly to a reduction in used materials and parts and lower expenses relating to tooling within the area of research and development.

Research and development activities continued to be focused to a large extent at the parent company's sites in Germany. In pursuing this approach, the company is better placed to protect its technological expertise and intellectual property. The centers of excellence established by ElringKlinger provide the majority of R&D services for the entire Group.

At as December 31, 2009, ElringKlinger AG employed 235 (244) staff members in the area of research and development.

Focusing on CO₂ reduction and downsizing

Alongside lower fuel consumption, one of the key objectives defined within the area of vehicle and engine design is emission reduction. In view of ever stricter emission standards, as illustrated by the limit of 130 grams in CO₂ emissions per kilometer to be achieved by the fleet average as from 2012 as well as the Euro 6 standard that comes into force in 2014, engine technology is having to become increasingly sophisticated. The same applies to the components supplied by ElringKlinger AG.

The efficiency levels associated with downsized engines have improved continuously. At the same time, however, the peak temperatures and pressure levels recorded within the combustion chamber have risen considerably. As a result, the industry has seen increasing demand for new product concepts.

Host of new designs for cylinder-head and specialty gaskets

The Cylinder-head Gaskets division is focusing more and more on so-called “downsizing concepts” within the area of engine development. Increasingly, vehicle manufacturers are introducing smaller and more efficient turbo-charged petrol engines equipped with direct injection systems. This technology places enormous demands on gasket performance.

In response, ElringKlinger AG came up with several new cylinder-head gasket designs in the period under review. Within this context, the company developed additional support elements with embossed stoppers positioned on the combustion chamber side as well as the rear area of the gasket, the purpose being to meet the requirements of new engine technology with regard to higher peak pressures and elevated temperatures.

Thanks to an enhanced elastomer coating material, it was possible to further increase the performance and durability of the sealing system under these extreme conditions.

Development work within the Specialty Gaskets division was focused on new sealing systems tailored to the requires of turbocharger applications, which are becoming increasingly popular within the industry.

ElringKlinger AG has established itself as one of the key suppliers within this area in recent years. The emphasis within this field was on the gasket geometry and development of new particularly heat-resistant alloys for turbocharger gaskets. The company also made significant progress in the area of process technology, the focus being on the production of turbocharger sealing rings capable of withstanding high temperatures; these processes will replace the stamping and bending technique formerly applied within this area.

Car SCR adapter module for nitrogen oxide reduction

In the period under review, an adapter module for an SCR (Selective Catalytic Reduction) injection system to be used in passenger vehicles for the purpose of exhaust cleaning was developed to SOP level. This new product was developed in response to the introduction of the Euro 6 standard in 2014, which requires a further reduction of nitrogen oxide emissions. The ElringKlinger-developed adapter flange module facilitates optimum processing of the injected urea solution, which neutralizes the nitrogen oxides into nitrogen and water. Within this area, the company has benefited in particular from existing expertise with regard to nitrogen oxide reduction in truck exhaust tracts. This facilitated rapid development of the new component.

Within the area of transmissions, the company developed new transmission control plate system applications for automatic transmissions.

Shielding technology with optimized temperature management

Temperature management is becoming an increasingly complex issue in modern vehicle engineering. Due to the restricted space available for component installation, together with the trend towards engine encapsulation, the reduced flow of cooling air as well as the deployment of catalytic converter technology and turbochargers, the engine compartment, vehicle underbody and exhaust system are

being exposed to ever increasing temperatures. At the same time, vehicles are being fitted with a growing number of highly temperature-sensitive components that have to be protected against heat. Having successfully integrated the former SEVEX Group (now ElringKlinger Abschirmtechnik (Schweiz) AG), ElringKlinger is acknowledged as one of the few global automotive companies capable of supplying all-embracing shielding packages for vehicles.

In 2009, the Shielding Technology division developed several heat and acoustic shielding solutions using various technologies. Among the new products are heat shields for brake sensors as well as turbocharger shielding components.

Using multilayer composite materials, the division was able to make significant progress with regard to the performance of its shielding components, as well as achieving a further reduction in weight.

The main focus of development work within the area of shielding technology is on combined systems capable of providing protection against extreme temperatures as well as absorbing vibrational noise. Working in collaboration with a European automobile manufacturer, the company designed a multi-functional shielding component featuring an integrated exhaust manifold gasket for thermal and acoustic shielding. By reducing thermal losses, it facilitates faster catalytic activation, which in turn provides tangible benefits in terms of HC and NO_x exhaust emissions. In helping the engine reach its optimum operating temperature much faster, the shielding system is capable of making a noticeable contribution when it comes to reducing fuel consumption.

Efforts made by vehicle manufacturers to improve thermal management within the engine compartment also provided fresh impetus to development activities in the field of shielding technology. The idea behind this approach is to encapsulate the engine in such a way as to reduce the scale at which the engine cools down when a vehicle is stationary or parking. Targeted thermal storage helps to improve emission and fuel consumption levels, particularly with regard to cold starts and initial acceleration. Within this area, the Shielding Technology division has been working on solutions aimed at thermal encapsulation and shielding of the engine compartment.

The field of battery technology also offers interesting opportunities for shielding technology. Temperature management plays a pivotal role in the case of rechargeable lithium-ion batteries, in particular, both in terms of performance levels and storage capacity, as well as battery safety. Besides, ElringKlinger AG has commenced work on solutions aimed at electromagnetical shielding lithium-ion batteries currently used in hybrid vehicles in particular.

Plastic housing modules replace metal components

The Elastomer Technology/Modules division made a significant contribution to weight and CO₂ reduction with several newly developed light-weight modules made of thermoplastics. Plastics play a key role within this area, as they are much lighter than metal-based materials and offer tangible benefits when it comes to integrating various additional functions. ElringKlinger AG has now developed plastic housing modules for more than twenty engine and transmission applications, including cam covers, engine and gearbox oil pans as well as transmission casings.

In the period under review, development activities were centered around a new design and injection molding method for ultra-light plastic cam covers. Applying a new manufacturing method, the division was able to achieve an even lighter material structure, thereby further reducing the weight of a plastic cam cover on top of the weight advantages already gained within this area. Among other things, the company's development engineers were able to integrate heat shielding, a turbocharger vacuum accumulator and a pioneering oil trap specially designed to cope with the higher peak temperatures and pressure levels in downsized engines.

Other product rollouts included an engine oil pan module for trucks, which is capable of withstanding extremely high mechanical stresses and incorporates various functions such as an oil suction pipe with filter sieve, a release module and sealing components.

The Elastomer Technology/Modules division also focused on developing an intake manifold module made of plastic – another new component that ElringKlinger AG will soon be producing in series.

Innovation shapes the future – further expansion of New Business Areas

In addition to pursuing R&D within its established product segments, ElringKlinger AG significantly expanded its development activities within New Business Areas over the course of 2009. Within this context, the company intends to draw on its existing experience and know-how in metal and plastics processing, in addition to taking advantage of its demonstrable expertise in the field of materials and tooling. At the same time, there is an emphasis on applying technology processes available throughout the Group. When it comes to establishing new fields of business, the company focuses solely on projects and products that are likely to make a significant technological contribution on the basis of existing competencies and development methods.

A large proportion of the costs incurred by New Business Areas in 2009 was covered by government grants and development partnerships.

Pioneering coating material for soot reduction in diesel particulate filters

In 2009, development work on solutions aimed at soot reduction in diesel vehicles was focused on the catalytic coating used in DPF systems for the purpose of regenerating the filter. Having made considerable progress within this area, the company presented its results to customers at the 2009 IAA Motor Show.

Following the introduction of Euro 5 standards for passenger cars at the beginning of September 2009, almost every new diesel vehicle is now equipped with a diesel particulate filter. The majority of the filter units are catalytically coated in order to reduce the requisite burn-off temperature and improve regeneration.

Working in close cooperation with a partner, ElringKlinger AG developed a pioneering coating material based on an alkali silicate substance. Initially licensed worldwide and exclusively by the partner company specializing in coating technology for automotive applications, the material was subsequently assessed in engine test stands, before being refined and optimized for the use as a coating material in diesel particulate filter units.

Laboratory test runs have shown that this coating, which is free from heavy and precious metals, is highly catalytic and significantly improves soot burn-off within the diesel particulate filter. When deploying this innovative coating, therefore, both the regeneration temperatures and the regeneration times relating to DPF operation can be scaled back, which translates into lower fuel consumption and CO₂ emissions. What is more, the potential cost advantages compared to conventional systems that rely mainly on the use of precious metals are an attractive proposition in favor of this new technology.

Procedures aimed at competing extensive endurance and field tests on various specimens are currently under way. If the coating proves successful, it will also be adapted for use in commercial vehicle particulate filters and marketed within this segment. In view of the impending EURO VI legislation governing commercial vehicle emissions – scheduled for 2012 –, ElringKlinger AG believes that technology will also be of interest to a wide range of truck manufacturers.

Fuel cell technology also for stationary applications

ElringKlinger AG made significant progress when it came to developing commercially viable product concepts within the area of fuel cell technology. The Fuel Cell Technology division registered several patents and applications over the course of 2009, as well as further cementing its position in the competitive arena.

In collaboration with two partners, the company developed initial prototypes of a complete SOFC (Solid Oxide Fuel Cell) high-temperature fuel cell stack module. Initially destined for the US market, it is to be used as an energy source for stationary electric A/C in the driver's cab of heavy trucks. In conjunction with a reformer, the stack module transforms various fuels such as diesel, natural gas or bio-ethanol into highly efficient electric energy – with hardly any emissions.

Drawing on its considerable engineering expertise within this area, ElringKlinger AG plans to adapt this highly efficient technology to applications in the field of stationary combined power/heat generation for family homes and residential apartment blocks. Depending on future government funding of grid-independent electrical energy generated in this manner, ElringKlinger AG sees interesting market opportunities in the coming years.

ElringKlinger AG has been working on the development of bipolar plates for PEM (Proton Exchange Membrane) low-temperature fuel cells, which in future are to be used in car powertrains. Over the course of the year, the company further refined the designs of the bipolar plate structures, the emphasis being on optimizing the sealing systems of the individual cells. Another focal point was the development of manufacturing processes and associated tooling technology aimed at producing bipolar plates in large volumes. Within this context, the company introduced a much improved method for equipping the bipolar plates with a water-repellent coating.

New cell connector module for lithium-ion batteries

As early as 2008, ElringKlinger AG commenced work on initial product concepts centered around battery technology. The focus at first was on components for bipolar lead-acid batteries that are to be deployed in micro- and mild-hybrid vehicles. In comparison with conventional batteries, this concept offers higher power density at an acceptable price. The concept is similar to that of fuel cell stacks in

that the individual cells are also stacked together. In cooperation with ElringKlinger Kunststofftechnik, the division developed special plastic bipolar plates for this specific application.

2009 marked the beginning of development work on components for lithium-ion batteries. Within the area of combustion engines, ElringKlinger AG has been benefiting from the growing trend towards more efficient turbo-charged engines, having established an extensive product portfolio tailored to this market. In future, the company will also supply its newly developed components for rechargeable lithium-ion batteries, which are deployed in hybrid vehicles – equipped with both a combustion engine and an electric drive unit – as well as purely electric vehicles.

In creating a dedicated Battery Technology unit, ElringKlinger AG also acknowledged from an organizational perspective the growing importance of this new product group for the company. Within this context, the Group was able to draw on its expertise in the field of metal and plastic components processing as well as the technological know-how of the Fuel Cell division. The cross-divisional development team succeeded in advancing to SOP level an innovative solution to connect lithium-ion cells and modules. In doing so, the company has unlocked additional growth opportunities in the field of battery technology.

Alongside cell and module connectors, ElringKlinger AG also developed plastic components for the purpose of cell mounting and covering. The connector solution for high-performance lithium-ion batteries is to be applied to hybrid as well as purely electric vehicles. Pursuing this route, the company has managed to take pole position ahead of many competing concepts, as well as securing its first contract for the supply of these components for use in lithium-ion batteries.

Powerful R&D pipeline of established products and new drive technologies secures growth

Having developed a number of new solutions within the established product segments of its core business during 2009, ElringKlinger AG is well positioned to pursue its target of long-term revenue growth of at least 5% per annum.

The new product concepts currently under development or scheduled for market rollout within the New Business Areas segment offer solid potential for additional growth in the medium to long term. Based on the level of progress achieved in developing its fuel cell and battery technology, ElringKlinger AG has already positioned itself as a high-caliber technology partner to the automotive industry when it comes to meeting the requirements associated with potential drive concepts of the future.

Employees

Crisis prompts fall in AG headcount

Well-educated, dedicated employees are the driving force behind ElringKlinger AG. Inspired by progress, they serve customers worldwide from parent company sites in Dettingen/Erms, Langenzenn, Runkel and Ludwigsburg. As at December 31, 2009, ElringKlinger AG employed 1,636 (1,737) people. Thus, the headcount within the parent company fell by 101 year-on-year. The average headcount at parent company sites in 2009 was 1,653 (1,732).

The reduction in staffing levels was attributable to the significant downturn witnessed within sales markets as early as fall 2008, as well as the ensuing adjustments to production volumes. The immediate response by ElringKlinger AG was to reduce staff flexitime and vacation day accounts. Additionally, the decision was made in the majority of cases not to extend temporary employment contracts.

At the beginning of 2009 it became apparent that demand structures had failed to stabilize, and therefore as from February 2009 the company introduced short-time work for parts of the workforce, depending on the level of excess capacity within the respective divisions. At its peak, short-time work affected almost half of the blue-collar workforce and administrative staff.

Creating and securing jobs

Aided by these measures and contributions from the streamlining program, ElringKlinger AG succeeded in retaining its core workforce despite the difficulties facing the automotive industry in 2009. What is more, the company thereby secured the specialist expertise and essential capacity required in order to pursue growth anticipated for the medium-term future.

As the economy began to recover and demand for automobiles lifted, short-time work was gradually scaled back again towards the end of the year.

Training as a component of corporate strategy

ElringKlinger AG places great emphasis on fostering new talent and is committed to providing young people with first-class vocational training. In 2009, the company again offered a comprehensive range of commercial and technical training courses as well as degree programs based on the dual system of on-the-job training and studies at the Duale Hochschule Baden-Württemberg (formerly Berufsakademie). In the year under review, ElringKlinger AG provided training for 74 (70) apprentices, thus slightly expanding the significant level of vocational training organized in the previous year. Vocational trainees accounted for 4.5% of the total workforce at parent-company level, up on last year's figure of 4.0%.

Personal development of ElringKlinger staff

ElringKlinger AG feels duty-bound to provide equal opportunities for individual training and career advancement not only for its apprentices but for all employees within the company, thereby enhancing their personal prospects. The extent of such measures is determined on the basis of staff appraisal and qualification meetings organized annually. As part of these meetings, employees re-

ceive an assessment of their performance based on jointly developed appraisals. Individual development programs are then defined on the basis of these appraisals and according to personal requirements.

Dedicated staff drive new developments

Expertise, creativity, conscientiousness and, above all, dedication are important qualities in any team member of an organization, even more so in times of economic volatility. ElringKlinger AG staff are committed to working continuously on innovative products and advanced production processes that deliver greater sustainability together with environmentally compatible mobility, the aim being to drive the company steadily onwards and upwards. Over the course of 2009, staff members again came up with a host of improvements that were subsequently established as best practice at Group level. As part of the company suggestion scheme, 132 suggestions for improvement were submitted in the period under review, of which around 40% were implemented.

Satisfied employees – a central pillar of ElringKlinger AG

Staff satisfaction is a key factor in a company's success. With this in mind, ElringKlinger introduced a new mission statement in the period under review. The close affinity with the company displayed by its staff is also reflected in the rate of employee turnover, which was again low in 2009 at just 0.5% (0.6%). The average period of service at the four German locations of the parent company was 14 (13) years, considerably higher than the German average of 4 to 6 years. Average time off work due to illness was 11.1 (11.0) days per employee, which was again significantly lower than the industry average.

Compensation Report

Compensation structure for members of the Management Board

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

Management Board compensation is made up of fixed and variable elements. The variable components 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.

Management Board contracts regarding short-term compensation were adjusted in line with Germany's new Act on the Appropriateness of Management Board Compensation effective for payments as from 2010 (including management bonus 2009). Short-term variable compensation is calculated according to this new Act as a percentage of the average pre-tax result of the last three years at Group level (previously, as a percentage of the pre-tax result of the current financial year). It is paid annually. Short-term variable compensation is restricted to two annual fixed salaries.

As a component of long-term variable compensation, members of the Management Board are granted stock appreciation rights. Holders of stock appreciation rights are entitled to a cash-settled payment. Stock appreciation rights are not furnished with any entitlements to shares in ElringKlinger AG. They have a term of five years and were or will be granted to two members of the Management Board in annual tranches as at February 1, 2008, February 1, 2009, February 1, 2010, February 1, 2011, and February 1, 2012; the tranche dates for the other member of the Management Board are January 1, 2009, January 1, 2010, January 1, 2011, January 1, 2012, and 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 granted). The amount to be remunerated is calculated as the difference between the redemption price, which is also calculated as an average of the last sixty stock exchange trading days, and the grant price. A payment is made only when the share price of ElringKlinger AG has increased more than the index in which the share is listed, but at least by 25%. A provision is recognized in consideration of expected future obligations. Remuneration per tranche is limited to the amount of annual fixed salary payable. The vesting period for the tranches allocated on February 1, 2008, and February 1, 2009, as well as January 1, 2009, is three years; for all other tranches it is four years.

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

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

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

Compensation structure for members of the Supervisory Board

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

In accordance with the recommendations of the German Corporate Governance Code in the version of June 18, 2009, compensation is comprised of a fixed component and a variable component, the latter being calculated on the basis of Group earnings before taxes in the financial year ended.

In accordance with the recommendations of the German Corporate Governance Code in the version of June 18, 2009, the role of the Supervisory Board chairman and that of his deputy were taken into account when determining the level of compensation. The Chairman of the Supervisory Board receives two times and the Deputy Chairman one-and-a-half times the compensation paid to other Supervisory Board members.

Details of share capital and disclosure of potential takeover obstacles (Section 289 (4) of the German Commercial Code (HGB))

The nominal capital of ElringKlinger AG as at December 31, 2009, remained unchanged at EUR 57,600,000 and is divided into 57,600,000 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

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

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as at December 31, 2009, are as follows:

Eroca AG Basel	10.02 %
Elrena GmbH, Basel	10.07 %
Lechler Beteiligungs GmbH, Ludwigsburg	10.15 %
Walter H. Lechler, Stuttgart	Total of 25.001 % (of which 10.39 % is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

The Management Board is authorized to buy back company shares with the approval of the Supervisory Board in accordance with Section 71 (1) no. 8 AktG. Furthermore, subject to the approval of the Supervisory Board, the Management Board is authorized to increase the nominal capital in the period up to July 15, 2010, through the issue of new shares for cash contributions on one or more occasions by up to EUR 28,800,000. The conditions applying to such a capital increase are established by the Management Board with the approval of the Supervisory Board (Section 4 no. 3 of the Articles of Association).

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

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

Report on Opportunities and Risks

Risk management system

One of the functions of ElringKlinger AG's risk management system is to identify risk at an early stage. By monitoring markets, customers and suppliers on a continual basis and maintaining well-developed internal reporting and controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities as they arise.

A key component of the risk management system implemented by the company is regular monthly and quarterly reporting on the part of the respective management teams at ElringKlinger's domestic and foreign subsidiaries and divisions, the emphasis being on providing information relating to developments in all areas that are of relevance to the company and that may affect the business activities or, in particular, the future of ElringKlinger AG as a going concern. The focus is primarily on changes to the economic and political situation, new regulatory requirements, technological developments, the commodities markets and internal risks. This reporting system involves identifying all risks and subsequently drafting recommendations on how to prepare for and protect against them.

The 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 employed at ElringKlinger AG is that of tracking the implementation of measures defined by the company. ElringKlinger AG considers risk management to be an all-embracing concept that encompasses not only the identification and assessment of risk, as outlined above, but also a system of preventive measures and contingency planning that has proven in the past to be very effective.

Alongside regular reporting, internal audits are an important element of the risk management system and cover the individual divisions within the AG as well as its Group subsidiaries. These internal audits are conducted by an accountancy firm. The rationale behind the appointment of external special-

ists is to ensure that risks are identified, statutory requirements are met and internal processes are reviewed. Potential improvements are also highlighted and the internal audit results compiled into reports for use by the Management Board. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weakness. In 2009, the main focus of internal auditing was on the new companies integrated into the Group following the acquisition of the Swiss SEVEX Group. Internal audits were conducted accordingly at ElringKlinger Abschirmtechnik (Schweiz) AG, ElringKlinger USA Inc. and ElringKlinger China Ltd. An internal audit was also performed at ElringKlinger of North America Inc. As in fiscal 2008, with a view to exercising proper due diligence, a specialist accounting firm was engaged to analyze the processes and procedures within the areas of Original Equipment and Aftermarket sales for possible fraud risks. Further internal audits are planned for the coming fiscal year in these focal areas. All audits showed that both statutory regulations and internal requirements had essentially been met. The recommendations submitted with regard to potential areas for optimization were put in place or are currently being implemented.

In order to reduce the liability risk from potential damage cases and any associated losses, the company has taken out appropriate insurance policies. The suitability of these policies, which also cover the Group's subsidiaries, 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 reporting, the internal control and risk management system may be described with reference to the following basic characteristics. The system is geared toward the identification, analysis, valuation, risk control and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board. 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 controls accounting and compiles the information required for the financial statements.

The main risks associated with the accounting process derive from the need to provide accurate and complete information within the specified time frame. This presupposes that the requirements have been clearly communicated and the departments concerned are placed in a position where they can meet those requirements. A schedule is stipulated in advance for the preparation of the financial statements and the management report. The data and information are checked prior to release and consolidation in the respective centralized departments.

ElringKlinger AG uses SAP with a hierarchical system of access rights. All releases are documented in the system. Access rights are managed centrally in accordance with the corresponding rules on authorization. Release decisions are taken by the Financial Director in consultation with the Chairman of the Management Board.

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.

Potential risks in the accounting process include delays or mistakes in the booking of transactions or the failure to observe 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 ElringKlinger AG's risk management system as a way of identifying accounting-related risks at an early stage allowing the company to take prompt action to anticipate and avoid potential risks.

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

Risks

Market and sales risks

As a global automotive supplier, ElringKlinger AG is primarily dependent on the development of vehicle production figures.

Following the collapse of the vehicle markets in Europe, the United States and Japan, there are now strong signs of a recovery in 2010. There has been a marked improvement in the availability of financing for vehicle purchases. However, it is still too early to declare the end of what has been the biggest crisis in the automobile industry in recent decades.

A renewed severe economic downturn or any worsening of the financial crisis could lead to a significant decline in vehicle sales and production cutbacks by manufacturers. This would have a direct impact on automotive suppliers.

Given the increasing importance of the Asian automobile markets, any deterioration in the economy of this region could severely jeopardize the growth prospects of ElringKlinger AG. This would create a risk that the high level of corporate growth projected in China might not materialize, with a corresponding impact on the capacity utilization levels of plant and machinery.

There is a risk of a more pronounced downturn in new registrations in those markets where environmental initiatives promoting the purchase of new vehicles have led to a marked anticipatory effect among buyers. In Germany especially, the scrappage allowance provided a tangible boost to new passenger car registrations in the compact and small vehicle segment in 2009 and generated additional demand for around 800,000 vehicles.

With incentives for the purchase of new vehicles due to run out in many European countries in the course of 2010, there is a risk that the European vehicle market will again experience a more pronounced downturn. This also presents a risk for the utilization of production capacity at ElringKlinger AG. However, a significant improvement in passenger car exports and renewed demand for company cars should help to mitigate the risk of an extreme drop in new registration figures.

Customer risks

Although threats to the profitability of some of ElringKlinger AG's customers, exacerbated by the slump in demand, have now eased to some extent, the main risk of customers defaulting on their payments cannot be entirely excluded. Even given the improbable scenario of a larger customer being declared insolvent, the company's default payment risk is limited to an amount in the single-digit million range. In some cases, the amounts receivable are being settled well after the due date, thus creating a risk – especially where production volume increases by a significant margin – that ElringKlinger AG may need to provide advance financing.

Compared to other companies in the same industry, ElringKlinger AG has a very broadly based customer structure that includes almost every vehicle and engine manufacturer in the world.

In 2009 the three largest customers accounted for around 35% of OEM sales. Nevertheless, ElringKlinger AG has further reduced the risk of an excessive concentration of sales among a small number of manufacturers. In recent years, the company has increased its customer base by a large number of mostly Asian vehicle and engine manufacturers and improved its share of sales together with other suppliers. In the next 5 to 7 years, it is intended that over 10% of sales will be generated outside the automotive area.

Price risks

With the profitability of many vehicle manufacturers still under threat and in the face of surplus production capacity and intense competition, many suppliers are experiencing even greater pressure on prices despite their already critical earnings situation.

However, unless they can make adequate profits, suppliers will be unable to provide the necessary resources for forward-looking investment in innovative technologies, plant and equipment and research and development. It therefore makes no sense for customers to exert undue pressure on prices as a short-term way of maximizing their earnings rather than promoting a long-term partnership based on the development of technology.

As far as possible, ElringKlinger AG attempts to compensate for the lower prices demanded by customers through productivity gains achieved by streamlining and further automation of production. If it is no longer possible to achieve a viable price for individual products, the company will decline an order. ElringKlinger AG consistently devotes large sums to research and development in order to bring new and upgraded products to the market and exploit potential new applications within its areas of expertise.

As a result of the crisis in 2009, the industry as a whole is likely to face continued financing problems for some time, and 2010 may produce a large number of insolvencies among automotive suppliers. With some of its competitors falling away, ElringKlinger AG could benefit from a less aggressive pricing environment.

Wage costs risks

Wages and materials are the two biggest items in the overall cost structure of ElringKlinger AG.

Despite a massive collapse in production volume and sales at the height of the crisis, the company did not lay off any of its permanent staff, choosing instead to accept a cut in its earnings. Only the employment contracts of temporary staff were not extended.

However, in the wake of the international economic crisis, further economic risks cannot be excluded and the industry is significantly more vulnerable than in 2007. Capacity utilization is still well below the levels of 2007 and the first half of 2008. Should there be another collapse in demand from vehicle manufacturers, ElringKlinger AG cannot exclude the possibility that it may need to reintroduce short-time work or adjust its staffing levels rapidly to changes in the market in order to maintain its international competitiveness.

In the light of a sharp fall in sales and by agreement with the Works Council, the company decided to make use of the option to postpone the pay rise scheduled for May 1, 2009, under the collective pay agreement for a period of seven months. Accordingly, the pay rise took effect on December 1, 2009. Any further increases in wage costs would create a substantial risk to the international competitiveness of ElringKlinger AG - in persisting pricing pressures from customers - and consequently to future growth and employment opportunities. Following the latest round of collective wage negotiations, an agreement was reached on moderate and affordable increases.

Currency risks

The main currency risks facing ElringKlinger AG relate to the loans made by the company to its subsidiaries and receivables from affiliated companies. It is principally affected by movements in the exchange rates between the euro and the US dollar, the Canadian dollar, the Mexican peso, the Brazilian real and the Japanese yen.

In order to limit the risks from exchange rate fluctuations against the US dollar and the Mexican peso, the foreign currency loans granted by ElringKlinger AG to its subsidiaries in their respective currency zones are largely covered by a comparable level of financing. This has the effect of limiting the foreign currency risk to a large extent.

Since the purchase of the former SEVEX Group in 2008 was financed by means of loans denominated in Swiss francs, any change in the EUR/CHF rate of exchange could lead to a marked fluctuation in the figure for other operating income at ElringKlinger AG. The corresponding financial liabilities are settled in Swiss francs out of the appropriated profits of ElringKlinger Abschirmtechnik (Schweiz) AG. The payment flows are not therefore exposed to a currency risk.

Overall, the currency risks affecting ElringKlinger AG are well contained. As far as possible, the company has ensured that costs and revenues in all its sales regions are incurred and generated in the same currency.

Financing risks

Both the liquidity problems faced by many suppliers and a large number of bankruptcies demonstrate that the business environment in the automotive supplies industry remains difficult with regard to financing risks.

At the height of the worst industry crisis in the first quarter of 2009, with a view to assuring its long-term financing requirements and minimizing its exposure to risk, ElringKlinger AG extended the terms on some of its short-term borrowing or replaced them by credit lines with longer terms. While the consequent reduction in interest payments was beneficial, the longer terms create a risk that ElringKlinger AG may not be able to repay its credit lines immediately or to the extent that it might wish in the event that it is able to generate sufficient cash surpluses.

Some loan agreements impose additional requirements on the borrower that oblige it to meet certain financial targets such as a minimum equity ratio and a maximum debt ratio. These relate in part to the financial statements of ElringKlinger AG and in part to the consolidated financial statements. In fiscal 2009, the stipulated financial targets were met. Indeed, at present the company's key financial indicators are significantly better than the targets stipulated in the loan agreements.

With further expansion planned in Asia, it cannot be excluded that ElringKlinger's subsidiaries in that region may require additional financing. In general, ElringKlinger AG provides financing for its subsidiaries in the form of long-term loans that are usually denominated in the respective national currency. The currency risk therefore lies with ElringKlinger AG, where it is controlled for the entire Group.

Depending on further developments in the economy, it is possible that interest rates may rise. There is also a risk that the rating agencies and/or commercial banks may increase the risk rating of the automotive supplies industry and demand higher risk premiums. This could also have a negative impact on interest rates and make financing more expensive or more difficult.

However, ElringKlinger AG has a solid financing profile. With an equity ratio of over 40% and strong cash flow from operating activities in excess of the company's capital expenditure requirements, its financing capacity is more favorable than that of many of its competitors. Should it become necessary, in the event of an acquisition or a higher level of investment, for example to build up a new technology, the banks have already agreed in principle to provide financing in the low hundreds of millions. The financing risks to which ElringKlinger AG is exposed can therefore be regarded as manageable, and there remains scope for more substantial capital expenditure. From its current perspective, even if demand continues to increase, the company is in a position to finance future growth without having to impose restrictions.

Risks associated with use of derivatives

Derivative financial instruments are only used in specific cases and only after careful consideration of the potential costs and benefits.

ElringKlinger AG only makes use of derivative financial instruments to hedge exchange rate and interest rate risks and to limit price fluctuations of alloys such as nickel that are used in high-grade steel.

Currency hedges are used in the case of receivables denominated in Mexican pesos and Canadian dollars.

Exchange-listed alloy surcharges for high-grade steel are occasionally subject to sharp fluctuations in price. These are managed using appropriate hedging models.

ElringKlinger AG still holds a derivative hedging instrument which was obtained to hedge part of its nickel alloy requirements. This contract expires at the end of April and does not present any significant risks.

Legal risks

ElringKlinger AG addresses its exposure to legal risks by recognizing appropriate provisions in its annual accounts. By comparison with the previous year, there were no other significant risks in the period under review.

Opportunities

Market opportunities – Asia

Following the massive collapse in vehicle production within the world's three established markets in 2009, there is a possibility of a tangible recovery in vehicle demand and production especially in North America, where new registrations in 2009 fell well below the number of passenger cars scrapped.

Providing there is no further major deterioration in the economic outlook and given the improvement in exports and low stock levels, there are prospects, in Europe too, of a return at least to stable vehicle production.

The new vehicle purchase incentive schemes extended in some European countries into 2010 could provide an additional boost to demand in Europe, although such schemes essentially deliver an anticipatory effect.

Over the next few years, there will be a significant shift in overall demand for passenger cars towards Asia. It is primarily the countries in this region that are driving the recovery in the global vehicle market. Measured in terms of new registrations and production, China established itself in 2009 as the biggest vehicle nation in the world.

ElringKlinger AG is also in a good position to exploit technological developments in Asia. With China and India set to adopt the Euro 4 and Euro 5 standards introduced under European emissions legislation, the specifications for engine components will be much stricter in the areas of sealing technology, thermal shielding and lightweight plastic housing modules. Thanks to its technical know-how in this field, the company has an excellent opportunity to support its customers by providing innovative solutions.

Most of the other BRIC states and many of the fast-growing ASEAN countries also intend to adopt Europe's strict emissions legislation. Consequently, these markets also offer a good opportunity for ElringKlinger AG to achieve a substantial increase in sales over the medium term.

Technology and climate protection

Throughout the world, intense debate over climate change has led to the introduction of much stricter regulations on vehicle emissions. As well as further reductions in emissions of nitrogen oxides, carbon monoxide and hydrocarbons in line with the limits imposed by Euro 4, 5 and 6, the core objective is to reduce emissions of the greenhouse gas CO₂, and this can only be achieved through lower fuel consumption. In Europe and the United States, 2012 and 2016 will see the implementation of demanding CO₂ output limits of 120 g/km and 163 g/km respectively.

Overall, the issue of reducing emissions and fuel consumption and that of alternative drive technologies are increasingly at the forefront of manufacturers' forward planning. These are areas in which ElringKlinger AG has a strong product portfolio. It therefore has a good opportunity to increase its market share and generate additional sales through new products and applications.

ElringKlinger AG is one of only very few automotive suppliers in the world with the expertise to support customers both in making improvements to the combustion engine as well as in fuel cell applications and battery technology, which it can supply on a series production scale. Especially with regard to New Business Areas, the prospects here for the medium and long term are very good.

Cost of materials

Right up to the beginning of the economic crisis in fall 2008, the last few years were marked by a continuous rise in materials prices and energy costs. This had a corresponding impact on the profit situation at ElringKlinger AG.

In the wake of the general economic collapse, there was a decline in physical demand for the main raw materials used by ElringKlinger AG: carbon steel, high-grade steel containing alloys, aluminum and polymer granules. Over the course of 2009 this led to a noticeable fall in the price of many types of commodity, although the company was unable to take full advantage of this because of its existing high level of stock.

Restrictions on the commodity futures exchanges to limit possible hoarding contributed to a substantial cooling of speculative interests.

Despite a subsequent rise in many commodity prices compared to the lows reached in spring 2009, the price of many materials remained at an acceptable level from a long-term perspective.

As a result of settlement payments, the derivative hedging instruments employed to hedge and guarantee acceptable purchase prices for the nickel alloy contained in high-grade steel led to a corresponding increase in the cost of materials. Most of these hedging contracts were sold in mid-2009, so there is a possibility of an improvement in the gross margin, providing the prices quoted for alloy surcharges do not increase significantly during 2010.

Acquisitions

As a consequence of the present industry crisis and a major deterioration in the credit situation of many companies in the sector, there was a large increase in the number of bankruptcies in 2009. This has helped to speed up the process of consolidation in the automotive supplies industry, and there has been a fall in the purchase prices being asked for companies in this field.

At ElringKlinger AG, there is potential for organic growth in each of the company's divisions. There is therefore no compelling need to grow through acquisitions. Nevertheless, interesting opportunities to buy on favorable terms may present themselves in this area, and the company does not exclude the purchase of new technologies or of additions to its existing technology base; equally, it is open to the possibility of making acquisitions as a way of establishing itself more rapidly in potentially high-growth regional markets. Every option is subject to careful examination, with a focus on enhancing profitability rather than boosting sales.

Financing

The marked increase in production volume since mid-2009 brings with it a requirement for higher levels of cash to finance working capital. Given the extremely difficult profit situation faced by many suppliers and lingering signs of a squeeze on credit, it cannot be excluded that, as in 2009, the current fiscal year will see major liquidity problems and possible bankruptcies.

For ElringKlinger AG, this means there is a chance that competitors will drop out of the market, as indeed has already happened, or that they will no longer be able to generate or obtain the financial resources needed for new development and capital expenditure.

This would present an opportunity for the company to extend its lead by making further productivity gains, developing innovative new products and placing those products on the market faster than its competitors.

Against a background of multiple bankruptcies in the industry, it is also clear that when it comes to placing an order, vehicle manufacturers are now giving substantial weighting to a supplier's financial strength and economic robustness as well as its technological expertise. The aim is to avoid cost-intensive disruption to the value chain and, on the supplier side, to ensure that the necessary investment in manufacturing and research can also be made.

This means that ElringKlinger AG is more likely to be regarded as a long-term technology partner and offered additional orders or increased volumes. As a result, it may be able to achieve a substantial increase in its market share of new development orders.

Following the decline in market interest rates in 2009 and thanks to ElringKlinger AG's solid credit rating, 2009 provided an opportunity to obtain refinancing on more favorable terms. This opportunity remains available in the future.

Assessment of aggregate risk

Overall, despite a downturn in sales and earnings in 2009, ElringKlinger AG has emerged from the worst ever crisis to hit the automobile industry in robust shape with regard to its financial position, performance and cash flows. It has used this strength in a highly flexible way to increase its market share and improve its competitive position.

However, it is the company's view that the market environment will remain extremely challenging. Series production calls from customers and the accompanying planning and forecasting certainty have not yet returned to pre-crisis levels.

Overall, however, the risks have subsided noticeably compared to 2009. At present, there are no discernible risks that are likely to jeopardize the future of ElringKlinger AG as a going concern, either by themselves or in conjunction with other factors.

Building on its sustained financial strength and its solid foundation in product development and new technology, ElringKlinger AG believes it has the potential to outperform the industry as a whole in its ability to generate higher sales and earnings and to emerge as one of the winners from the present phase of industry consolidation.

Corporate governance declaration

The declaration on corporate governance required by section 289a of the German Commercial Code (HGB) is openly available for inspection on the company's website at www.elringklinger.de/cgs.

Report on Expected Developments

Outlook – Market and Sector

Global economy on path to recovery

Government programs to boost the economy and inject liquidity began to take effect over the course of 2009, and economic forecasts for 2010 have been revised upwards in the last few months. The International Monetary Fund (IMF) expects the global economy to grow by 3.9% in 2010.

Despite expectations of continued recovery, at the beginning of 2010 the global economy still faces a number of risks that could stand in the way of a widespread and sustained upturn. The majority of economic research institutes anticipate a slow recovery in the global economy. North America and Western Europe in particular will have to deal with risk factors such as high levels of national debt, a possible credit squeeze and rising unemployment.

Thanks to its strong focus on exports, the German economy will benefit from increasing global demand for goods. Despite the potential for a rise in unemployment and the impact of a halt to government programs to boost the economy, domestic economic output is likely to rise by 1.5% to 2.0% in the coming year.

As a result of the difficult situation in a number of south European countries, the overall rise in gross domestic product (GDP) for the eurozone is expected to remain below that of Germany at 1.0%.

On the whole, following the harsh downturns experienced in 2009, the countries of Eastern Europe are expected to make renewed economic headway with growth of 1.8% in 2010. Despite a relatively stable financial system, the Russian economy will again find itself held back by difficulties in obtaining the necessary financing. Based on the low level of 2009, economic researchers are forecasting a relatively modest increase in GDP of 2.5%.

The United States, which was the first to be hit by the global financial and credit crisis, remains beset in 2010 by a problematic real estate sector and a high level of unemployment, both of which will constrain domestic demand, although an already noticeable improvement in demand from outside the country will have a beneficial effect. On balance, economic output in the United States is set to rise by around 2.7%.

Forecasts of economic growth in Latin America are very positive, with Brazil, South America's largest economy, set to grow by 3.8% in 2010.

2010 will see further unremitting progress in the shift towards the developing countries of Asia – above all India, China and the ASEAN states – as the driving force behind global economic growth. China's GDP is forecast to rise by 10.0% despite planned restrictions on the country's previously expansionary approach in the government's 2010 fiscal and credit policy. The economic outlook for the Indian subcontinent is similarly positive with GDP forecast to grow by 6.3%.

Wide-ranging government measures to boost the Japanese economy have so far proved unable to lift that country fully out of recession, and deflationary tendencies are acting as a brake on economic growth. Against this background, output is expected to rise by a mere 1.1% in 2010.

Despite the remaining uncertainties, prospects for economic development on most of the world's markets are cautiously positive. This will bring about some improvement in the business environment facing the automobile industry, which is very much dependent on the performance of the wider economy.

Global vehicle production returns to growth in 2010

In the view of market analysts, the automobile industry is poised for a global recovery in 2010. Nearly all vehicle manufacturers made sharp cuts in production in 2009 while running down their high levels of stock. Nevertheless, despite increasing market demand, production is still up to 10.0% below the volume of new registrations.

This means that global production of passenger cars and light commercial vehicles should be able to rise by up to 10.0% in 2010.

The year ahead nevertheless holds a number of uncertainties for the automobile industry. A large number of government-sponsored programs to encourage the purchase of new vehicles will come to an end around the middle of the year, especially in western Europe. This makes it difficult to produce a forecast for vehicle sales in 2010. It is not expected that passenger car sales will as yet reach a similar level to that achieved in 2008, although the global number of new registrations is likely to increase by between 3.0% and 5.0% compared to 2009.

In Germany, analysts believe that the anticipatory effect of the government's highly successful environmental initiative promoting new car sales will lead to a fall of between 20.0% and 30.0% in sales to 2.8–3.0 million vehicles. However, given that exports are now showing renewed vigor and the stocks held by domestic manufacturers have been largely run down, their view is that German passenger car production in 2010 will end the year only slightly below the level of 2009.

With scrappage incentives due to run out in a number of countries, new passenger car registrations are expected to decline by around 6.0% for the European automobile market as a whole. Sales figures in Western Europe are predicted to fall by 7.1% to 13.8 million units in 2010. By contrast, the overall picture is of a moderate recovery in Eastern Europe (excluding Russia) with passenger car sales

showing a small increase on the previous year to reach 1.8 million. The Russian automobile market will only recover slowly from its collapse in the crisis year of 2009, although new registrations could end the year up by as much as 20.0% to 1.8 million passenger cars.

According to analysts, the U.S. automobile market is also likely to provide some momentum for the industry with sales figures rising between 10.0% and 15.0%, equivalent to a sales volume of 11.3 to 12.0 million passenger cars. Vehicle demand will remain strong in Latin America and especially in Brazil, where new car sales are forecast to increase by up to 10.0%.

Solid growth in new passenger car registrations is also anticipated for 2010 in the developing countries of Asia, particularly China, India and the ASEAN states. Compared to the previous year, sales figures in China are forecast to rise by 10.7%. This means around a million more new registrations than in 2009, taking the overall figure to 13.7 million. The Indian vehicle market will also continue to grow, with new registrations expected to reach 2.2 million, up 10.4% on the previous year.

By contrast, the expectation is of a further 6.0% decline in passenger car sales in Japan's already fully developed automobile market.

Commercial vehicle market remains tough

Although the steep decline experienced by the international commercial vehicle market came to a halt in the second half of 2009, the prospects for truck production figures have not as yet shown any substantial improvement.

In Germany, there is unlikely to be any significant recovery in demand for commercial vehicles at this stage – at least in the first half of 2010, although there are some early signs of an upward trend in medium-size and large trucks, with orders in this segment up 23.0% in Germany in December 2009.

The European commercial vehicle industry continues to suffer from excess and partly inactive fleet capacity, from the relatively new make-up of the vehicle fleet and from an as yet limited increase in freight volumes. As a result, the 2010 figures for European commercial vehicle sales are unlikely to show much of an increase on the previous year and should be around 200,000 units.

Stronger growth is forecast in the US commercial vehicle market, which has experienced a lengthy period of weakness. Truck sales in the United States are expected to rise by 26.0% to reach 120,000.

In Asia, China's consistent growth will generate a further increase in demand, especially for smaller trucks.

For ElringKlinger AG, the overall market situation and global industry environment in 2010 should be more favorable than in the previous year.

Outlook – Company

Positive impact of cost-reduction measures to continue into 2010

The cost-reduction measures implemented by ElringKlinger AG in 2009, especially in Europe and North America, will continue into 2010 and remain effective. The company intends to make further savings in the area of material- and equipment-related costs as well as through process optimization and automation. Despite a modest recovery in the markets, the crisis is not yet over. It is therefore essential to maintain strict control over spending.

ElringKlinger AG does not anticipate any significant increase in wage costs given that the situation in the European vehicle market remains tense and a moderate settlement was reached in the latest collective pay negotiations in February 2010. In the event that production figures show a renewed decline in specific divisions, shorter working hours may have to be reintroduced.

Materials prices have again risen substantially from the lows of March/April 2009, although prices for the main raw materials required by ElringKlinger AG remain at a manageable level compared to the medium-term average. However, there is a possibility of a further rise on 2009 year-end prices depending on future developments in the wider economy. In 2010, ElringKlinger AG's materials costs will be lower, since the 2009 figure included settlement payments in the first half-year for the material price hedge taken out by the company for nickel. A derivative hedge covering part of the company's high-grade steel alloy requirements remains in place and will expire at the end of April, 2010.

Marked recovery in order intake

Following a major slump in the fourth quarter of 2008, which continued into the first quarter of 2009, the rest of the year was marked by a substantial recovery.

In the fourth quarter of 2009, new orders reached EUR 91.9 million, the highest ever level for a final quarter.

Despite the sharp downturn in orders in the first half of 2009, the company's order intake improved gradually over the year to end on EUR 321.8 (331.7) million, only 3% down on the previous year.

The company's order backlog as at December 31, 2009, stood at EUR 132.2 (120.1) million, taking it back above the level of the previous year. This figure provides a solid foundation for meeting ElringKlinger AG's planned sales and earnings targets in 2010. The order intake for the first two months of 2010 points to further recovery in demand.

ElringKlinger set to beat industry in return to pre-crisis sales level

Vehicle production figures for the automobile industry will not reach the 2007 pre-crisis level of around 73 million passenger cars and light commercial vehicles until 2013/14. Thanks to a large number of new product start-ups and strong growth in Asia, ElringKlinger AG plans to achieve a much faster return to a pre-crisis level of sales.

Capital expenditure to focus on new ramp-ups

ElringKlinger AG continued to invest during the 2008/9 crisis and made further progress in the automation and streamlining of its manufacturing structures. The company can now boast state-of-the-art production facilities and believes it is technologically well equipped to face the continued intense international competition.

Payments for investments in property, plant and equipment including tools, are likely to reach between EUR 45 and 50 million in 2010. Investment spending on tools will account for an increasing proportion of total capital expenditure as a result of the large number of new product start-ups. With an estimated cost of EUR 14 million, construction of a new fully automated logistics center at the Dettingen/Erms site will deliver a major improvement in the turnover rate and cost structure. Total capital expenditure is also dependent on product developments in the company's New Business Areas division and thus on the resources needed to set up the manufacturing plant and equipment used to coat diesel particulate filters and to produce new components for lithium-ion batteries.

Forecast: Sales and Earnings Position 2010 and 2011

Earnings performance shows improvement

Thanks to a series of cost-reduction and process optimization measures and a renewed increase in production volume, ElringKlinger AG's earnings performance showed a gradual improvement from one quarter to the next in 2009. The long-term aim is to return to pre-crisis levels over the next two or three fiscal years. This will of course depend on whether the recovery in the global automobile market can be sustained.

In the first half of 2009, the vehicle markets were in an extremely problematic situation with regard to planning, and there were tremendous fluctuations in production calls under long-term supply agreements. Although the visibility of production calls has improved and planning risks have eased, the task of forecasting future business performance in what continues to be a highly challenging competitive situation and a market environment plagued by economic uncertainty remains more difficult than before the crisis.

For 2010, ElringKlinger AG anticipates in its planning process a modest increase of 3% to 4% in global vehicle production. The US market should show a moderate percentage recovery in the mid-single figure range. While the company expects new passenger car registrations in Europe to decline, production in this category should largely remain stable in 2010 given the very low stock levels of many vehicle manufacturers.

It is ElringKlinger's view that the positive trend in new registrations and production in South America and the key developing markets of Asia will continue. The high rate of growth in India and in China, now the world's biggest national automobile market, is likely to ease slightly but remain in the mid-single figure range in percentage terms. The company has already received a large number of new

orders from local Chinese customers, indicating that sales revenue in China could almost double in 2010 to reach EUR 35–40 million. It deserves mentioning that this increase will be reflected by growing sales figures at the Chinese subsidiaries rather than at the AG level. Looking further ahead, ElringKlinger believes there will be a further shift in demand from the largely stagnating triad markets towards the developing countries of Asia and is preparing itself accordingly.

Once again in 2010, the company expects sales revenue to increase as a result of organic growth. The company's income from ordinary activities, which benefited from a number of extraordinary items in 2009, is nevertheless set to end the year higher, helped by an increase in income from affiliated companies.

In view of its strong portfolio in the area of CO₂ reduction and a very promising technology pipeline with regard to fuel cell solutions and battery components, the company believes it is in a good starting position to achieve annual organic sales growth of at least 5% into the medium term and a corresponding or even higher rate of growth in its earnings from ordinary activities. At present, assuming further stable development in the international automobile market, the company anticipates a similar level of organic growth in both, sales and earnings from ordinary activities in 2011.

ElringKlinger AG assures financing requirements

ElringKlinger AG's financing requirements for 2010 and 2011 are largely covered by existing credit lines with a range of banks and by follow-up loans that are already in place. Projected cash flow from ordinary activities is significantly higher than the company's anticipated capital expenditure, so – with the exception of temporary bridging loans – its financing requirements can be met internally.

Net debt continues to decline

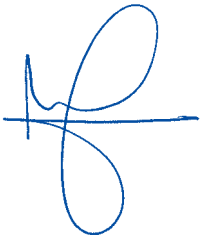
Despite the extremely difficult market environment and the dividend paid out to shareholders, net debt was reduced considerably in 2009. For 2010 and 2011, ElringKlinger AG plans to lower its financial debt even further. Unless the company decides to take advantage of an opportunity to make an acquisition over the course of the year, this should lead to a further improvement in the equity base.

Events after the Reporting Date

No significant events requiring disclosure occurred after the end of the reporting period.

Dettingen/Erms, March 22, 2010

The Management Board



Dr. Stefan Wolf



Theo Becker



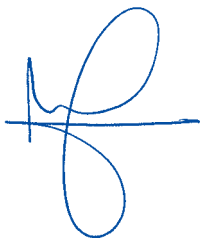
Karl Schmauder

Responsibility Statement

Responsibility Statement according to §§ 264(2) sentence 3 and 289(1) sentence 5 HGB (German Commercial Code)

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

Dettingen/Erms, March 22, 2010



Dr. Stefan Wolf



Theo Becker



Karl Schmauder

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the ElringKlinger AG, Dettingen/Erms, for the business year from January 1 to December 31, 2009. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Stuttgart, March 22, 2010

KPMG AG, Wirtschaftsprüfungsgesellschaft

Dr. Kursatz
Wirtschaftsprüfer

Hagg
Wirtschaftsprüfer



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