ANNUAL REPORT 2009

CO_2 REDUCTION – OUR PATH TO GROWTH

elringklinger

Title: ElringKlinger's SCR (Selective Catalytic Reduction) adapter module for commercial vehicles performs a combined sealing and heat shielding function. SCR engine technology is used to reduce nitrogen oxide emissions in diesel vehicles by injecting urea into the exhaust tract. ElringKlinger is thus making an important contribution towards meeting ever stricter exhaust emission requirements.

ElringKlinger Group in figures

(IFRS)

		2009	2008	2007	2006	2005
Order intake	in million €	612.9	621.3	644.7	558.9	495.4
Order backlog	in million €	242.2	208.6	245.1	208.2	177.7
Sales	in million €	579.3	657.8	607.8	528.4	474.6
Cost of sales	in million €	426.3	464.2[4]	400.1	338.7	318.0
Gross profit margin		26.4 %	29.4 %	34.2 %	35.9 %	33.0 %
EBITDA	in million €	134.5	133.2	169.0	139.0	117.9
EBIT[1]	in million €	63.3	71.5	121.0	93.3	77.2
EBIT margin		10.9 %	10.9 %	19.9 %	17.7 %	16.3 %
Earnings before taxes	in million €	49.4	60.0	114.9	87.6	70.9
Net income	in million €	34.8	43.2	80.3	61.9	46.6
Profit attributable to shareholders of ElringKlinger AG	in million €	33.2	39.8	75.9	57.8	42.4
Net cash from operating activities	in million €	148.8	98.2	99.3	89.9	70.1
Net cash from investing activities	in million €	-93.6	-211.7	-101.9	-47.0	-53.7
Net cash from financing activities	in million €	-49.3	116.9	4.4	-41.7	-23.8
Operating free cash flow[2]	in million €	58.2	-37.6	5.5	42.9	16.5
Balance sheet total	in million €	769.1	764.5	572.5	476.6	456.3
Equity	in million €	317.5	288.1	281.1	231.2	196.1
Equity ratio		41.3 %	37.7 %	49.1 %	48.5 %	43.0 %
Return on equity after taxes		11.5 %	15.2 %	31.3 %	29.0 %	25.9 %
Return on total assets after taxes		6.4 %	8.2 %	16.5 %	14.5 %	12.0 %
Return on Capital Employed (ROCE)		8.8 %	13.6 %	30.3 %	26.7 %	23.8 %
Earnings per share	in €	0.58	0.69	1.32	1.00	0.74
Dividends paid	in million €	11.5[3]	8.6	26.9	24.0	19.2
Dividend per share	in €	0.20[3]	0.15	0.47	0.42	0.33

[1] including currency effects
[2] Net cash from operating activities minus net cash from investing activities excluding acquisitions
[3] Proposal to the Annual General Shareholders' Meeting 2010
[4] Figure adjusted, please refer to explanations in the notes p. 126

Highlights of the year

01/09

BIRD Award

In January, ElringKlinger received the BIRD Award from Börse Online for exceptional investor communications within the SDAX. For the sixth time, readers of the magazine provided an annual assessment of the quality of Investor Relations work by 160 of Germany's major stock corporations in their dealings with private investors. >> www.elringklinger.de

02/09

Introduction of short-time work

In response to the general slump in demand, ElringKlinger was also forced to introduce short-time work at its German facilities; in doing so, the company was able to secure jobs among its core workforce. Short-time work was scaled back significantly towards the end of the year as the automobile market gradually recovered. >> Employees cf. page 55

03/09

Inclusion in the MDAX

Having been listed in the SDAX for the past five years, ElringKlinger was promoted to the MDAX effective from March 20. The company was ranked 52^{nd} and 55^{th} respectively with regard to market capitalization and share volumes traded and is thus among the 60 largest stock corporations behind those listed in the DAX. >> The Capital Markets cf. page 20

06/09

Stepped-up investment in China

In June ElringKlinger strengthened its position in what is now the world's largest automobile market by acquiring an additional 10.0 % in its Chinese subsidiary Changchun ElringKlinger Ltd., thus expanding its interest to 88.0 %. Together with ElringKlinger China, Suzhou, the subsidiary supplies to the Chinese auto-industry. >> Significant Events cf. page 34

07/09

Social project with BruderhausDiakonie

ElringKlinger has been maintaining a long-standing relationship with the charitable organization BruderhausDiakonie, which contributes towards the sizing and packaging of spare parts produced by the company. As part of an Exchange Week in July, apprentices teamed up with disabled people to produce decorative items for home and garden.

09/09

New exhibition stand at the IAA

In September, the focus at the IAA was on CO_2 reduction and new drive technologies. A real eye-catcher: the ElringKlinger exhibition stand, which was a venue for various events under the heading "Going for Green" to showcase new products and development projects.

10/09

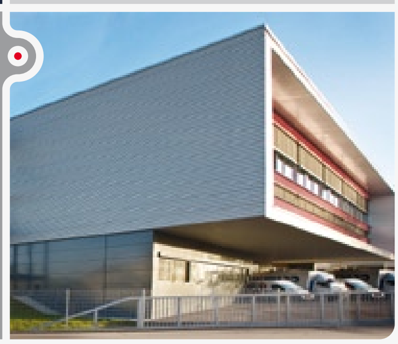
New production company in high-potential Turkish market

On October 27, ElringKlinger acquired a 90 % stake in the Turkish automotive supplier Ompaş A. Ş., thus being locally present in the burgeoning Turkish automobile market with its own production company. Ompaş produces mainly thermal heat shields.

11/09

Opening of production facility in Bietigheim-Bissingen

On November 20, ElringKlinger Kunststofftechnik GmbH opened a new production plant at the company's site in Bietigheim-Bissingen, Germany. The EUR 12 million facility produces components made of the high-performance plastic PTFE and the pioneering injection-moldable PTFE material Moldflon®.



CO_2 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.

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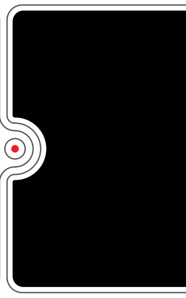

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KEY (TO SYMBOLS)

Glossary reference * CF. GLOSSARY

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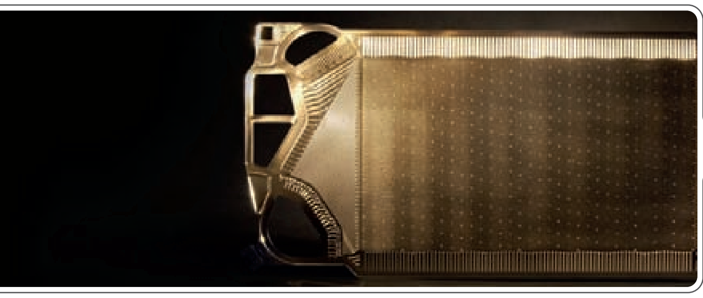

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The Management Board

DR. STEFAN WOLF (Chairman/CEO)

Responsible for affiliated entities, the corporate functions Finance, Controlling, Legal Affairs, Human Resources, IT, Investor Relations and Public Relations, as well as the Aftermarket and Industrial Parks divisions

KARL SCHMAUDER

Responsible for Original Equipment Sales and New Business Areas

THEO BECKER

Responsible for the Cylinder-head Gaskets, Specialty Gaskets, Housing Modules/Elastomer Technology and Shielding Technology divisions, the corporate functions Quality and Environment, Materials Management and the Runkel plant

Letter to Shareholders

Dear Shareholders,
dear Ladies and Gentlemen,

A difficult fiscal year lies behind us. 2009 was marked by a series of collapses in vehicle markets around the world, some of which were very dramatic. Nearly all of the ElringKlinger Group's customers made drastic cuts in the volumes requested as part of their production scheduling in 2009.

ElringKlinger responded vigorously to the challenges thrown up by last year's global economic crisis. Costs were reduced along with the number of temporary staff, short-time work was introduced, strenuous efforts were made to identify and implement potential savings and the Group's working capital was cut by a significant margin.

In this way we were able to achieve consolidated sales of EUR 579 million (down 12% on the preceding year) and earnings before taxes of EUR 49 million (down 18% on 2008). The EBIT (earnings before interest and taxes) margin stood at 10.9%, exactly the same level as in the previous year. By contrast, the average figure for the automotive supply industry in 2009 was -4.3%.

Operating cash flow was raised from EUR 98 million in 2008 to EUR 149 million in 2009.

In fiscal 2009, the Group reduced its consolidated net debt by EUR 44 million.

The equity ratio of the parent company (AG) reached 42.1%, while that of the Group stood at 41.3%. As a result, in the crisis year 2009 we were again able to comply with our self-imposed target level of 40% after being unable to do so in 2008 for acquisition reasons.

Despite the global economic slump of 2009, thanks to a satisfactory earnings performance, we are able to propose an increase of 5 cents in the dividend to shareholders for fiscal 2009, making a total proposed dividend of 20 cents per share. This corresponds to a distribution of 55% of the AG's net income for the period to shareholders.

How did we manage to achieve satisfactory earnings in 2009? Not through higher prices than our competitors. We use high-performance technology and charge market prices. The keys to success lie in our lean structures, high productivity levels, continuous improvement processes, ongoing streamlining and innovative new technologies.

The Group is organized in a way that allows us to respond quickly. By way of example, cost-saving measures were initiated right back in the late summer of 2008 – an important aspect, but not the only one.

For some years now, the ElringKlinger Group's strategy has been geared towards the major issues affecting our principal customer group, the vehicle manufacturing industry. The challenges are to reduce fuel consumption and CO_2. Given the enormous technical problems and substantial cost disadvantages that still beset electric vehicles, optimization of the combustion engine remains the order of the day. In this area, ElringKlinger has introduced a large number of new series production components including innovative sealing solutions, lighter plastic housing parts, comprehensive shielding modules and high-performance PTFE components. It was thanks to new product start-ups in 2009 that the Group was able to compensate to some extent for the decline in sales of its existing supplies portfolio.

Although the combustion engine – in a substantially more fuel-efficient form – is set to remain the dominant vehicle drive concept for the next 15 to 20 years, ElringKlinger's task is to develop sustained earnings potential in the field of new drive concepts over the medium and long term. In terms of fuel cell technology, we laid the technological foundation for future profitable growth some years ago. In 2009 we also made a major breakthrough in the development of connecting and housing components for lithium ion batteries. Provided that our OE customer remains on schedule, these parts will go into series production as early as 2010. ElringKlinger's Engineered Plastics division also developed high-performance PTFE components for battery applications in electric vehicles and was able to find a number of customers.

ElringKlinger is also making good use of its many years of experience in the area of fuel cells outside the automobile industry and is currently involved in a collaborative project to develop highly efficient stationary applications in the field of combined heat and power (CHP).

Looking at regional developments, it is evident that the focus of vehicle production is increasingly shifting towards Asia, which will be the major source of growth for the industry in the future. ElringKlinger has been involved in China since 1992. At present, we are building two large new factories, one in Souzhou in the south and another in Changchun in northern China. In India, the construction of a plant in 2007/2008 laid the foundation for growth in that country's rapidly expanding market. To round off its presence in Asia, the Group also owns 50% stakes in ElringKlinger Korea Co., Ltd. in Korea and in ElringKlinger Marusan Corporation in Japan. It is therefore well prepared to take advantage of above-average growth in this dynamic region. In short, the clear focus of the ElringKlinger Group now lies on Asia.

There were developments, too, on the equity market. As a pleasing recognition of its success, ElringKlinger stock was promoted to the MDAX in March 2009. Following the collapse in equity markets in the wake of the profound economic crisis, ElringKlinger stock fared better than the market as a whole and achieved third place among the 50 members of the MDAX in terms of share performance in 2009. Although we have not yet returned to pre-crisis levels, further measures to strengthen communication with the capital markets and the Group's prospects for growth and earnings should help to maintain a positive sentiment as regards ElringKlinger's share price in the future.

In 2009, ElringKlinger was one of only a few listed companies to release a target range for its 2009 results. While the majority approach to forecasting was very tentative, for us that was not an option. We produced specific figures within certain bands and slightly exceeded the target we had updated in the third quarter.

The crisis year 2009 now lies behind us. We set many changes in motion and learned a great deal. What is more, we identified significant potential for reducing costs. These are experiences from which we will benefit in the future.

The current fiscal year has begun in encouraging fashion. For 2010, providing the economic recovery does not falter, we anticipate a rise in consolidated sales of between 7% and 10% alongside a more pronounced increase of 12% to 15% in the Group's operating result.

It is people who lie behind every success. The results we achieved in 2009 would not have been possible without the commitment of the entire workforce across the Group. The Management Board would like to thank all employees for showing such dedication, for their loyalty and for making our goals their own. It is thanks to this culture of professionalism that the ElringKlinger Group will be able to meet the challenges of the future within our industry and continue on a profitable trajectory in the best interests of our shareholders.

We hope you enjoy reading our Annual Report for 2009.

Sincerely

Stefan Wolf

Dr. Stefan Wolf

Report by the Supervisory Board 2009

* CF. GLOSSARY

During the 2009 financial year, the Supervisory Board of ElringKlinger AG supported the Management Board in an advisory capacity and monitored its activities as required by the German Stock Corporation Act (AktG) and the German **Corporate Governance*** Code. To this end, the CEO and the Chairman of the Supervisory Board worked in close, ongoing cooperation during the period under review. The Management Board submitted monthly written reports to the Supervisory Board about business developments at the company, and the Supervisory Board held four scheduled meetings in the course of the year. Additionally, supporting and preparatory work was completed by the Audit and Personnel Committees.

Each month, the Management Board specifically informed the Supervisory Board in a timely and detailed manner about economic developments in general, the development of international automotive markets, the competitive environment, business trends at the Group companies – divided into divisions for ElringKlinger AG – with regard to revenue, earnings and order intake, including prior-year and target comparison. An updated projection for the full year was also provided each month. Furthermore, the Management Board reported on the employment level and the status of borrowing.

Each of the four scheduled Supervisory Board meetings dealt with detailed reporting on the course of business in the past period, the risk position and the forecast for the full year. They also examined the following key issues:

In the meeting on March 26, 2009 – which was also attended by the auditor – the Supervisory Board discussed and approved the 2008 financial statements of ElringKlinger AG as well as the consolidated financial statements, including the Management Board's proposal for the appropriation of profit. The critical situation on the automotive markets, their expected development in the course of the year and the years to come and the consequences for the company – especially the employment situation, cost developments and the steps to be taken as a result – were another key topic.

In addition to this, the Supervisory Board was pleased to note that ElringKlinger's shares had been included in the MDAX index effective March 23, 2009. This change reflects the company's growing importance within the capital market and makes the share accessible to additional groups of investors. Moreover, it improves the potential for stock performance and future financing options via the stock exchange.

Furthermore, the Supervisory Board discussed the planned acquisition of Ompaş A.Ş., a supplier of shielding parts in Bursa, Turkey, at this meeting. By means of this acquisition the Management Board intends to improve the business opportunities presented by the Turkish automotive market which is increasingly gaining in importance.

Thoroughly positive comments from the Supervisory Board members about the panel's work were recorded and reported as part of the efficiency audit conducted at the end of the previous year. In particular, this highlighted the culture of open discussion at Supervisory Board meetings.

DR. HELMUT LERCHNER (Chairman of the Supervisory Board)

In the meeting on May 26, 2009, following the 2009 General Meeting of Shareholders, the Management Board presented a risk assessment. Produced at the Supervisory Board's request, it examined the possible consequences of a potential complete default by a major client who was in a critical position. The Supervisory Board then discussed the possible effects on losses of outstanding receivables, revenue, costs, employment, depreciation requirements at ElringKlinger AG and the valuation of the subsidiaries affected.

At its meeting on September 24, 2009, the Supervisory Board primarily examined the progress made by the development projects in the New Business Areas division, which is of great significance for the company's further performance in the longer term. ElringKlinger's future involvement in electric vehicle drive systems plays a crucial role in this context, which can be expected to partly replace the combustion engine as the current area of application for the majority of ElringKlinger's products in the medium to long-term. ElringKlinger projects are focusing on extremely promising developments for components and complete subsystems for high- and low-temperature fuel cells. Besides being used for vehicle drive systems, these fuel cells form part of subsystems such as air-conditioning and stationary applications, including for example building heating systems. Components for high-performance batteries are another aspect of the projects. The potential revenue from these products – some of which are already being manufactured in pilot runs – considerably exceeds the value of the current products per vehicle. They therefore offer good growth prospects, even in the case of a technology shift to electrically powered vehicles. Advantageously, the manufacturing technologies for current products can also be utilized for the new products to a great extent.

At the beginning of December 2009, the Supervisory Board approved, by way of circulation, the Declaration of Conformity issued by the Supervisory Board and Management Board in accordance with Section 161 of the Stock Corporation Act in respect of the German **Corporate Governance Code*** as amended on June 18, 2009; the aforementioned Declaration has been published on the website of ElringKlinger AG on December 4, 2009.

* CF. PAGE 102 ET SEQ.

At the Supervisory Board meeting on December 11, 2009, the agenda centered on the 2010 budget and the medium-term planning for 2010 through 2014. Past expectations had to be adjusted in response to the severe slump within major automotive markets in the 2008/2009 period. Thanks to numerous new supply agreements, the company’s growth and earnings prospects still appeared very positive, however. For the first time, the Supervisory Board as a whole also examined the contracts held by the Management Board members, in accordance with the requirements of the German Act on the Appropriateness of Management Board Compensation (Vorst AG), which took effect on July 31, 2009. The Personnel Committee had prepared the relevant information. The Supervisory Board was of the opinion that the directors’ contracts should be adjusted to the new regulations immediately where necessary, especially regarding the aspects of reasonable and sustainable practice. The Supervisory Board accepted the Personnel Committee’s recommendations on this subject and charged the Chairman of the Supervisory Board with negotiating and agreeing on new conditions with the members of the Management Board. This has since taken place. Details of the directors’ new contractual terms and conditions have been included in the compensation report of this annual report.

The arrangements made by the Management Board for the purpose of ensuring that staff members conduct their duties in compliance with statutory requirements were discussed on several occasions at the meetings convened by the Supervisory Board. The obligation to act in compliance with the law is incorporated within staff employment contracts. Within this context, there are explicit staff regulations relating to this issue. In 2009, a consulting firm specializing in uncovering fraudulent acts was engaged for the purpose of conducting two audits focusing on the issue of “Compliance”. No objections were raised in respect of these audits. It is the view of the Supervisory Board that in doing so the demands relating to compliance were satisfied to an appropriate standard.

In 2009, the composition of the Supervisory Board remained unchanged from the previous year. All the meetings were attended by the full Supervisory Board. No conflicts of interest were recorded between Supervisory Board members and the company. There were neither contractual agreements between the company and individual members of the Supervisory Board nor did Supervisory Board members utilize company funds.

No separate preparations were made for shareholder and staff representatives regarding the Supervisory Board meetings. The comprehensive meeting documents and wholly adequate level of information on both sides made this unnecessary. The Management Board liaised with the Supervisory Board in good time with regard to all transactions requiring approval, furnishing it with all the requisite information. The Supervisory Board granted its approval in all cases, at times by way of circulation.

As in the previous year, the Supervisory Board had the following committees in 2009: the Audit Committee and the Personnel Committee. As before, the Audit Committee was made up of the Supervisory Board members Karl-Uwe van Husen (Chairman), Walter Herwarth Lechler, and Dr. Helmut Lerchner. The Personnel Committee also remained unchanged from the previous year and was made up of the Supervisory Board members Dr. Helmut Lerchner (Chairman), Karl-Uwe van Husen, Dr. Thomas Klinger-Lohr, and Walter Herwarth Lechler.

The Audit Committee met twice in 2009: for a preliminary discussion of the 2008 audit with the auditors in March 2009, and to define the focal points for the audit of the 2009 financial statements in September.

The Personnel Committee convened twice in December 2009 to examine the consequences of the new German Act on the Appropriateness of Management Board Compensation on the contracts held by the company's Management Board members. It agreed on relevant proposed adjustments to be discussed and resolved as appropriate by the Supervisory Board, which is now the body responsible for such decisions.

The 2009 financial statements of ElringKlinger AG, including the management report, and the corresponding consolidated financial statements and Group management report, as presented by the Management Board, were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart. The relevant audit mandate was issued by the Supervisory Board in accordance with the resolution passed by the General Meeting of Shareholders on May 26, 2009.

In accordance with Section 315a of the German Commercial Code (**HGB***), the consolidated financial statements of ElringKlinger AG were prepared on the basis of International Financial Reporting Standards (**IFRS***). The auditor issued unqualified audit opinions for the 2009 financial statements of ElringKlinger AG, including the management report, as well as for the consolidated financial statements, including the Group management report. The Supervisory Board was in possession of the documents relating to the financial and consolidated financial statements together with the Management Board's proposal for the appropriation of profits, as well as the two audit reports compiled by the auditor. The aforementioned documents were studied in depth by the Audit Committee and the Supervisory Board as a whole before being discussed at length and examined in conjunction with the auditor. The Supervisory Board concurred with the outcome of the audit. There were no grounds for any objections to be raised.

* CF. GLOSSARY

At its meeting on March 23, 2010, the Supervisory Board then approved the financial statements of ElringKlinger AG and the consolidated financial statements – together with the associated management and Group management reports – for the financial year 2009. Thus, the financial statements of ElringKlinger AG for 2009 have been adopted in accordance with Section 172 AktG. At the same meeting, the Supervisory Board approved the Management Board's proposal for the appropriation of profit.

The Supervisory Board would like to thank the Management Board and all members of staff at ElringKlinger AG, its subsidiaries and its affiliated companies for their high level of commitment and successful work over the course of the extremely difficult financial year 2009.

Aichtal, March 23, 2010

The Supervisory Board

Dr. Helmut Lerchner
Chairman of the Supervisory Board

"THE HEAT IS ON"

ElringKlinger's catalytic converter heat shield does a whole lot more than you might think.

Modern engines are increasingly compact, lighter and more efficient in design. Injection pressures and temperatures are steadily rising. The same applies to the number of heat-sensitive parts that need protection against the high temperatures generated in the engine or the exhaust tract. In addition to providing protection within this area, ElringKlinger’s heat shields also help to cut engine noise thanks to their integrated acoustic shielding.

HUMPHREY CHEN, MANAGING DIRECTOR, ELRINGKLINGER CHINA, LTD., SUZHOU (CHINA)

Profiting from Change

Guido Reinking, Editor in Chief of the prominent industry journal "Automobilwoche" in an interview with Dr. Stefan Wolf

GUIDO REINKING: Due to the economic and financial crisis and the collapse in European and US vehicle markets, the situation in 2009 was pretty dramatic. At the beginning of the year, the industry found itself in a very big hole. Then, once manufacturers had finished running down their stock levels and the government introduced its scrappage scheme, it was suddenly back to business on the production side. How does a supplier cope with that?

DR. STEFAN WOLF: We had to scale back production considerably in the first half-year. That meant not renewing temporary employment contracts and introducing short-time work. At the same time we were able to cut back general expenses quite significantly and to reduce our working capital. That created a relatively high degree of flexibility and gave us a breathing space. Fortunately, we were able to hang on to our permanent staff, so when business picked up in the second half of the year, we were in a good position to meet the increasing demand.

GUIDO REINKING: Where does it go from here? 2010 seems to have got off to a good start.

DR. STEFAN WOLF: There are certainly signs of recovery. There has been a good start in the passenger car segment in the first half-year, although we are not yet at the level we reached in the first half of 2008 or in 2007. Equally, we still can't plan ahead with the same confidence we had before the crisis. Nevertheless, it's my belief that we will come through 2010 in good shape.

GUIDO REINKING: Global automobile production will take a few more years to work its way back up to the level of 2007. When do you expect to match your 2008 record sales figure of EUR 658 million?

DR. STEFAN WOLF: If all goes well – and that depends of course on what happens in the wider economy – we could finish 2011 with sales around the 2008 mark, much earlier than the market as a whole. Asia is the region where vehicle production is growing faster than average. ElringKlinger is set to increase sales in China from around EUR 20 million in 2009 to around EUR 70–80 million in 2011 – predominantly with local Chinese manufacturers. We'll be able to demonstrate growth in India, too. Strengthenend by the joint venture in Japan, we are also looking to expand our business with manufacturers in that country.

GUIDO REINKING: At present the issue of CO_2 emissions is very high on the agenda, and that really means investing massively in the combustion engine. Is that happening on the scale it needs to be to reduce CO_2 emissions?

DR. STEFAN WOLF: In my view, yes, it is, although that message isn't getting through adequately to the public. There is still tremendous potential for further developments to the combustion engine. As we know, it's a simple equation – reduce consumption and you reduce CO_2. The manufacturers have already made a lot of progress in that direction. For our part, we can make an important contribution, too.

"Our technology leadership, together with our early focus on China, will pay dividends for ElringKlinger in coming years."

DR. STEFAN WOLF, CEO

GUIDO REINKING: So what can you do to help reduce CO_2?

DR. STEFAN WOLF: By our innovative sealing technology and thermal shielding components are a part of the overall trend towards downsizing. Downsizing means lighter, smaller and more efficient engines. Ignition pressures are increasing, and engines are being fitted with turbo-chargers. That means higher temperatures. We are well placed to contribute innovative solutions that shield heat-sensitive parts. We are also replacing heavier metal components with lighter plastic parts as a way of cutting fuel consumption – and therefore CO_2 emissions – by reducing overall weight. Good examples of this are the cam cover, the engine and gearbox oil pans, the end-shield covers and the lateral covers. If you add it up, it's possible to achieve a significant reduction in weight by using plastic instead of metal for these housing modules.

GUIDO REINKING: Let's go back to the combustion engine. As we know, exhaust emission limits are getting stricter all the time. We already have Euro 5, and Euro 6 is on the way. Can you support manufacturers in this area, too?

DR. STEFAN WOLF: Yes, we're already on board in that area with our sealing technology for the engine and exhaust system and our SCR exhaust cleaning components that help cut nitrogen oxide emissions. Incidentally, there's plenty of scope for us in China, India and other Asian countries, too, where they have also introduced stricter emission limits.

GUIDO REINKING: There is also a lot of talk about electric vehicles. Doesn't this represent a threat for a supplier that makes parts for combustion engines?

DR. STEFAN WOLF: I think for the next twenty years electric vehicles will remain a niche market for use in city traffic, with the combustion engine still the dominant force. However, we do expect that specific proportion of electric vehicles, especially hybrids, will gain a foothold within the market in the medium term. As for ElringKlinger, we have successfully established ourselves in the electric market in the area of battery components. We have developed a range of parts for **lithium-ion batteries***, including cell connectors and lead frames. Our Shielding Technology division is currently developing products in this area as well.

* CF. GLOSSARY

GUIDO REINKING: Of course, the fuel cell car is an electric car, too, only people tend to forget that. Fuel cells are really only a way to extend the vehicle's range, which is always going to be the big challenge for electric vehicles. What's your view on that?

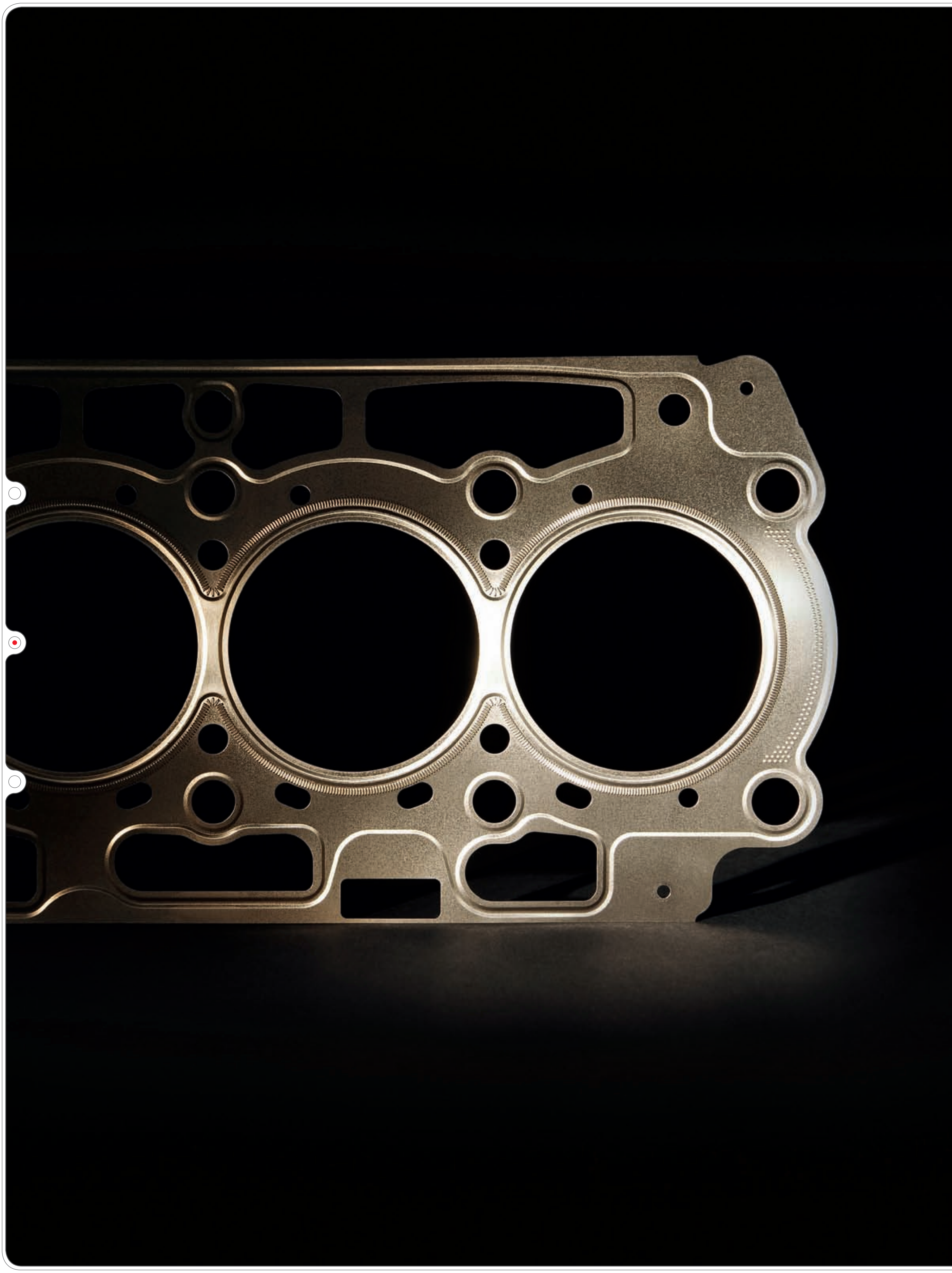
DR. STEFAN WOLF: Range is a key issue, and since 2000 we've been conducting some intensive research into fuel cells in collaboration with vehicle manufacturers. From today's perspective, it's difficult to say with any certainty what shape vehicle drive technology will finally take in 15 or 20 years from now. So it's vital to be prepared for all of these drive technologies, and that's also the route most vehicle manufacturers are taking. We have a large number of patents for cutting-edge products in the area of fuel cell technology. We supply components for prototypes, we make small batches of **bipolar plates***, and we are working on complete stacks that we expect to emerge as power units for vehicles and as stationary applications.

* CF. GLOSSARY

GUIDO REINKING: The crisis in the automobile industry has left many suppliers still experiencing problems with financing, given that they need to pay in advance for their materials and other things. Some look as though they may go to the wall, and others are suddenly up for sale. What shape are you in financially, and would you take the opportunity to make acquisitions?
DR. STEFAN WOLF: With an equity ratio of over 40%, I'd say we are in good shape financially. In 2009, despite the crisis, we were able to finance all our capital expenditure out of ongoing operations and reduce our level of debt considerably. If an interesting opportunity to make an acquisition should arise, we would examine it carefully – but only if it involved some interesting forward-looking technology or if we were able to achieve a substantial improvement of market shares in a certain region.

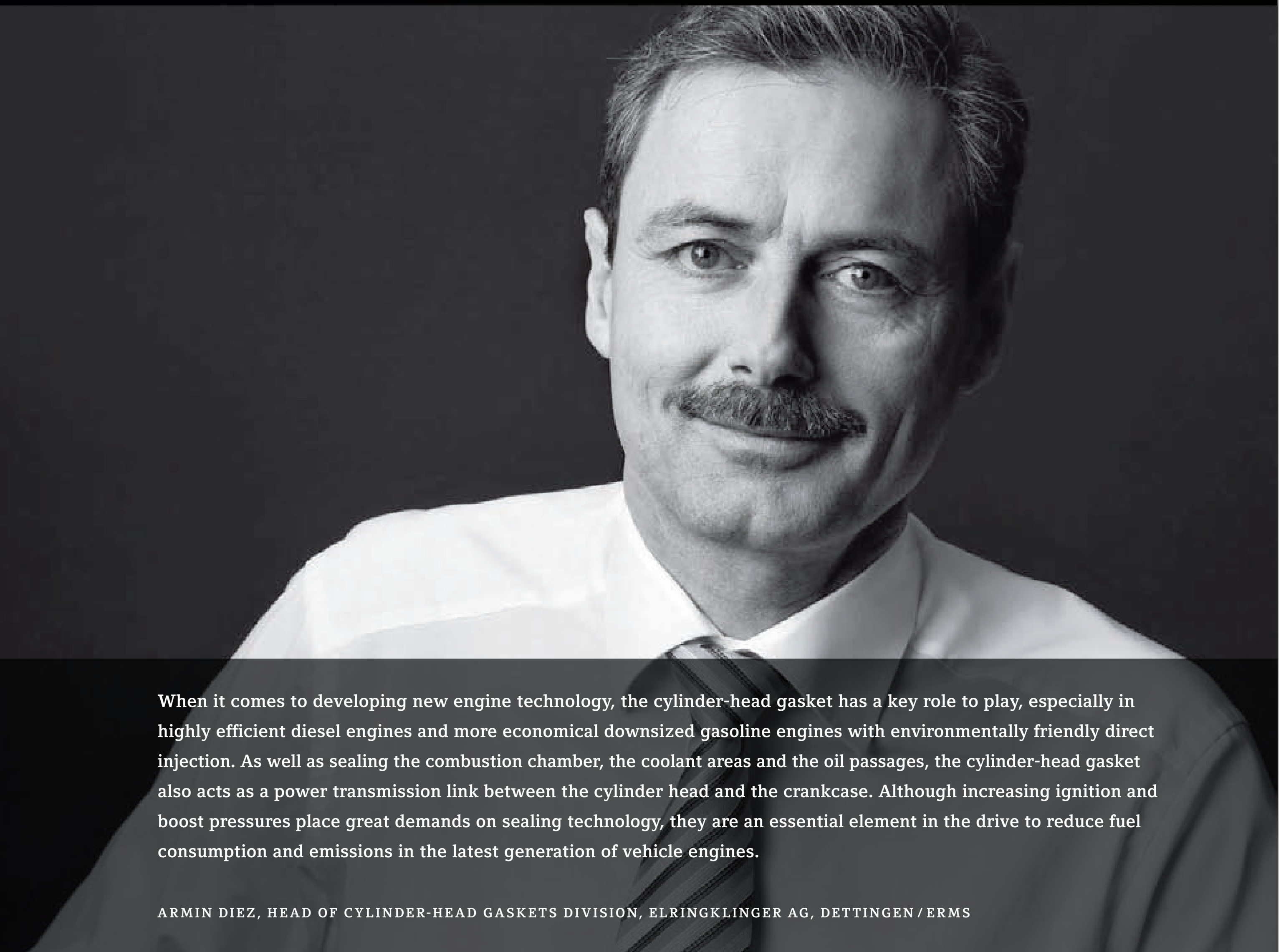
GUIDO REINKING: Would you like to expand outside the automobile industry as well, or are you looking at ways internally in which you can achieve a greater degree of independence from the automobile industry?
DR. STEFAN WOLF: One of our subsidiaries, ElringKlinger Kunststofftechnik, manufactures PTFE products and supplies numerous customers outside the automobile industry. In fact, 70% of its sales revenue is generated from other sources, for example in the medical technology sector. Over the next 5 to 7 years we aim to generate 20% to 25% of Group sales from outside the automobile industry.

GUIDO REINKING: Where do you see ElringKlinger five years from now? And looking beyond that, will ElringKlinger's long-term prospects still lie in the area of mobility?
DR. STEFAN WOLF: I'd say it's perfectly clear that we will always be a vehicle parts supplier. Now that we have established a niche in both the fuel cell and battery technology markets and continue to supply our conventional products for the combustion engine, we are in a good position to be able to respond to future demand and supply the corresponding products whichever vehicle drive technology comes out on top. We are well prepared to carry on supplying innovative components to the vehicle industry for the next twenty years.



"THE PRESSURE'S RISING"

The new generation of cylinder-head gaskets from ElringKlinger: Coined stoppers and a new coating.



When it comes to developing new engine technology, the cylinder-head gasket has a key role to play, especially in highly efficient diesel engines and more economical downsized gasoline engines with environmentally friendly direct injection. As well as sealing the combustion chamber, the coolant areas and the oil passages, the cylinder-head gasket also acts as a power transmission link between the cylinder head and the crankcase. Although increasing ignition and boost pressures place great demands on sealing technology, they are an essential element in the drive to reduce fuel consumption and emissions in the latest generation of vehicle engines.

ARMIN DIEZ, HEAD OF CYLINDER-HEAD GASKETS DIVISION, ELRINGKLINGER AG, DETTINGEN / ERMS

ElringKlinger and the Capital Markets

ElringKlinger shares outpace benchmark indices

At the beginning of 2009, ElringKlinger stock was unable to escape the clutches of challenging financial market conditions and negative industry sentiment, as expressed by those participating in the capital markets. By the end of January 2009, shares in ElringKlinger had fallen to an annual low of EUR 6.20.

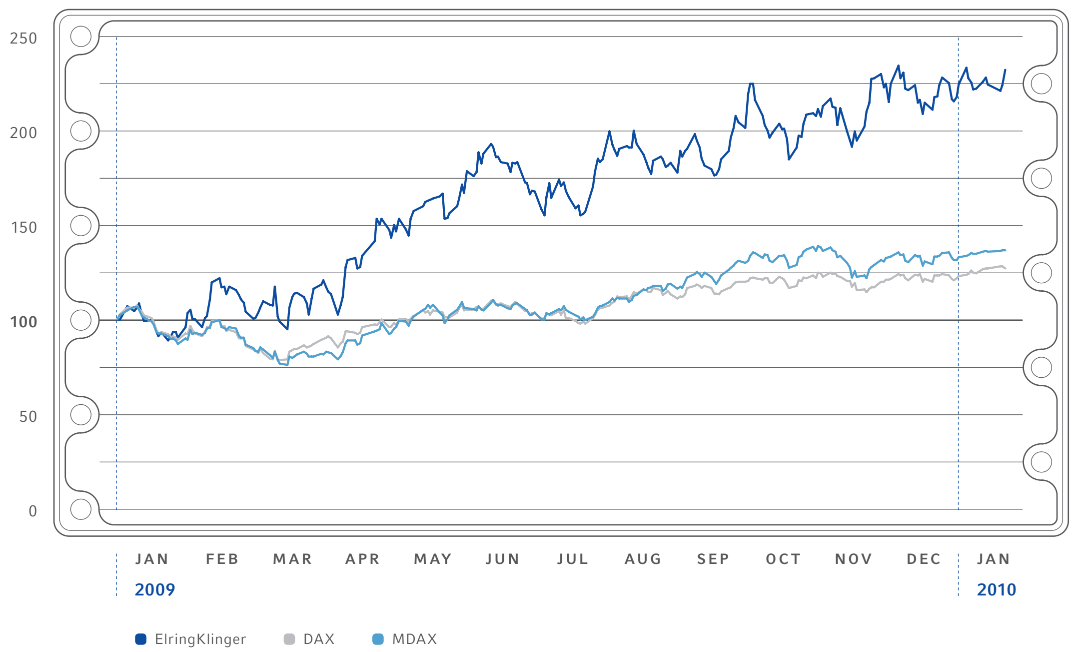
Benefiting from more extensive communication at the beginning of 2009 the stock attracted new interest in particular from private asset managers and investors focused on net asset values. The capital markets honored the fact that ElringKlinger had remained in profit during the first quarter of 2009 despite having been exposed to the most severe crisis seen within the vehicle manufacturing and automotive supply industry. After a volatile sideways movement, stocks continued to be buffeted by occasional fluctuations from mid-March 2009 onwards but nevertheless showed signs of sustained recovery. Against this backdrop, ElringKlinger's share price surged forward to EUR 14.00 by the end of July 2009. Within this context, the inclusion of ElringKlinger AG in the **MDAX*** effective from March 20, 2009, proved helpful, significantly raising investor awareness of the company's business activities.

* CF. GLOSSARY

Shares in the company maintained their forward momentum in the following months, buoyed by a host of new products showcased by the company at the International Motor Show in Frankfurt in September 2009. By mid-November 2009, the stock had reached its annual high of EUR 16.36.

ELRINGKLINGER'S SHARE PRICE PERFORMANCE (XETRA) SINCE JAN. 1, 2009

compared to MDAX and DAX



At the end of 2009, ElringKlinger's share price of EUR 16.20 hovered just slightly below the high for the year and remained 133% up on the previous year's closing price (EUR 6.95). Based on this track record, ElringKlinger's stock delivered the third-best performance of all MDAX-listed shares in 2009. Over the course of 2009, the company's stock also performed much better than its two benchmark indices, the DAX and MDAX, which rose by 23,9% and 34.0% respectively. Despite this, ElringKlinger shares still have significant room for maneuver, with a gap of around 44% in relation to the high achieved at the end of 2007.

Trading volume down in line with market trends

In parallel with the significant decline in trading volumes on the world's stock markets in 2009, the average daily trading value of ElringKlinger shares at German exchanges fell from EUR 2,769,000 to EUR 1,352,000. However, this was due in part to the fact that many investors pursuing a long-term approach purchased ElringKlinger shares with a view to retaining them in their portfolios. As a result, the effective number of shares in circulation was reduced.

ElringKlinger Stock

Earnings per share IFRS (after minority interests, in EUR)	0.58	0.69
Shareholders' equity per share (in EUR)[1]	5.51	5.00
High (in EUR)[2]	16.36	28.58
Low (in EUR)[2]	6.20	5.84
Closing price at Dec. 31 (in EUR)[2]	16.20	6.95
P/E (price to earnings ratio)[1]	27.9	10.1
Dividend per share (in EUR)	0.20[3]	0.15
Average daily trading volume (German stock exchanges; no. of shares traded)	115.200	156.400
Average daily trading value (German stock exchanges; in EUR)	1.352.000	2.769.000
Market capitalization (in EUR million)[1]	933.1	400.3

[1] As of December 31
[2] XETRA
[3] Proposal to the AGM 2010

Closer dialog with capital markets during crisis

Against the backdrop of extremely volatile industry conditions in 2009, ElringKlinger was particularly keen to continue its close and open dialog with investors, analysts and the business media, the aim being to highlight the sustainable nature of ElringKlinger's business model, which focuses on key issues of the future with regard to the reduction of emissions and fuel consumption as well as the use of alternative drive concepts. The company again stepped up its Investor Relations efforts compared to the previous year, with the express purpose of satisfying a greater need for information within the context of the prevailing crisis. As one of the very few companies, ElringKlinger was committed over the entire course of 2009 to providing investors with an assessment of its sales and earnings performance and thus an outlook for the annual period as a whole, insofar as this was practicable.

As part of eleven road shows in total, ElringKlinger took the opportunity during 2009 to provide institutional investors and analysts with first-hand information on the latest market situation and current cost streamlining, as well as new product developments and the company's medium-term business prospects. Additionally, the Management Board and Investor Relations team showcased the company at a total of eleven capital market conferences held in Frankfurt, Munich, Paris, London and Zurich.

In the period under review, communication activities were focused in particular on sustainability funds. ElringKlinger also attended a major environmental conference in London, as part of which the company addressed the issue of sustainability and presented its product portfolio designed to significantly reduce CO_2 emissions.

In September 2009 the company demonstrated its abilities as an innovator at the International Motor Show (IAA) in Frankfurt, where it presented – under the heading "Going for Green" – a number of new products and solutions designed to address the core issues facing today's automotive industry. Journalists, analysts and investors alike seized the opportunity to meet with ElringKlinger's management at the company's exhibition booth for the purpose of discussing the market situation, current development projects and medium-term business prospects.

In November 2009, ElringKlinger AG attended the German Equity Forum in Frankfurt, which is organized by Deutsche Börse and acknowledged as one of the largest capital market events worldwide. It regularly attracts a broad audience, predominantly from abroad.

The company's stronger presence within the capital market also prompted more extensive coverage of ElringKlinger AG in reports issued by banks, brokers and analysts. In 2009, four additional analyst houses included ElringKlinger's stock in their market coverage. Reports issued by the business media and news agencies relating to the company and topics closely associated with ElringKlinger's business activities nearly doubled in 2009.

Proactive communication with private investors

In addition to participating in road shows and events for institutional investors, ElringKlinger is committed to maintaining a close personal contact with private investors and investment consultants. Within this context, the company again placed great importance on responding to inquiries by private investors and other interested parties as rapidly as possible, whether it was by phone or by e-mail.

In close collaboration with regional banks, ElringKlinger hosted several major events for private investors. The meetings, which were organized in cooperation with the BWSC (Baden-Württembergische Small Caps) – an interest group of nine exchange-listed corporations of which ElringKlinger has been a member since the date of formation in 2000 –, were well received by the general public. On the back of this success, the company plans to take part in other events of this kind during 2010.

In January 2009, ElringKlinger AG received the BIRD (Beste Investor Relations Deutschland) Award from the German financial investment magazine Börse Online in recognition of the company's best-in-class approach to private investor communication within the **SDAX***. Readers of the investment

* CF. GLOSSARY

magazine provided an assessment of the perceived quality of Investor Relations work by 160 of Germany's major exchange-listed stock corporations in their dealings with private investors. The survey focused on the quality, credibility and lucidity of communiqués and other pieces of information issued by corporate IR departments. It also looked at companies' annual reports and the quality of their websites. ElringKlinger AG was fourth in the overall ranking, which encompassed DAX- and MDAX-listed corporations.

LACP Gold Award for ElringKlinger's 2008 annual report

As part of the "2008 Vision Awards Annual Report Competition", the League of American Communications Professionals LLC (LACP) presented ElringKlinger AG with a Gold Award in recognition of the company's 2008 annual report. Among the criteria used to assess the various annual reports were first impression, creativity, clarity and transparency, in addition to the perceived quality of financial information presented in the report.

Good result in Investor Relations rankings

The company was encouraged by the Capital business magazine ranking achieved with regard to its financial communication efforts. Since 1997, the magazine – in cooperation with the DVFA (Deutsche Vereinigung für Finanzanalyse und Asset Management) – has been assessing the financial market communications of companies listed in various stock indices, bestowing the Capital IR Award in recognition of excellence in this area. The award is based on a survey of 500 fund managers and analysts based in Germany and abroad. The assessment focuses on the quality of financial reporting and market communication, the main criteria being target group orientation, transparency, reliability and consistency of a company's IR activities. Additionally, the survey looks at details provided by companies with regard to governance and social issues. Having been ranked first last year within the SDAX segment, ElringKlinger AG took ninth place in June 2009 as a newcomer to the MDAX, which includes corporations that are much larger than those listed in the SDAX.

ElringKlinger also performed well in the Thomson Reuters Extel Survey, as part of which some 800 international analysts and investors are asked to assess the transparency of reporting as well as the speed of company responses to inquiries and the level of commitment shown within the area of investor communication. ElringKlinger was ranked 15th within a strong field of competitors.

Shares in ElringKlinger – Stock Details

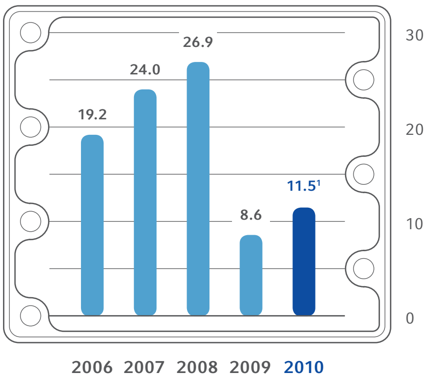
ISIN	DE 0007856023
Security identification number (CUSIP)	785 602
Bloomberg/REUTERS	ZIL2/ZILG n.DE
Capital stock	EUR 57,600,000
Number of shares outstanding	57,600,000
Stock exchanges	for official trading: Frankfurt, Stuttgart, XETRA, Munich, Düsseldorf, Hamburg, Berlin-Bremen
Market segment	Prime Standard
Index	Since March 20, 2009 MDAX (before SDAX)

Significant approval at AGM for fiscal 2008

On May 26, 2009 the 104th Annual General Meeting of ElringKlinger AG was held at the Stuttgart Cultural and Congress Center. The approx. 600 shareholders and guests attending the AGM expressed a visible appreciation for the company. They approved a dividend of EUR 0.15 per share, down from EUR 0.47 per share in the previous year. Calculated on the basis of net income of ElringKlinger AG, the dividend ratio for 2008 was 78.7%. Furthermore, the AGM authorized the company to repurchase its own shares up to a total amount of 10% of share capital at the date on which this resolution was passed.

TOTAL DIVIDEND PAYMENTS

in EUR million



[1] Proposal to the AGM 2010

Shareholder structure – Capital market crisis prompts higher stock trading at beginning of year

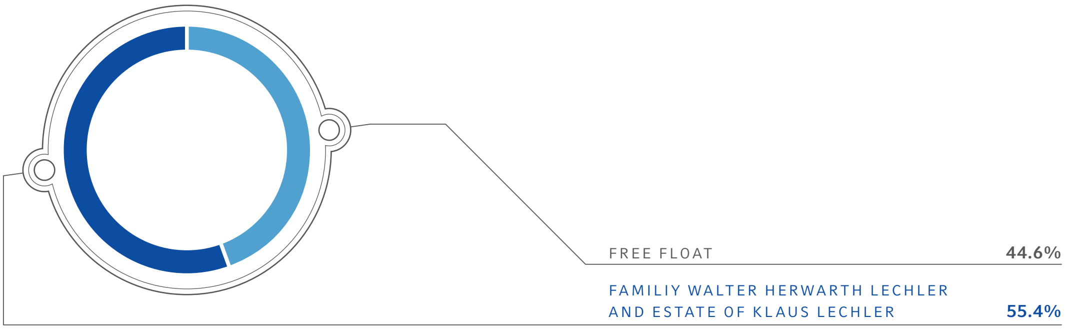
With the global economic crisis looming large, the beginning of 2009 was dominated in particular by more significant portfolio restructuring on the part of institutional investors as well as a general reduction in the number of shares held. By contrast, family offices and sustainability funds expanded their holdings in ElringKlinger stock.

In aggregate, banks and insurers as well as fund and asset managers retained a substantial volume of ElringKlinger shares in 2009. At January 31, 2010, institutional investors held approx. 31% (32%) of ElringKlinger's stock. Within this context, international investment companies were again among the principal investors. As regards the distribution of investors by region, a percentage increase in the shareholdings of North American and Scandinavian investment companies was seen.

* CF. GLOSSARY

The Walter Herwarth Lechler families and those representing the Klaus Lechler estate again increased their interests slightly to a total of 55.4% (55.3%) in 2009. Consequently, **free float*** declined marginally from 44.7% to 44.6%.

SHAREHOLDER STRUCTURE*



* Based upon information available to the company as of end of January 2010

Private investors showed a more pronounced interest in our stock. The number of non-institutional investors rose as of January 31, 2010. Thus, some 11% (12%) of ElringKlinger shares were held by private investors.

ElringKlinger in the new DAXplus Family 30 index

On January 4, 2010, Deutsche Börse introduced a new index comprising thirty listed companies, the aim being to track the performance of family-owned stock corporations – the DAXplus Family 30 index. One of the essential prerequisites for inclusion is that the company's founding family must hold at least 25% of the voting power or that it must be represented on the Management Board or Supervisory Board and then hold at least 5% of the voting power. Deutsche Börse AG selected the thirty largest corporations from a group of 113 German and foreign companies that have a family-based ownership structure and are listed in the Prime Standard segment of the Frankfurt stock exchange. ElringKlinger was included in the new Family 30 index with an initial weighting of 1.5%.

Dividend proposal for 2009 financial year

The 105th Annual General Meeting of ElringKlinger AG is scheduled for Friday, May 21, 2010 and will again be held at the Liederhalle Cultural and Congress Centre in Stuttgart. The Management Board and Supervisory Board will propose to the Annual General Meeting of Shareholders that a dividend of EUR 0.20 (0.15) per share will be paid in respect of the 2009 financial year. Despite the most severe crisis ever to have affected the automobile and automotive supply industry, ElringKlinger is in a position to raise its dividend by a further 33% year-on-year.

Outlook 2010

As in the past, ElringKlinger is committed to maintaining a close dialog with the capital market in 2010. The company has already drawn up plans for several international capital market conferences over the course of the year. Road shows will again take place in the main financial centers of Europe and the United States. The level of interest among institutional investors remains high as regards visiting the Group's sites. ElringKlinger shall also take a proactive approach to meeting the information requirements of private investors, as part of several events to be hosted over the course of 2010.

"FILLING UP WITH ELECTRICITY"

Bipolar plates are used to make batteries for both hybrid and purely electric vehicles.

The battery is the key component of modern electric engines in both hybrid and purely electric vehicles, and ElringKlinger has successfully put its years of experience in fuel cell development to good use in the area of battery technology. ElringKlinger now makes battery components such as separators and bipolar plates for bipolar lead-acid batteries. We have also developed cell connectors and plastic housing frames to link the large number of individual cells in lithium-ion high-energy batteries.

KARIN HUMPENÖDER, DEVELOPMENT ENGINEER, NEW BUSINESS AREAS DIVISION, ELRINGKLINGER AG, DETTINGEN/ERMS

Group 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 marginal 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%.

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[1] Figures in parentheses refer to prior years

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 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. Vehicle sales in the Eastern European states plunged by 26.6% over the course of 2009. 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 level

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 strong 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. The downward spiral seen within the commercial vehicle industry came to a gradual halt in the second half of the year in particular. 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 consideration 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 acquires 90% stake in Ompaş A. Ş., Turkey

Effective from October 27, 2009, the ElringKlinger Group 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 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 a vehicle's engine, transmission and exhaust tract. 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.

* CF. GLOSSARY

Internal Control Criteria

The Management Board of ElringKlinger refers to financial performance indicators as a significant basis for decision-making within the ElringKlinger Group. The performance indicators play an integral role in the overall evaluation of all issues to be assessed within the Group 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 and the Group entities. 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 and the individual Group entities 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.

* CF. GLOSSARY

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

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

* CF. PAGE 70 ET SEQ.

The Management Board of ElringKlinger AG also makes use of non-financial indicators to help it manage the organization. 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 Group Management Report in the sections entitled "**Procurement**", "**Environmental, Quality and Occupational Safety Management**" "**Research and Development**", "**Employees**"* and "Report on Opportunities and Risks".

* CF. PAGE 55 ET SEQ.
PAGE 61 ET SEQ.

Off-balance-sheet financing arrangements are only employed by the ElringKlinger Group 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 Group as at December 31, 2009, are detailed under the heading "**Hedging policy and financial instruments**"* in the Notes to these consolidated financial statements.

* CF. PAGE 77

* CF. PAGE 157

Sales and Earnings Performance

Revenue impacted by economic crisis and sluggish auto markets

The ElringKlinger Group was unable to escape the global economic downturn and the associated slump in demand for automobiles. In 2009, revenue generated from sales by the ElringKlinger Group fell by 11.9% to EUR 579.3 (657.8) million. Within this context, the first quarter of 2009 in particular was dominated by a largely unprecedented level of downsizing on the part of automobile manufacturers, with production figures falling by up to 50%. The share of sales from truck manufacturers at ElringKlinger recorded a contraction from around 10.0% to 6.0%.

In response to the crisis, the initial route taken by car makers was to slash their existing stock levels, as a result of which demand gradually began to rise as of the middle of the year.

Despite the continuing slump witnessed within the area of large commercial vehicles and the contraction in demand experienced by ElringKlinger Kunststofftechnik GmbH, revenue in the fourth quarter of 2009 was again up on the fourth quarter of 2008, which had been dominated by the crisis.

Larger share of Group revenue attributable to foreign sales

The economic and financial crisis had a detrimental effect on sales throughout most of the regions covered by the Group. In contrast to the severe slump seen in other markets, business within the Asian region and South America developed much more favorably in 2009. Benefiting in particular from its strong position in China, ElringKlinger succeeded in expanding revenue from sales in Asia. The share of sales generated by the ElringKlinger Group in markets outside Germany rose to 66.9% (64.1%).

GROUP SALES BY REGION IN 2009 (prior year) in %

SOUTH AMERICA AND REST OF WORLD	6.4 (5.2)
ASIA AND AUSTRALIA	13.8 (11.2)
NAFTA	14.6 (15.3)
REST OF EUROPE	32.1 (32.4)
GERMANY	33.1 (35.9)

Pressure exerted on domestic sales

In Germany, sales revenue attributable to the Group totaled EUR 191.6 (236.1) million, down 18.8% on the previous year. Within this context, far-reaching production cuts as well as the slashing of stock levels by German car and truck manufacturers proved detrimental.

Sales in the rest of Europe contracted at a less pronounced rate, falling by 12.6% to EUR 186.2 (213.0) million in 2009. Within this context, the Group benefited from a higher percentage of deliveries to specific vehicle manufactures in Europe as well as product ramp-ups.

Revenue decline in North America slows considerably over course of year

As a result of the dramatic cut in production figures by US manufacturers of passenger cars and light trucks, reaching up to 50% in the first months of 2009, combined with the continued weakness of the commercial vehicle market, the ElringKlinger Group had to contend with a 15.9% decrease in sales within the NAFTA region, taking revenue to EUR 84.7 (100.7) million.

Buoyed by new product ramp-ups and rising sales contributions from the subsidiary ElringKlinger USA, Inc., Buford, revenue generated by the ElringKlinger Group in the NAFTA region developed more favorably than US car production figures over the same period.

In the fourth quarter of 2009, for the first time sales for this region moved beyond the level recorded in the same period a year ago.

Both the Mexican peso and the US dollar trended weaker against the euro in 2009, as a result of which currency translation into euros had an adverse effect on consolidated sales expressed in the Group currency.

In South America, consumer demand was much more favorable compared to the severe slump afflicting both the European and the North American markets. In 2009, revenue generated by the ElringKlinger Group in South America grew by 7.6% to EUR 36.9 (34.3) million.

Asian market delivers revenue growth

Despite the sluggish Japanese vehicle market, particularly within the truck segment, ElringKlinger was able to pick up from where it had left off with regard to growth in the Asian markets. Within this context, its strong positioning within the Chinese automotive market proved particularly fruitful. In acquiring the former SEVEX subsidiary back in April 2008 – now trading under the name of ElringKlinger China Ltd. – the ElringKlinger Group had provided the basis for a stronger presence within the Chinese market. With new projects scheduled from 2010 onwards, in 2009 the Group commenced work on two new facilities at sites in Changchun (Northern China) and Suzhou (Southern China).

After a noticeable downturn in the Indian automotive market during the first nine months of 2009, orders for the plant in Ranjangaon, in the Pune region, picked up again slightly over the remainder of the year. New projects with several Indian vehicle manufacturers were in the start-up phase during 2009, without actually reaching unit output targets.

The ElringKlinger Group generally benefited from stricter emission standards in China, India, Korea and other Asian countries. Based on stringent European standards, legislation enacted within this area has contributed to growing demand for products developed by the ElringKlinger Group. In total, the ElringKlinger Group expanded its sales in Asia by 8.4% in 2009 to EUR 79.9 (73.7) million. Growth in the share of Group revenue attributable to sales in Asia, up to 13.8% (11.2%), underscores the increasing importance of the Asian market for the Group.

Original Equipment: decline in sales and earnings followed by upward trend

The slump experienced by vehicle markets worldwide had a severe impact on the Group's Original Equipment segment. The decline in revenue from components destined for the commercial vehicle market was particularly pronounced. Indeed, at times revenue generated within this area fell by as much as 50% compared to the levels achieved a year ago.

* CF. GLOSSARY

Within the **Elastomer*** Technology/Modules division, which benefited from several new ramp-ups relating to plastic housing modules, the decline in revenue was less severe than the average downturn recorded in the Original Equipment segment as a whole.

The Shielding Technology division expanded compared to the previous financial year, with several new projects, particularly at ElringKlinger Abschirmtechnik (Schweiz) AG, at ElringKlinger USA, Inc. and at ElringKlinger China Ltd., providing fresh impetus.

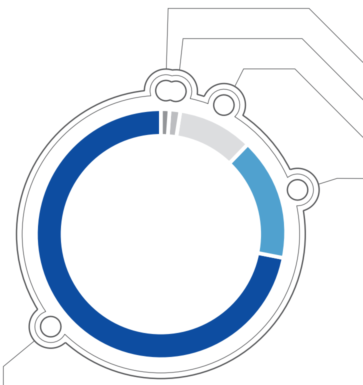
In total, however, sales revenue generated within the Original Equipment segment fell by EUR 58.3 million to EUR 418.2 (476.5) million. In the period under review, the share of Group revenue attributable to Original Equipment sales contracted slightly to 72.2% (72.4%).

Customer demand picked up at a steady rate over the course of the second quarter and more noticeably in the second half of the year. This is illustrated by Group sales in the Original Equipment segment over the course of the year, which grew from EUR 87.3 million in the crisis-stricken first quarter to EUR 122.0 million in the fourth quarter of 2009.

The abrupt slump in the market and the concomitant rise in excess capacity with regard to ElringKlinger's production facilities, the majority of which are highly automated, had an adverse effect on pre-tax earnings within the Original Equipment segment, particularly in the first quarter of 2009. From the second quarter onward, the segment earnings before taxes were well within positive territory again, buoyed in particular by cost-reduction measures introduced throughout the Group as well as rising production volumes.

In aggregate, the Original Equipment segment achieved earnings before taxes of EUR 22.6 (24.5) million for the annual period. Within this context, earnings performance benefited from the positive net effect, equivalent to EUR 3.6 million, relating to the reversal of provisions for derivatives for commodity price hedging on the one hand and required settlement payments on the other.

SALES REVENUES BY SEGMENT IN 2009 (prior year) in EUR million



SERVICES	7.5 (9.6)
INDUSTRIAL PARKS	8.1 (8.6)
ENGINEERED PLASTICS	56.4 (69.1)
AFTERMARKET	93.3 (98.1)
ORIGINAL EQUIPMENT	418.2 (476.5)

Aftermarket business largely stable during crisis

Following considerable growth in 2008, the Spare Parts segment of the ElringKlinger Group 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 global financial and economic crisis.

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

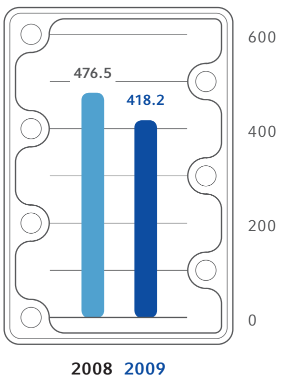
What is more, given the uncertainties associated with the economic crisis, many vehicle owners decided to postpone major servicing and repair work to the greatest extent possible.

Due to the scrappage schemes introduced in Germany and elsewhere in Europe, the market saw a decline in the number of used vehicles with an age of 9 years and over in 2009. Consequently, demand for repair work, mechanic services and, ultimately, spare parts within this segment contracted over the course of the year.

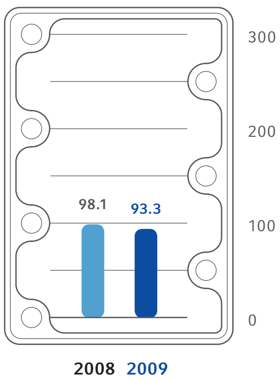
These adverse effects were partially offset by additional market share achieved with the Elring brand as well as an expansion of the company's product range.

In total, revenue from Aftermarket sales declined by just 4.9% to EUR 93.3 (98.1) million in 2009. By contrast, its share of Group sales grew markedly to reach 16.1% (14.9%). Benefiting from a favorable product mix and further process improvements, earnings before taxes rose slightly to EUR 18.4 (18.2) million in the period under review.

SALES IN THE ORIGINAL EQUIPMENT SEGMENT
in EUR million



SALES IN THE SPARE PARTS SEGMENT
in EUR million



Engineered Plastics records slump in demand from plant engineering sector

The Engineered Plastics segment, which specializes in the development and manufacture of products made of PTFE (polytetrafluoroethylene), had to contend with a significant downturn in sales and earnings in the wake of the crisis.

Indeed, essential demand from customers operating in the area of machine and plant engineering collapsed completely toward mid-2009.

Parts requested by automobile manufacturers as part of their production schedules began to stabilize again over the course of the second half of the year. Gaining some ground in 2009, business within the area of medical engineering was encouraging. In November 2009 the new facility in Bietigheim was put into operation, representing a significant expansion of production capacity for this area of application. Additionally, the installation of two initial production lines marked the beginning of industrial series production of components made of **Moldflon®***, an innovative injection-moldable PTFE material. Impacted by the crisis, total sales within the Engineered Plastics segment fell by 18.4% to EUR 56.4 (69.1) million in 2009.

* CF. GLOSSARY

The significant decline in sales and the thus resulting excess capacities had a disproportionately negative impact on earnings – despite the introduction of adjustment measures. Furthermore, earnings were adversely affected by higher systematic depreciation expense associated with the new facility in Bietigheim as well as by start-up costs attributable to Moldflon application projects and the continued expansion of the Group's promising business activities in China. As a consequence, earnings before taxes for the Engineered Plastics segment fell by 60.6% to EUR 5.0 (12.7) million in 2009. The Engineered Plastics segment responded with countermeasures aimed at scaling back costs and promoting sales, as a result of which earnings performance improved slightly in the fourth quarter of 2009.

Stable earnings from Industrial Parks

Rental income from the three industrial parks operated by the ElringKlinger Group in Ludwigsburg, Idstein and Kecskemét, Hungary, was EUR 0.5 million down on last year's figure, totaling EUR 8.1 (8.6) million in 2009. While the German sites benefited from increases in rental prices, the industrial park in Hungary was impacted by the termination of a local tenancy agreement. The construction of a new plant by a major German vehicle manufacturer located in close proximity to the Kecskemét industrial park in Hungary represents potential for growth in terms of property value and revenue. The further improvement in cost structures played a pivotal role in lifting earnings before taxes for this segment to EUR 2.8 (2.4) million despite lower rental income.

Services segment affected by crisis-induced insourcing among customers

The Services segment, which offers development services and engine testing for vehicle manufacturers and also, increasingly, for suppliers operating in the area of exhaust technology, recorded a decline in sales by 21.9% to EUR 7.5 (9.6) million. Within this area, the decision taken by many automobile manufactures to transfer engineering services back to their in-house units on a temporary basis for the purpose of utilizing excess capacities had a noticeable impact. In response to the growing trend toward insourcing, the Services segment has taken initial steps to expand the highly specialized area of emission technology, with a particular emphasis on SCR technology and nitrogen oxide reduction.

As a result of the significant decline in capacity utilization and higher systematic depreciation for the newly commissioned test facility in Bietigheim-Bissingen, earnings before taxes posted by the Services segment fell to EUR 0.6 (2.2) million in 2009.

Positive impact of cost-reduction measures

In response to what is widely considered the most severe slump to have hit the automobile market in recent decades, the ElringKlinger Group initiated an extensive cost-reduction program as early as fall 2008, aimed at non-personal and staff costs, as well as introducing additional measures to raise efficiency levels. The associated savings had an increasingly positive effect on earnings performance over the course of 2009.

Gross margin improves over course of year: EUR 3.6 million in exceptional income from commodity price hedging

Compared to the decline in sales revenue by 11.9%, the Group was only able to scale back the cost of sales by a less pronounced rate of 8.2%. This was attributable principally to the much lower level of capacity utilization in comparison with the previous financial year. Cost-reduction measures implemented in immediate response came into effect on schedule, but with a slight time lag.

ElringKlinger uses derivative hedging instruments for the purpose of addressing the issue of price fluctuations with regard to alloy surcharges, particularly in the case of nickel. In 2009, material expense and thus also the cost of sales at Group level rose by an additional EUR 9.6 million as a result of settlement payments to be made in connection with derivative hedging transactions for alloy surcharges.

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 significant decline in hedged quantities, the majority of provisions recognized under IFRS last year were either utilized or reversed. This led to an increase in other operating income by a further EUR 13.2 million in 2009.

With the prospect of nickel alloy surcharges trending at an acceptable level in the medium term – making derivative-based purchase price hedging superfluous – ElringKlinger 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 Group's gross margin. Within this context, material-related expenses were reined back.

The net result of the reduction in provisions on the one hand and the settlement payments on the other was a positive contribution of EUR 3.6 million to earnings before taxes. In the previous financial year, the recognition of a provision for the negative fair values of commodities-related hedging transactions had adversely affected earnings by EUR 15.9 million.

In the first half of the year, ElringKlinger was unable to benefit fully from the general decline in commodity prices witnessed since the beginning of the crisis, as the Group had scaled back its purchasing volumes considerably as from the fourth quarter of 2008 for the purpose of reducing the level of funds tied up in working capital. Thus, the majority of materials used in the first half of 2009 came from existing inventories. Furthermore, prices for some of the raw materials sourced by ElringKlinger were trending slightly higher from the spring of 2009 onward, but nevertheless remained at an acceptable level based on the long-term average.

In view of the crisis, the ElringKlinger Group in 2009 reduced its staff costs. Within this area, the termination of temporary employment contracts at German facilities within the Group, as well as short-time work introduced as from February 1, 2009, for large parts of the workforce at German sites, had a positive impact on cost structures. In light of the crisis, the company also took advantage of its option to postpone the collective wage increase in Germany by nine months, as well as forgoing performance bonuses paid in years of business growth. The scale of short-time work was gradually reduced from September 2009 onward.

Against the backdrop of the factors outlined above, the Group's gross margin (gross profit as a percentage of sales) receded to 26.4% (29.4%). After a low of 22.6% in the first quarter of 2009, the gross margin recovered to a level of 28.8% in the fourth quarter of 2009 as a result of the factors outlined above.

Selling expenses within the ElringKlinger Group declined by EUR 3.4 million in 2009, which was attributable to a contraction in variable selling expenses as well as general savings within the area of sales and distribution.

The Group also succeeded in scaling back expenses within the area of administration, e.g. with regard to service-related outlays and external staff. As a result, general and administrative expenses fell slightly year-on-year to EUR 23.9 million.

Research and development expense remains high during the crisis

Committed to expanding its formidable competitive position and establishing a solid vantage point for the future with the help of next-generation products, the ElringKlinger Group spent only slightly less on research and development in 2009 than in the previous financial year – despite the crisis.

The main emphasis was on the development of new applications for existing technologies. Another focus was on New Business Areas. The "**Research and Development**"* section of this Management Report includes further details relating to these activities. Despite excess capacities at ElringKlinger Motortechnik GmbH, which generates a significant proportion of its sales through development contracts, and lower expenses relating to materials and tooling used within the area of R&D, research and development expenses stood at EUR 35.7 (36.5) million. The R&D ratio (research and development expenses as a percentage of Group sales) rose to 6.2% (5.5%) at Group level.

* CF. PAGE 61 ET SEQ.

In 2009, ElringKlinger received EUR 3.6 (1.2) million in grants from government-funded programs for new development projects in the area of fuel cell and battery technology. These funds are recognized in other operating income.

A total of EUR 4.6 (4.2) million in development costs was capitalized in 2009. Systematic depreciation/amortization of capitalized R&D work stood at EUR 3.1 (2.6) million in the period under review.

In 2009, other operating income rose by EUR 9.7 million in total to EUR 28.2 (18.5) million, buoyed in particular by the positive effects of commodity price hedging (EUR 13.2 million), as outlined earlier. By contrast, the previous year's figure had included exceptional income of EUR 5.8 million from the first-time consolidation of ElringKlinger Marusan Corporation.

Other operating expenses, which had amounted to EUR 26.1 million in the previous financial year, receded to EUR 11.9 million in 2009. The year-on-year change is attributable first and foremost to the recognition of provisions required in 2008 in connection with commodities-relating hedging instruments, which were equivalent to EUR 15.9 million in total.

* CF. GLOSSARY

Despite the significant decline in production capacity utilization as a corollary of the crisis and the noticeable downturn in revenue as a consequence of this situation, the ElringKlinger Group generated a solid level of **cash flow*** from operating activities. Earnings before interest, taxes, depreciation and amortization (EBITDA) was slightly up on last year's figure, reaching EUR 134.5 (133.2) million. The EBITDA margin edged up slightly to 23.2% (20.2%), an improvement on last year's result.

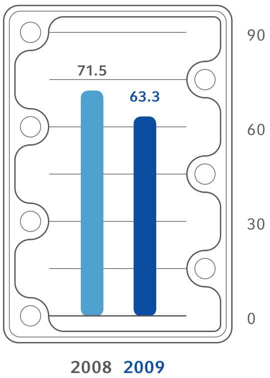
Viewed over an extended period of time, the outflow of funds remained at an above-average level with regard to investments made by the ElringKlinger Group for the purpose, in particular, of preparing future product ramp-ups, expanding in Asia and implementing streamlining measures over the course of 2007, 2008 and also in 2009. As a result, depreciation and amortization (allocated to the functional areas within the income statement) rose to EUR 71.2 (61.6) million in the year under review.

Operating result and EBIT recover over course of the year

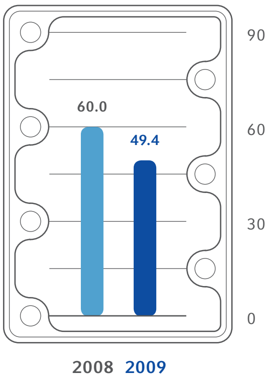
Benefiting from the rapid introduction of a cost-reduction program at Group level in fall 2008, the ElringKlinger Group managed to keep its operating result well within positive territory – even during the first quarter of 2009, which had been impacted particularly heavily by production downsizing on the part of customers. Within this context, the more favorable sales and earnings performance of ElringKlinger's international subsidiaries in Asia and South America as a result of local market conditions, as well as the relatively solid development of the Aftermarket segment at Group level, also contributed to the operating result.

With sales beginning to improve, cost-reduction measures gradually taking effect and material expenses coming down at a more pronounced rate over the course of the year, the operating result improved from quarter to quarter. The operating result also benefited from the above-mentioned reversal of provisions for alloy surcharge hedging, which had been prompted by price developments within the area of nickel.

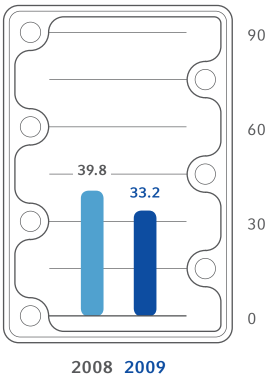
EBIT
in EUR million



EARNINGS BEFORE TAXES
in EUR million



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF ELRINGKLINGER AG
in EUR million



Compared to the previous year, which, as outlined, had been impacted by the recognition of provisions of EUR 15.9 million for commodity-related hedging transactions, the Group's operating result contracted by EUR 12.5 million to EUR 63.3 (75.8) million in the period under review. Down 16.5%, the operating result fell at a slightly faster rate than sales revenue, despite the cost-reduction measures implemented by the Group.

Earnings before interest and taxes (EBIT) followed along similar lines, reaching EUR 63.3 (71.5) million in the period under review, which was 11.5% down on last year's figure. Thus, the operating result was largely comparable to EBIT in 2009 (previous year: EUR -4.3 million). In contrast to the operating result, EBIT includes currency gains and losses.

On this basis, the **EBIT margin*** stood at 10.9% (10.9%), thus matching last year's figure.

* CF. GLOSSARY

Net finance result improves due to lower finance costs and currency effects

At EUR 13.9 (15.8) million, net finance costs were lower than in the previous year. Finance costs fell by EUR 6.8 million year-on-year. Interest expense rose by EUR 1.9 million, while expenses attributable to exchange differences declined by EUR 8.7 million.

At the same time, finance income contracted by EUR 4.9 million. Within this context, the decline in income by EUR 4.2 million in connection with exchange rate differences had a particularly noticeable impact.

As a result, earnings before taxes for the ElringKlinger Group amounted to EUR 49.4 (60.0) in 2009. Compared to the previous year, this corresponds to a decline of 17.7%, slightly more pronounced than in the case of sales. Within this context, the exceptional factors associated with last year's commodity price hedging have to be taken into account.

Net income down 19% year-on-year

At EUR 14.6 (16.8) million, tax expense was lower than in the previous year. This was due to the lower base for taxable profit, which in turn was a result of the decline in annual profit at most of the Group companies. At 29.5% (28.1%), the income tax rate was slightly higher in 2009, driven in particular by more substantial earnings contributions from Group companies based in countries with a tax rate above the Group average.

Thus, net income stood at EUR 34.8 (43.2) million, which was 19.4% down on last year's figure.

Due to the additional interests acquired by ElringKlinger AG, profit attributable to minority interests declined to EUR 1.6 (3.3) million, as a result of which profit attributable to the owners of the parent, ElringKlinger AG, contracted at a slightly less pronounced rate of 16.6% to EUR 33.2 (39.8) million.

* CF. GLOSSARY

Basic and undiluted **earnings per share***, calculated in accordance with IFRS, fell from EUR 0.69 a year ago to EUR 0.58 in 2009. Within this context, earnings per share were computed on the basis of 57,600,000 ElringKlinger AG shares outstanding, unchanged from the previous year.

Group reaches mid-target range of forecast

In 2008, ElringKlinger outlined the significant risks associated with forecasting as a result of the extremely difficult market assessment. The Group was able only in part to meet the original targets that were closely related to trends within the area of passenger car production. Following a sharp downturn in vehicle production figures, recovery within the markets for passenger cars only began to materialize as the year progressed. Against this backdrop, the Group was not in a position to reach its goal of returning to the sales and EBIT levels achieved in 2008. However, the Group also managed to avoid the scenario of a decline in sales towards a level of around EUR 500 million, with an EBIT margin of just 5 to 8% – a possibility that was not entirely remote at the beginning of 2009.

The ElringKlinger Group slightly exceeded its sales and earnings target ranges for 2009, which were adjusted and specified more closely as part of interim financial reporting. These targets had ultimately been set at EUR 540 to 580 million in terms of sales revenue and 8 to 10% with regard to the EBIT margin.

Proposed dividend: higher payout

After allocation of EUR 9.6 (2.3) million to 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.

Financial Position

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

Total assets as at December 31, 2009, rose slightly to EUR 769.1 (764.5) million. The reduction in inventories implemented during the first half of 2009 in particular was more than offset by the increase in property, plant and equipment.

Due to continued capital expenditure during the crisis, assets classified as property, plant and equipment rose by 7.2% to EUR 386.2 (360.4) as at December 31, 2009. Intangible assets, which mainly encompass capitalized goodwill associated with acquisitions, totaled EUR 89.2 (86.5) million as at December 31, 2009.

The reduction in deferred tax assets by EUR 1.7 million was attributable principally to the recognition of a – non-tax deductible – provision in 2008 with regard to the negative fair values of commodity-related hedging instruments.

Thus, year-on-year the share of non-current assets in total assets increased to 68.1% (65.2%) as at December 31, 2009.

Less capital tied up in inventories

As early as the fourth quarter of 2008, the Group stepped up its efforts to scale back inventories in response to the slump witnessed throughout the automotive markets. These measures bore visible fruit over the course of 2009.

Compared to December 31, 2008, capital allocated to inventories was reduced by EUR 28.3 million to EUR 101.5 (129.8) million. Although production volumes began to rise again over the course of 2009, the share of inventories in total assets was scaled back to 13.2% (17.0%) as at December 31, 2009.

In total, trade receivables rose by EUR 8.7 million compared to December 31, 2008. However, this was attributable primarily to the low comparative base at the end of the fourth quarter of 2008, which had seen a tangible reduction in receivables as a result of market contraction.

Other current assets, which mainly include tax receivables, declined by EUR 6.8 million year-on-year to EUR 11.7 (18.5) million, particularly as a result of tax reimbursements received in the period under review.

The developments mentioned above contributed to the increase in cash available to the Group as at December 31, 2009.

In total, current assets accounted for a smaller share of total assets, down to 31.9% (34.8%).

Group equity ratio returns to above 40%

At EUR 8.6 (26.9) million, the dividend distributed in 2009 for the 2008 financial year was EUR 18.3 million lower than in the previous year. This allowed the significant allocation of profit for 2009 to the Group's revenue reserves. As at December 31, 2009, they stood at EUR 250.1 (225.5) million. By contrast, minority interests in Group equity declined in the year under review, chiefly as a result of the larger stake taken by ElringKlinger AG in Changchun ElringKlinger Ltd., China, and due to the dividend distributions to minority interests.

In total, Group equity rose by EUR 29.4 million year-on-year to EUR 317.5 (288.1) million as at December 31, 2009.

Last year's acquisitions, the majority of which had been financed with external funds, had led to a fall in the equity ratio as at December 31, 2008. By December 31, 2009, the equity ratio had returned to 41.3%, thus moving beyond the Group target of 40%.

Due to restructuring of short-term borrowings in favor of loans with longer contractual maturities, non-current financial liabilities, with remaining terms in excess of one year, increased by EUR 14.2 million year-on-year to EUR 164.3 (150.1) million. In parallel, the Group scaled back its short-term financial liabilities compared to December 31, 2008, reducing them by EUR 51.8 million to EUR 56.2 (108.0) million.

Due to an increase in benefit rights for entitled staff within the ElringKlinger Group, pension provisions had to be expanded by EUR 0.9 million to EUR 59.4 (58.5) million.

The share of non-current liabilities in total equity and liabilities rose from 35.6% as at December 31, 2008, to 38.8% as at December 31, 2009.

Current provisions fell from EUR 22.9 million as at December 31, 2008, to EUR 10.7 million as at December 31, 2009. This was attributable primarily to the maturity or positive development of fair values associated with commodity-related derivatives.

As a result of the gradual recovery in demand over the course of the year and the concomitant rise in purchasing volumes, trade payables were EUR 2.4 million higher as at December 31, 2009, than at the same date a year ago.

Group tax liabilities rose by EUR 3.2 million compared to December 31, 2008, to EUR 9.1 (5.9) million.

In aggregate, current liabilities accounted for just 19.9% (26.7%) of total liabilities and equity as at December 31, 2009.

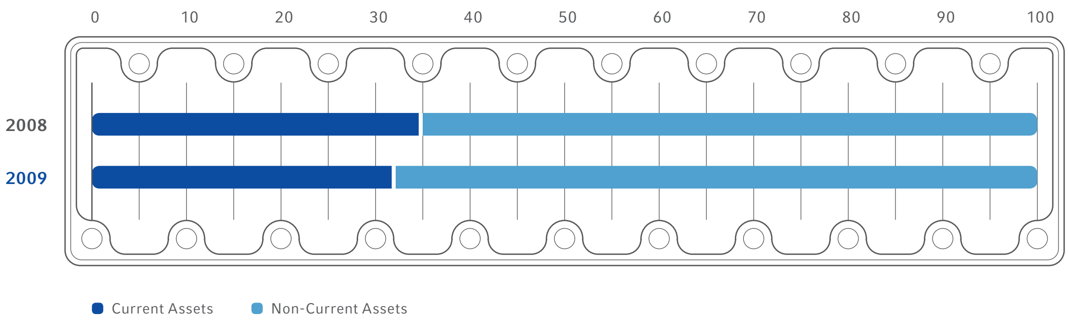
Reduction in net debt

Despite a dividend payment of EUR 8.6 million, the ElringKlinger Group 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 Group scaled back net debt by EUR 43.5 million to EUR 194.9 (238.4) million.

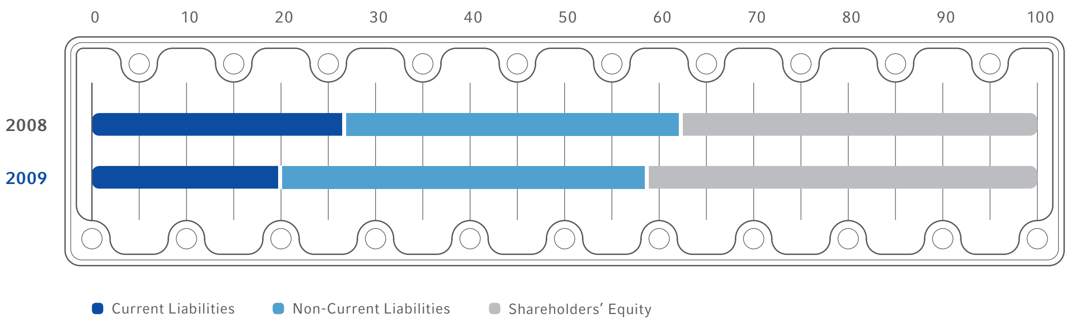
In aggregate, the share of liabilities as a percentage of total liabilities and equity of the ElringKlinger Group fell to 58.7% (62.3%) as at December 31, 2009.

BALANCE SHEET STRUCTURE ELRINGKLINGER GROUP

ASSETS in % of Balance Sheet Total



LIABILITIES AND SHAREHOLDERS' EQUITY in % of Balance Sheet Total



Cash Flows

Net cash from operating activities reaches EUR 149 million

Generating net cash from operating activities of EUR 148.8 (98.2) million in 2009, the ElringKlinger Group recorded the highest ever operating cash flow in its corporate history.

Compared to the previous financial year, the contraction in earnings before taxes by EUR 10.6 million had a negative impact on cash flow.

By contrast, the increase in depreciation/amortization of non-current assets by EUR 9.5 million to EUR 71.2 (61.7) million as a result of more expansive investment spending in 2007, 2008 and 2009 had a positive effect on net cash from operating activities.

Whereas provisions had increased by EUR 8.7 million in 2008, provisions reversed or utilized totaled EUR 13.9 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.

Intensive efforts targeted at working capital management during the crisis also provided a significant stimulus for cash flow. The ElringKlinger Group 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 revenue increased during the second half of the year, the Group managed to scale back capital tied up in inventories and trade receivables as well as other assets not resulting from financing and investing activities. Inventories and trade receivables as well as other assets not resulting from financing and investing activities were slashed by EUR 21.4 (16.7) million in total in 2009.

Due to the reinvigoration of sales as the year progressed and the thus resulting rise in purchasing volumes, trade liabilities and other liabilities not resulting from financing and investing activities increased by EUR 17.2 (-14.6) million in total. In contrast to the previous financial year, net cash from operating activities increased as a result of these factors.

Additionally, lower income tax expense and tax reimbursements had a positive impact on operating cash flow. In 2009, income tax payments totaled EUR 1.9 million, in contrast to a total of EUR 33.7 million in income taxes paid by the ElringKlinger Group in the previous financial year.

In aggregate, the ElringKlinger Group generated net cash of EUR 148.8 (98.2) million from operating activities, up 51.5% on last year's figure. The cash return (cash flow from operating activities in relation to sales) thus stood at 25.7% (14.9%).

Cash outfow from investment activity reduced

At EUR 95.0 (137.9) million, Group payments for investments in property, plant and equipment as well as investment property and investments in intangible assets were scaled back by EUR 42.9 million year-on-year. The majority of funds were channeled into investments for the purpose of business streamlining and plant investments for scheduled product ramp-ups.

In contrast to the substantial payments for corporate acquisitions totaling EUR 75.9 million in the previous financial year (primarily for the SEVEX Group), the comparable cash outflow in 2009 amounted to just EUR 3.0 million for the acquisition of a further 10.0% ownership interest in Changchun ElringKlinger Ltd., China, as well as a majority stake in Ompaş A. S., Turkey.

In total, net cash used in investing activities contracted from EUR 211.7 million to EUR 93.6 million.

On this basis, the ElringKlinger Group had an operating **free cash flow*** (cash flow from operating activities less cash flow from investing activities, adjusted for acquisitions) of EUR 58.2 (-37.6) million in 2009.

* CF. GLOSSARY

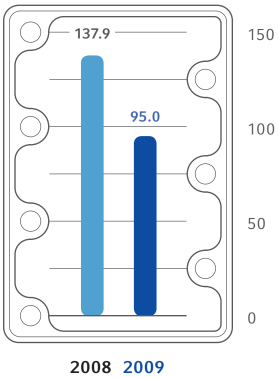
In 2009, the Group replaced the majority of its short-term financial liabilities with instruments with extended maturities, for the purpose of safeguarding long-term funding of growth at Group level. Within the context of this restructuring in particular, the ElringKlinger Group expanded its non-current financial liabilities by a net total of EUR 14.0 million in 2009. In the same period, the Group's substantial cash flow from operating activities provided the basis for the repayment of short-term bank borrowing of EUR 52.4 million.

In the previous year, the Group had taken out long-term loans of EUR 101.6 million as well as short-term loans of EUR 55.8 million, primarily for the purpose of financing its acquisitions and property, plant and equipment.

In 2009, the ElringKlinger Group made dividend payments of EUR 10.4 (27.3) million in total to shareholders and minority interests. Thus, total net cash used in financing activities amounted to EUR 49.3 million, compared to EUR 116.9 million in net cash from financing activities a year earlier.

As at December 31, 2009, cash and cash equivalents available to the Group amounted to EUR 25.6 (19.7) million.

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



Group Companies

Total number of consolidated entities unchanged

As at December 31, 2009, the ElringKlinger Group consisted of ElringKlinger AG and 24 active and fully consolidated subsidiaries as well as two joint ventures with a total of four entities. In total, the number of entities included in the consolidated group remained unchanged year-on-year. However, as a result of acquisitions, mergers and restructuring measures, the following changes occurred during the 2009 financial year:

Former SEVEX subsidiaries integrated into uniform Group structure

The two former SEVEX subsidiaries ElringKlinger China Ltd. and Sevex Holdings Inc. were sold within the Group by ElringKlinger Abschirmtechnik (Schweiz) AG (formerly Sevex AG) to ElringKlinger AG, the aim being to create a uniform Group structure with direct subsidiaries of the parent company (avoidance of second-tier subsidiaries) and direct management of the affiliated entities by ElringKlinger AG.

Effective from July 31, 2009, Sevex Holdings, Inc. was merged into ElringKlinger USA, Inc. Effective from December 24, 2009, the former SEVEX subsidiary in the US, ATD Thermsulate AG, was liquidated. Following the acquisition of the SEVEX Group in 2008 and the restructuring measures implemented, only three former SEVEX companies currently exist: ElringKlinger Abschirmtechnik (Schweiz) AG, ElringKlinger China Ltd. and ElringKlinger USA, Inc.

Acquisition in Turkey: international expansion of Shielding Technology division

In 2009, the ElringKlinger Group pressed ahead with measures aimed at expanding its Shielding Technology division, having received several large-scale orders for heat shields from Turkish and international vehicle manufacturers with production facilities in Turkey.

Against this backdrop, on October 27, 2009, ElringKlinger AG acquired 90% of the interests in the Turkish company Ompaş Otomotiv Metal Plastik Imalat Sanayi ve Ticaret Anonim Şirketi (Ompaş A. Ş.) as well as 70% of the interests in this entity's fellow subsidiary KITEK Kalip Ve Ileri Teknoloji Makina Sanayi Ve Ticaret Ltd. Şirketi (KITEK). With a focus on the production of thermal shielding components, the two Bursa-based companies will now cement the position of the Shielding Technology division within the burgeoning Turkish automotive market. Effective from January 8, 2010, Ompaş A. Ş. was renamed ElringKlinger TR Otomotiv Sanayi ve Ticaret A. Ş.

In acquiring the two Turkish companies, the ElringKlinger Group has implemented the necessary step of entering the Turkish market, which is becoming increasingly important. Within this context, the Group can build on the existing structures offered by the acquired companies. Furthermore, the transaction has extended the Group's international production network through the addition of a cost-effective and competitive location on the immediate perimeters of Europe. The plan is to merge the two as yet separate entities ElringKlinger TR Otomotiv Sanayi ve Ticaret A. Ş. and KITEK and operate the thus resulting company as a subsidiary of ElringKlinger AG.

Following its acquisition in Turkey, as at December 31, 2009, the ElringKlinger Group was represented in 16 countries with a total of 20 production companies, two sales companies and three aftermarket sales companies.

The joint ventures ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, were included in the 2009 consolidated financial statements on a proportionate basis, i. e. according to the percentage interests held by ElringKlinger AG (50%).

ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Elring Klinger Motortechnik GmbH, Idstein, ElringKlinger Logistic Service GmbH, Rottenburg/Neckar, as well as Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH, Dettingen/Erms, have their registered offices in Germany.

The international companies within the ElringKlinger Group include eight subsidiaries in Europe, six in the NAFTA region, four in Asia and one entity each in South Africa and South America respectively.

Investments at subsidiaries

In 2009, more than half of the Group's capital expenditure on property, plant and equipment as well as investment property was attributable to the subsidiaries and affiliated entities. Thus, investment spending at the Group companies was maintained at a solid level in 2009, despite the severe crisis within the industry.

The new plant built for ElringKlinger Kunststofftechnik GmbH at its site in Bietigheim-Bissingen was one of the principal investments in the period under review. With a total investment of approximately EUR 12.0 million, the existing production premises at this site have been expanded significantly over the last two years. These measures have also included the installation of two initial production lines to process the injection-moldable PTFE that ElringKlinger is marketing as Moldflon®.

Within the Asian region, the main focus of investments was on expanding capacity at the two Chinese sites operated by the Group. In view of the dynamic level of growth in China, the existing sites were working close to maximum capacity in 2009. In response to this situation, work commenced on the construction of a much larger facility for Changchun ElringKlinger Ltd., located at the Changchun site in the north of China, while ElringKlinger China Ltd. in Suzhou, within the Shanghai region, pressed ahead with the construction of an additional plant.

In preparation of the starts of production relating to newly developed products, the ElringKlinger Group invested in an injection-molding system for the production of lightweight plastic housing modules at the facility in Brazil. At the former SEVEX subsidiary ElringKlinger USA Inc. in Buford, USA the Group made further investments in machinery and equipment in preparation of the production start-ups scheduled for new thermal shielding components to be supplied to US truck and engine manufacturers, as well as in additional production automation.

At ElringKlinger Abschirmtechnik (Schweiz) AG, the focus was on expanding overall production floor space and establishing a storage facility for the provision of production tools used in operations.

Significant regional divergence in business performance during 2009

The progression of business at the respective Group companies varied significantly from region to region, depending on the prevailing market and industry climate. The Group companies in Asia as well as ElringKlinger do Brasil Ltda. were less affected by the severe slump within the automobile markets than those Group companies operating in Western Europe and North America. This is illustrated by the production volumes recorded by the subsidiaries in Europe and the NAFTA region, which fell sharply in some cases, while Brazil and China registered growth in production output. Buoyed by several new ramp-ups, ElringKlinger Abschirmtechnik (Schweiz) AG also managed to increase its revenues slightly year-on-year despite the crisis afflicting the automotive market.

Subsidiaries outperform parent company in sales

Revenue generated by the subsidiaries and affiliated companies totaled EUR 298.0 (308.1) million in 2009. The year-on-year decline of 3.3% was less pronounced than that recorded by the German parent company. In particular, the Group companies were able to reap the rewards associated with a more buoyant automobile market in South America and Asia, as well as benefiting from the new ramp-ups. The first-time inclusion of the former SEVEX Group in the consolidated group for the full twelve-month period (in 2008 from April 1) as well as the larger stake taken in ElringKlinger Marusan Corporation (in 2008 from May 1) contributed to sales growth at the subsidiaries and affiliated companies in 2009.

Within this context, the non-domestic companies performed considerably better in 2009 than the domestic subsidiaries of ElringKlinger AG. Of the sales revenues generated by the subsidiaries and affiliated companies, an amount of EUR 57.7 (74.5) million was attributable to Germany, while EUR 240.4 (233.6) was recorded abroad. Correspondingly, sales revenue generated abroad rose by 2.9% in 2009, whereas the figure attributable to Germany contracted by 22.6%.

Consolidated net income stabilized by cost savings and growth in emerging markets

As part of the Group-wide streamlining program, all companies within the ElringKlinger Group implemented measures aimed at scaling back costs and adapting to prevailing market conditions in a timely manner. Over the course of 2009, the downturn seen within the automobile markets also adversely affected many of the subsidiaries of ElringKlinger AG as regards the quantities requested by customers as part of their production schedules. Streamlining measures and the successful reduction of costs, particularly within the area of general and staff costs, made a positive contribution to earnings at the subsidiaries and affiliated companies. Generating EUR 26.8 (30.7) million in total, these entities contributed a much higher percentage of Group earnings before taxes in 2009 than in the previous financial year.

Employees

Slight fall in Group headcount

The ElringKlinger Group employed 4,171 (4,175) people as at December 31, 2009, slightly down on last year’s figure. In total, 47 employees joined the Group due to the acquisition of Ompaş A. Ş., Turkey. Excluding these members of staff, who were not part of the Group in the previous year, the headcount would have stood at 4,124. The annual average number of employees within the ElringKlinger Group was 4,029 (4,085).

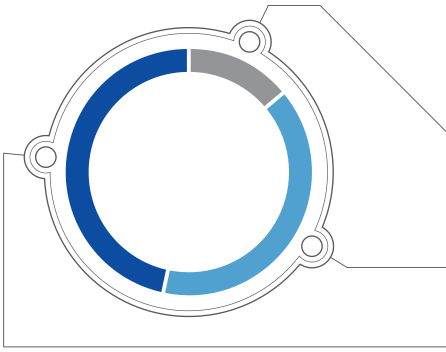
The decline in the average headcount at Group level was attributable to the severe slump in sales markets seen as early as fall 2008, which resulted in essential adjustments to production volumes. The immediate response by the ElringKlinger Group was to reduce staff flexitime and vacation day accounts. To a large extent, temporary employment contracts were not extended at the German facilities.

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

Aided by these measures and contributions from the Group-wide streamlining program, the company succeeded in retaining the core workforce of ElringKlinger AG despite the difficulties facing the automotive industry in 2009 and thus maintaining know-how and capacity levels for growth anticipated in the medium term.

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.

ELRINGKLINGER GROUP EMPLOYEES WORLDWIDE December 31, 2009 (prior year)



DOMESTIC SUBSIDIARIES	589 (630)
AG	1,636 (1,737)
FOREIGN SUBSIDIARIES	1,946 (1,808)

Domestic staffing levels down following market slump in Europe

Compared to December 31, 2008, the domestic headcount fell by 142 to 2,225 (2,367) staff members. At the end of 2009, the number of people employed in Germany as a percentage of the total headcount for the Group stood at 53.3% (56.7%).

Due to the significant cut in production volumes by North American vehicle manufacturers, staffing levels were downsized at both the Canadian and the Mexican ElringKlinger companies.

More employees in Asia and Brazil

Against the backdrop of continued growth in China, production capacity at the two Chinese ElringKlinger companies was further extended over the course of the year. The total headcount in this region rose by 57 to 289 (232) in 2009.

Similarly, solid demand within the South American automobile market, together with planned product start-ups, prompted an expansion of the workforce at Elring Klinger do Brasil Ltda.

As at December 31, 2009, the total headcount of the non-domestic Group companies stood at 1,946 (1,808), up 138 on the previous year.

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 quantities requested by customers as part of their production schedules.

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. Throughout the Group 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 Group managed to combat shortages experienced with regard to specialist materials towards the end of the year. Owing to the close working relationship with Group 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.

The Group'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 20.6% to EUR 324.4 (408.6) million, i.e. at a more pronounced rate than the decline in Group 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 the ElringKlinger Group, which include carbon 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 Group with products from which the materials are made.

The Group 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.

The ElringKlinger Group 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

The ElringKlinger Group's energy consumption fell by 11.4% 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 3.6% in 2009.

In 2009, the ElringKlinger Group 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 company 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, Group Purchasing again regularly conducted extensive global quality and cost benchmark analyses over the course of 2009.

Working in close collaboration with Quality Management, Group Purchasing 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 facility in Ranjangaon, India, the Group also selected and developed local suppliers in India. Auditing of these suppliers has yet to take place.

Additionally, Purchasing 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 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

Group-wide quality and environmental measures

As an automotive supplier operating within the global arena, the ElringKlinger Group 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. All production sites operated by the ElringKlinger Group 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 Group companies 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 throughout the Group. With standards that are applied uniformly at a global level, the Group is in a position to guarantee high product quality on a consistent basis throughout the international manufacturing network.

Building on its clearly defined objective of zero-defect quality in all of its processes, the ElringKlinger Group 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 the ElringKlinger Group are also certified in accordance with the ISO 14001 environmental standard. The extension of the environmental certification, which was again due in 2009 at several of the affiliated enterprises, was successfully completed without exception.

Additionally, all sites of the Group 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 Group 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 throughout the Group as part of this process are assessed in relation to other companies and refined on a regular basis. Where required, the Group's 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, the ElringKlinger Group has been making a direct contribution to climate protection. The key component of the Group'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 CO_2 reduction as well as strict Euro standards.

Investments in energy efficiency

Over the course of 2009, the ElringKlinger Group again channeled considerable investments into the modernization of machinery at a global level, 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, the Group 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. The same principles were applied to the newly constructed production building at ElringKlinger Kunstofftechnik GmbH. 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 at all production sites within the Group, for the 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 Group'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 48.4% year-on-year.

The Group used the periods of short-time work at its German locations 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, the ElringKlinger Group 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.

The ElringKlinger Group 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 CO_2 reduction. Increasingly, innovative suppliers are seen as sources of inspiration.

As one of the few global automotive suppliers, ElringKlinger 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 Group 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.

* CF. GLOSSARY

The emphasis placed on development is reflected in the company's R&D ratio. Research and development expenses recognized in accordance with IFRS accounted for 6.2% (5.5%) of Group sales, which was in excess of the industry average.

Research and development expenses incurred by the ElringKlinger Group totaled EUR 35.7 (36.5) 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.

The Group's research and development activities are focused to a large extent at the parent company's sites in Germany and at ElringKlinger Abschirmtechnik (Schweiz) AG. In pursuing this approach, the Group 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.

As at December 31, 2009, the ElringKlinger Group employed 281 (293) staff members in research and development.

Focusing on CO_2 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 CO_2 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.

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 came up with new cylinder-head gasket designs. 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 requirements of turbocharger applications, which are becoming increasingly popular within the industry.

ElringKlinger 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 module facilitates optimum processing of the injected urea solution, which neutralizes the nitrogen oxides into nitrogen and water. Within this area, ElringKlinger 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 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 multifunctional 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 **NOx*** 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.

* CF. GLOSSARY

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. Within this context, ElringKlinger has commenced work on solutions aimed at electromagnetic shielding of lithium-ion batteries currently used in hybrid vehicles in particularly.

Plastic housing modules replace metal components

The Elastomer Technology/Modules division made a significant contribution to weight and CO_2 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 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 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, the ElringKlinger Group significantly expanded its development activities within New Business Areas over the course of 2009. Within this context, ElringKlinger 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 Group 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, ElringKlinger presented its results to customers at the 2009 IAA Motor Show.

* CF. GLOSSARY

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 developed a pioneering coating material based on an alkali silicate substance. Initially licensed worldwide and exclusively to ElringKlinger for automotive applications by the partner company specializing in coating technology, 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 CO_2 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 completing 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 believes that this technology will also be of interest to a wide range of truck manufacturers.

Fuel cell technology also for stationary applications

ElringKlinger 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, ElringKlinger 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.

* CF. GLOSSARY

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, the ElringKlinger Group 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 sees interesting market opportunities in the coming years.

* CF. GLOSSARY

ElringKlinger 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 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 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 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 Group has unlocked additional growth opportunities in the field of battery technology.

Alongside cell and module connectors, ElringKlinger 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, ElringKlinger 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.

Indeed, as a classic supplier of parts used in combustion engines, ElringKlinger has been quick off the mark in terms of establishing a solid platform from which to capture a share of the potential growth associated with the burgeoning electric vehicle market in the long term.

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, the ElringKlinger Group is well positioned to pursue its target of long-term revenue growth of 5 to 7% per annum.

The new product concepts currently under development or scheduled for market rollout by New Business Areas 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 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.

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 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 315 (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 the ElringKlinger Group'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 Group 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 the ElringKlinger Group 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 deployed at the ElringKlinger Group is that of tracking the implementation of measures defined by the company. ElringKlinger 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 the Group companies. These internal audits are conducted by an accountancy firm. The rationale behind the appointment of external specialists 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 financial reporting, the internal control and risk management system may be described with reference to the following basic characteristics. The system is geared toward the identification, analysis, valuation, risk control and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board. In accordance with the distribution of responsibilities, Finance and Corporate Investment Management, which are in charge of accounting, come under the remit of the Chairman of the Management Board. These departments control accounting with the Group and compile the information required for the preparation of the consolidated financial statements. Corporate Investment Management is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. With regard to these matters, the Group companies report to the Head of Corporate Investment Management.

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.

ElringKlinger has defined the IFRS accounting standards in an internal handbook. Throughout the accounting process, all Group companies are expected to observe the standards laid out in the handbook. All the main valuation standards such as those covering inventories, tools and receivables under IFRS are specified in mandatory form in the handbook. Mandatory reporting forms are also in use across the Group as a way of ensuring uniform treatment of the same issues.

All Group companies are expected to comply with a pre-defined schedule for preparation of the Group financial statements and the Group Management Report. With the exception of the Group's German subsidiaries, whose financial statements are prepared by the Accounts department at ElringKlinger AG, each is responsible for drawing up its single-entity financial statements in accordance with local accounting rules and IFRS. Internal Group clearing accounts are checked off by means of balance confirmations. The financial reports of Group companies are stored in a separate database containing not only financial data but also information that is of importance in the Notes to the Consolidated Financial Statements. The data and information are checked prior to release and consolidation in the respective centralized departments.

SAP is used by the Group's German companies and some of its international subsidiaries. The remaining companies use a variety of EDP systems. ElringKlinger aims to extend the use of SAP to other manufacturing companies within the Group of an appropriate size. All the systems employed provide for hierarchical access rights. All releases are documented in the system. For those companies using SAP, access rights are managed centrally in line with the established rules. Within the Group's German companies, release decisions are taken by the Head of Finance in consultation with the CEO. Within ElringKlinger's international subsidiaries, they are taken by the Head of Affiliate Management, again in consultation with the Management Board. At companies using other systems, decisions on access rights are taken by local senior management in consultation with the AG's Head of Affiliate Management.

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 the ElringKlinger Group's risk management system as a way of identifying accounting-related risks at an early stage allowing the company to take prompt action to anticipate and avoid potential risks.

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

Risks

Market and sales risks

As a global automotive supplier, the ElringKlinger Group 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 the ElringKlinger Group. 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. 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 may need to provide advance financing.

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

Having said that, approximately one third of Group sales revenue in 2009 was attributable to the Group's three largest customers. Nevertheless, ElringKlinger 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 20% of Group sales revenue 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 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 Group will decline an order. The Group 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 of sales of the ElringKlinger Group.

Despite a massive collapse in production volume and sales at the height of the crisis, the Group 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, the ElringKlinger Group 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 the ElringKlinger Group - in view of 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.

The Group's above-average growth in Asia, especially in China and India, could gradually ease its overall wage costs given the lower wage levels prevailing in those regions.

Currency risks

The main currency risks facing the ElringKlinger Group relate to the loans made by the ElringKlinger AG to its subsidiaries and receivables from affiliated companies. The Group is principally affected by movements in the exchange rates between the euro and the Canadian dollar, the US 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 net finance result of the ElringKlinger Group. The corresponding financial liabilities are settled in Swiss francs out of the appropriated profits of ElringKlinger Abschirmtechnik (Schweiz) AG. Therefore, from an overall perspective, the payment flows are not exposed to the risk of loss.

Overall, the currency risks affecting the Group are well contained. As far as possible, ElringKlinger 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, the ElringKlinger Group 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 the Group 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, the ElringKlinger Group provides financing for its subsidiaries in the form of long-term loans of ElringKlinger AG 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, the ElringKlinger Group has a solid financing profile. With an equity ratio of over 40% and strong cash flow from operating activities in excess of the Group'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 the ElringKlinger Group 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 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.

The ElringKlinger Group 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 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. Over the last few years, ElringKlinger has established a strong base in the Asian market through substantial capital expenditure on new plant and machinery.

The Group is currently building two new factories in China, where its customer base already includes nearly eighty vehicle and engine manufacturers.

ElringKlinger 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 Group 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 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 CO_2, 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 CO_2 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 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 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 of the Group.

In the wake of the general economic collapse, there was a decline in physical demand for the main raw materials used by the ElringKlinger Group: 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 Group 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 the ElringKlinger Group, 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 ElringKlinger 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 volumes 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, 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 the ElringKlinger Group 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, the ElringKlinger Group 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 Group'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.

Nevertheless, the overall level of risk is significantly lower than in 2009. At present there is no evidence of risk which, either by itself or in combination with other factors, is likely to jeopardize the future of the ElringKlinger Group as a going concern.

Building on its sustained financial strength and its solid foundation in product development and new technology, ElringKlinger 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.

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 US 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 the ElringKlinger Group, 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 the ElringKlinger Group 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.

The ElringKlinger Group 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 to a larger extent.

Materials prices have again risen substantially from the lows of March/April 2009, although prices for the main raw materials required by ElringKlinger 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, pressure on the cost of sales will be eased in the absence of settlement payments for the commodity price hedging of nickel. A derivative hedge covering part of the Group'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 for the ElringKlinger Group reached EUR 172.8 million, the highest ever level for a final quarter.

At Group level, the order intake for 2009 as a whole was down 1.4% at EUR 612.9 (621.3) million.

The Group's order backlog as at December 31, 2009, stood at EUR 242.2 (208.6) million, which was significantly up on the level recorded in the previous year. This figure provides a solid foundation for meeting the Group'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 plans to achieve a much faster return to a pre-crisis level of sales.

Capital expenditure focused on new ramp-ups and sites in China

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

As a result of the high level of capital expenditure in previous years, it is anticipated that payments for investment in property, plant and equipment including tools will be scaled back in 2010 from EUR 89.7 million to between EUR 65.0 and EUR 75.0 million. 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. Investment in expansion will focus primarily on Asia and within this region on the Group's Chinese production sites. ElringKlinger is already planning to invest over EUR 10 million on two factories at its existing sites in Suzhou and Changchun. 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 volumes, the ElringKlinger Group'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 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 ElringKlinger 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. 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.

For 2010, ElringKlinger currently anticipates an organic increase in sales revenue of between 7% and 10%. Earnings before interest and taxes (EBIT) are likely to show an above-average rise of 12% to 15%. In the main, this growth will be generated by the Group's subsidiaries. Assuming the international vehicle markets show a stable improvement, the projected figures for 2011 are based on organic growth in sales of at least 5% to 7% over the year, with EBIT increasing at an even faster rate.

In view of its strong portfolio in the area of CO_2 reduction and a very promising technology pipeline with regard to fuel cell solutions and battery components, ElringKlinger believes it is in a good starting position to achieve annual organic sales growth of at least 5% to 7% in the medium to long term and a corresponding or even higher rate of growth in its earnings.

Financing requirements assured

The ElringKlinger Group'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 operating activities is significantly higher than the Group's anticipated capital expenditure, so – with the exception of temporary bridging loans – the financing requirements of the Group 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, the ElringKlinger Group 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

"EVERY GRAM COUNTS"

Plastic transmission housing module. Lighter, multifunctional, cheaper and more efficient.

If we want to cut our fuel consumption and consequently our CO_2 emissions, we need to make lighter cars. The key here is to find substitute materials. The oil pan and the end-shield and cam covers, for example, don't always have to be made of metal. We are developing ready-to-install cam covers and oilpan modules that incorporate numerous additional functions and can save up to 50% on weight.

KLAUS BENDL, HEAD OF DEVELOPMENT, ELASTOMER TECHNOLOGY / MODULES DIVISION, ELRINGKLINGER AG, DETTINGEN / ERMS

Responsibility

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Thinking and acting sustainably

Sustainability forms an integral part of the corporate strategy embraced by the ElringKlinger Group. To think and act sustainably means to assume social responsibility. This includes responsible interaction with staff, the environment and society as a whole. ElringKlinger considers sustainability to be a key factor of strategic success.

As a development partner and series supplier to the global automobile industry, ElringKlinger assumes direct responsibility for an approach to mobility that is founded on environmental awareness. Vehicles equipped with combustion engines are an essential means of transport and will continue to be so for many years to come. They capture the essence of personal mobility, an aspect that is also becoming increasingly important in the world's emerging economies. For the protection of the environment and in recognition of the finite supply of fossil fuels, reduction of fuel consumption and lowering of emission levels have emerged as two key objectives within the industry. Offering an extensive portfolio of products, it is precisely within these areas that the ElringKlinger Group has been making a significant contribution – from plastic housing modules designed to lower the overall weight of an engine and vehicle through to pioneering SCR adapter modules that help to optimize the process of NOx reduction by means of urea injection in the exhaust tract.

Environmentally friendly production processes

Inevitably, as an automotive supplier, ElringKlinger also has an impact on the environment in terms of air, soil and water as well as with regard to the consumption of raw materials and energy. With this in mind, the production processes at all facilities are subject to continuous analysis, assessment and development with regard to their environmental compatibility and the efficient use of resources, the prime objective being to reduce the Group's environmental footprint to the largest extent possible. The company considers compliance with statutory requirements and environmental regulations as being the minimum standard to which it aspires and is committed to improving continuously its level of environmental protection by implementing appropriate preventative measures.

Key environmental indicators for 2009

Environmental management at ElringKlinger production sites is certified in accordance with ISO 14001. Relevant data such as material and energy consumption levels as well as the production of emissions and waste are determined for each facility on the basis of key environmental indicators. The company's facility in Bursa, Turkey, which joined the Group as part of the corporate acquisition implemented in the fourth quarter of 2009, has already been incorporated fully within the environmental management system. The following sections provide details of the key environmental indicators used by the Group. Within this context, it should be noted that the entities that joined the Group during the previous year have now been included for the first time in the full twelve-month statistics, as a result of which the prior-year comparative base is lower.

Less energy consumed within the Group

In 2009, the ElringKlinger Group's energy consumption with regard to electricity, gas and other energy resources was 125,300 (141,400) MWh in absolute terms, down 11.4% on the previous year's figure. The year-on-year decline is attributable primarily to the lower level of capacity utilization in terms of production output in the first half of 2009. Simultaneously, continued investments in modern, more efficient production machinery also helped to scale back the overall use of energy within the Group. Additionally, the electricity, compressed air and lighting used by the company's production systems are switched off automatically after a specific period of time.

Electricity consumption totaled 72,900 (79,300) MWh for the Group as a whole in 2009, which corresponds to a reduction of 8.1%. As a basic level of electricity is always required, irrespective of capacity utilization within the area of operations, overall electricity consumption decreased at a less pronounced rate relative to the decline in sales.

At 87,200 (92,500) m^3, in 2009 water consumption within the Group was 5.7% down on last year's figure. Here, too, a certain volume of water is required as standard, as a result of which the percentage fall in consumption levels was not as significant relative to the decline in sales.

Use of solvents scaled back

The overall volume of solvents used within the ElringKlinger Group was scaled back from 840 metric tons to 600 metric tons, which corresponds to a reduction of 28.6% compared to the previous year. The significant improvement achieved within this area was due to the increasing use of partial coating methods instead of full coating. The reduction in the layer thicknesses of cylinder-head and specialty gaskets also produced savings. By using optimized solvents, the Group was able to reduce the overall proportion of such substances in coating compounds.

CO_2 emissions at Group level

Total Group emissions of CO_2 equivalents – calculated on the basis of gas and heating-oil consumption – fell significantly year-on-year to 13,700 (16,200) metric tons.

Production of waste

At each facility operated by the ElringKlinger Group waste officers are responsible for overseeing the aspects of waste avoidance and efficient disposal. Additionally, staff training aimed at addressing the issue of waste and scrap reduction was carried out within the framework of short-time work measures during 2009. Benefiting from such schemes, the Group managed to scale back its overall volume of waste by 21.9% to 23,200 (29,700) metric tons in 2009. Furthermore, ElringKlinger pressed ahead with efforts to replace wooden pallets and cardboard packaging in favor of reusable plastic totes and pallets. The overall quantity of metal waste created during stamping operations in production fell by 20.7% to 18,800 (23,700) metric tons in 2009 as a result of state-of-the-art machinery, as outlined earlier, but also due to lower capacity utilization. Any waste produced in this way is identified and managed by means of a computer-aided waste management system. This ensures that all metal-based waste materials are pooled centrally within the Group and sold for the best possible scrap price offered on the global markets.

Environmental, quality and occupational safety management

The corporate guideline on "Quality and Environmental Policy", together with the "Corporate Code" and the newly developed "Occupational Safety Policy" apply throughout the Group and are to be observed by all employees as a foundation for their actions. They form the basis of the Group's internal regulations and guidelines. (These documents can also be accessed from the company website at **www.elringklinger.de/eqo***)

* INTERNET LINK

On the basis of continuous improvement processes, environmental, quality and occupational Safety again contributed to the commercial success of the ElringKlinger Group in 2009. In 2009, the Brazilian subsidiary ElringKlinger do Brasil was ranked first (automotive manufacturers category) among 192 participants as part of the 14th Ford Environmental Protection Award. Elsewhere, the Indian subsidiary, ElringKlinger Automotive Components Pvt. Ltd., was honored by Fiat for best quality and delivery reliability in 2009.

More extensive reporting on environment, quality and occupational safety

For many years now, all sites operated by the ElringKlinger Group have been governed by a quality management system. They are standardized and certified in accordance with the automotive industry standard TS 16949 as well as ISO 9001. Furthermore, all production facilities have an integrated and certified environmental management system in accordance with DIN EN ISO 14001. (Please refer to **www.elringklinger.de/certificates*** for an overview of certifications).

* INTERNET LINK

Internal system audits are conducted throughout the Group on a continual basis. Specific targets are defined for this purpose. Execution is reviewed centrally on a monthly basis. Alongside regular product and process audits, the Group also established occupational safety audits, the objective being to ensure the safety and efficiency of machinery and equipment. The Group stepped up its efforts within the area of occupational safety management, with the aim of achieving OHSAS (Occupational Health and Safety Assessment Series) 18001 certification. Designed to complement the integrated management system, these audits allow divisional and general managers within the ElringKlinger Group to identify whether processes within the company are being managed in a manner that is environmentally compatible, safe and responsible. They also show potential areas for improvement.

Web-based process architecture and computer-aided quality control system

The Group's Web-based process architecture, which establishes uniform global standards based on prescribed processes, consistent product quality and efficient, standardized process documentation, was further extended over the course of 2009. As from 2010, all facilities within the ElringKlinger Group will have Web-based access to the standards defined as part of this program. Additionally, a computer-aided quality control system was introduced in the period under review, which is also designed to help safeguard international quality standards. In 2009, the decision was made to introduce the SAP QM module for the purpose of advancing standardization and optimization. Thanks to continuous efforts within the area of quality management, together with the implementation of defined improvement processes, as well as the clear objective of achieving zero-defect quality for all processes, the Group was able to maintain customer satisfaction at a very high level in 2009.

Occupational safety and health protection

Occupational safety and health protection are of central importance to the ElringKlinger Group. Against this background, it is considered imperative that all production sites observe high standards. The Group is committed to minimizing the risk of injuries and further reducing the number of work-related accidents by conducting regular, targeted staff training, particularly with regard to the handling of machines and hazardous substances. These measures are designed to promote an even greater level of responsibility with regard to the way in which employees think and act. At Group level, the number of work-related accidents with subsequent periods of staff incapacitation in excess of three days was scaled back from 285 in 2008 to 147 in 2009. Drawing on its comprehensive system of company health care management, ElringKlinger succeeded in maintaining and fostering the performance and motivation of its employees in 2009.

High standards for supplier selection

The ElringKlinger Group maintains high standards with regard to the selection of its suppliers. The manufacture of premium-class products is dependent to a large extent on high-quality raw materials and sourced parts. Therefore, suppliers are firmly integrated within the Group-wide quality management system by means of audits and defined information processes. Suppliers are obliged to comply with applicable environmental protection regulations and laws in all areas and processes. This also includes the new European Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). The Group's purchasing terms and conditions as well as important information for suppliers and interested parties are published on the company's website.

In 2009, all business partners were ISO 9001 certified. As regards the three production facilities of ElringKlinger AG, 40% of their suppliers were certified in accordance with TS 16949, while 51% operated an environmental management system certified according to ISO 14001.

Environmentally friendly products

CO_2 reduction provides a decisive edge

Against the backdrop of stricter international emission standards, coupled with tax incentives for low-emission vehicles, the aspect of emission reduction is increasingly becoming the focus of attention. Having recognized the importance of CO_2 reduction at an early stage, ElringKlinger developed effective solutions directed at the key issues of engine downsizing, thermal management and lightweight design. Indeed, these solutions are now already contributing to lower fuel consumption and reduced emissions in motor vehicles equipped with ElringKlinger parts. Committed to extending its decisive lead, ElringKlinger has been maintaining its forward momentum in the area of research and development, which also includes New Business Areas.

"ElringKlinger Going for Green"

The "ElringKlinger Going for Green" Development and Key Account Sales team was further expanded over the course of 2009. Its sole focus is on the development of environmentally and resource friendly products. In pursuing this goal, it helps to unlock new fields of business for the ElringKlinger Group.

End-to-end product responsibility

Development work on new products within the ElringKlinger Group is conducted on the basis of ISO 9001. As regards environmental factors, the company accords great importance to the nature and, indeed, the entire life cycle of a product. Within this context, detailed resource analyses are conducted as early as the development phase. This provides a solid foundation in terms of minimizing material-specific expenses and maximizing recycling rates as part of the initial planning process.

Investing in environmentally compatible buildings and machinery

ElringKlinger places particular emphasis on environmental aspects, energy efficiency and the use of regenerative energies when planning new building measures. Among its groundbreaking investments is the construction of a fully automated, state-of-the-art logistics center at the company headquarters in Dettingen/Erms, Germany. With a floor space in excess of 10,000 m², the new building is being erected in close proximity to the production line. It will replace existing off-site warehouses, thus reducing the distances between production, storage and dispatch. Modern, networked inventory management systems will be responsible for controlling centralized storage operations for all components – from raw materials to finished products –, thereby ensuring best-in-class stock management.

August 2008 marked the beginning of refurbishment work on the administrative building at the Dettingen/Erms site. With usable space of 1,800 m², this building was completely renovated in accordance with the German Energy Conservation Ordinance. The project was completed at the end of 2009.

When it comes to buying new machines and equipment, improved energy efficiency is among the primary criteria guiding any investment decision. In pursuing this approach, the ElringKlinger Group is able to make a contribution to climate protection, as well as improving the cost structures associated with its production processes.

ElringKlinger's commitment to sustainability is illustrated by plans drawn up in 2009 to build a gas cogeneration system at its site in Dettingen/Erms. It will be capable of supplying electricity and heat to both the production facility and administrative building – with particularly high efficiency levels. The cogeneration system is scheduled to commence operation at the Dettingen/Erms facility in 2010.

The same principles were applied to the newly constructed production building at ElringKlinger Kunstofftechnik in Bietigheim-Bissingen. The new cogeneration system installed at this facility is operated by a gas combustion engine which is capable of generating output power of 480 KW. The high efficiency rating of this system, together with the possibility of utilizing waste heat, translates into a significant reduction in CO_2.

Staff

Creating and maintaining jobs for well-qualified staff

It is the passion for progress, excellent training and dedication of ElringKlinger's workforce at 28 sites all over the world that acts as the major driving force behind its success. In 2009, despite the extremely fraught situation on the international vehicle markets, the Group was one of very few automobile industry suppliers to very nearly maintain the same level of employment as in the previous year. Although the jobs of permanent employees at the sites operated by the AG were all protected, in almost all cases it was not possible to renew the contracts of temporary staff. The average headcount for the Group in 2009 stood at 4,029 (4,085).

Thinking ahead and taking responsibility

It is especially during such exceptional periods of economic crisis that the expertise, creativity and, above all, the commitment of the workforce play a key role. Within the ElringKlinger Group, staff work continuously on the development of innovative products and the optimization of production processes in order to enhance sustainability and promote environmentally compatible mobility. Once again in 2009, many such developments were established as best practices across the Group. Worldwide, 1,077 (1,000) proposals were received under the Group's scheme inviting employees to submit ideas for improvement. Almost half of those proposals were subsequently implemented.

The degree to which ElringKlinger staff identify with the organization is very high. This is clear from a very low staff turnover rate of just 1.0%, a sick leave rate of 8.2%, which is below the industry average, and a large proportion of staff with many years of service.

Staff development

ElringKlinger places great importance on the professional development of its staff. All employees are offered individual career support and opportunities for personal development. In 2009, meetings were held with 2,365 (2,579) bargained-for employees to identify and subsequently follow up their individual training requirements.

In parallel with the introduction of short-time work, ElringKlinger developed an in-house training program that offered all staff an opportunity to develop both their professional and social skills. Led by a combination of internal and external trainers, the program met with an enthusiastic response and involved area-specific product and process training, project management and team seminars and courses in software and foreign languages.

Staff development as part of corporate responsibility

Every year, a number of young people undertake apprenticeships with the ElringKlinger Group. In all cases, the aim is to offer first-class professional training to those employees who have chosen ElringKlinger. This includes a wide range of commercial and technical careers as well as courses of study at centers of higher education that offer combined on-the-job/vocational training. In 2009, the ElringKlinger Group provided work for 139 apprentices and students with apprentices, thus accounting for 3.3% of the total workforce. Each year, as well as apprenticeships, ElringKlinger supports a large number of diploma, bachelor and master theses and offers internships for both school pupils and students.

'Potential leaders' program targets next generation of managers

As a means of promoting and maintaining its corporate culture, ElringKlinger is keen to promote potential leaders from within its own ranks to positions of responsibility. To this end, two years ago it developed its own program to recruit and foster the next generation of managerial staff. 15 young employees with the requisite potential were prepared for their future tasks over a period of two years by means of courses and training sessions to hone their personal and professional skills. Over half of those selected for this training have subsequently taken on managerial roles within the Group. The next potential leaders course is due to start in spring 2010.

Diversity and equality of opportunity – reconciling career and family

All staff within the Group are afforded equal respect. This principle is anchored in ElringKlinger's guidelines and lies at the heart of its corporate culture. Wherever the organization is represented across the world, it strives to achieve equality regardless of gender, race, ethnic origin, religion, philosophy, disability, age or sexual identity. In order to maintain a healthy balance between professional and private life and make it easier to combine career and family, ElringKlinger allows employees to opt for a variety of part-time and, wherever feasible given the requirements of specific posts, flexi-time arrangements. The proportion of female employees in the ElringKlinger Group in 2009 remained almost unchanged from the previous year at 30%.

Social responsibility

One of the indirect channels through which ElringKlinger meets its social commitments is the Paul Lechler Foundation. The foundation is sponsored by the Lechler families, who are also major shareholders in ElringKlinger AG. Every year, part of the company's profits are distributed to the Paul Lechler Foundation, which in turn helps to provide apprenticeships for young people with disabilities and integrate disadvantaged and disabled people into work. The Paul Lechler Prize is awarded each year to the organizers of innovative projects and schemes that aim to integrate those in need of help into society.

As a direct way of exercising social responsibility, ElringKlinger works with a number of disabled persons' workshops, which now carry out a range of tasks such as the customization and packaging of spare part gasket kits and other ElringKlinger products. In 2009, a dedicated warehouse building was constructed for the Bruderhaus Diakonie Foundation in Reutlingen and Dettingen/Erms. This facility is fully integrated into the ElringKlinger Group's ERP system. Partnerships have been established with similar institutions at other sites, too. The Group places great importance on providing support for charitable organizations through such partnerships as a way of meeting its wider social obligations.

Capital markets show growing interest in sustainability issues

Sustainable investment concepts are increasingly gaining ground on the capital markets, too. As well as institutional investors, a growing number of pension funds, family offices, private investors, insurances, foundations and churches are choosing to manage their portfolios with due regard for social, ecological and ethical issues.

ElringKlinger welcomes this development. The company is listed in the 'DAXglobal® Sarasin Sustainability Germany Index'. The index portfolio is chosen from the country's 100 biggest and most liquid stocks using the Sarasin Sustainability Matrix®, which selects and regularly reviews companies on the basis of environmental and social criteria.

In line with the increasing significance of sustainable investment concepts, there has been a rise in the importance of sustainability ratings, which are usually issued by specialized agencies. In preparing a rating, their analysts examine the performance of listed companies primarily against environmental, social and ethical criteria. The wealth of information generated is finally distilled into rankings and overall assessments that serve as a valuable source of information to investors. The emergence of rating agencies demonstrates that energy efficiency and climate protection are increasingly being seen as major issues on the international financial markets. ElringKlinger is one of only a small number of automobile industry suppliers to have been actively involved for several years in the key sustainability ratings and continued its involvement in fiscal year 2009. One such scheme is the Carbon Disclosure Project (CDP), which was set up by around 385 institutional investors with total assets under management of USD 57 trillion. The main focus of the CDP is on climate change and CO_2 reduction. Furthermore, ElringKlinger AG was awarded 'Prime' investment status and a C+ rating by the Oekom research agency in the category of Corporate Responsibility, which includes the core areas of 'Society and the Environment'. 2009 also saw the first sustainability analysis of ElringKlinger by the EIRIS Institute (Experts in Responsible Investment Solutions), an independent provider of ESG (Environmental, Social, Governance) data.

ElringKlinger uses the results of its sustainability ratings together with information it obtains at seminars and conferences on the theme of sustainability to further optimize its processes and products and to extend the range of information it offers on the Group's activities in the area of sustainability.

“TAKING OUT THE NOx”

The SCR adapter module for passenger cars. A clean reaction.

Selective catalytic reduction plays an active part in making our vehicles cleaner. By injecting urea, the environmentally damaging nitrogen oxides (NOx) in the exhaust can be broken down into nitrogen and water without producing any unwelcome side reactions. This technology makes it possible to comply with the strictest emissions standards such as those defined by Euro 6. Components developed and produced by ElringKlinger for SCR exhaust cleaning are the adapter module, the flange adapter and the mixer.

DR. OLIVER GÖB, HEAD OF DEVELOPMENT, SPECIALTY GASKETS DIVISION, ELRINGKLINGER AG, DETTINGEN/ERMS

Joint Corporate Governance Report by the Management Board and Supervisory Board of ElringKlinger AG

* CF. GLOSSARY

We believe that good **corporate governance*** is of essential importance to the sustained success of a business. Within this context, responsible, value-driven management and transparency with regard to corporate communication are considered to be key elements underpinning sound governance in all areas of the enterprise. Embracing and pursuing these values of good corporate governance helps to enhance the confidence of shareholders and the capital markets as a whole, as well as the trust placed in the company by its employees, customers and suppliers. With this mind, the German Corporate Governance Code is to be seen as a guide to implementing generally accepted standards of good, sustainable corporate governance. ElringKlinger is committed to developing its corporate governance on a continual basis, thus securing the long-term success of the company and honoring the trust placed in it by its investors. For this reason, both the Management Board and the Supervisory Board undertook a thorough review of the provisions set out in the German Corporate Governance Code in the version of June 18, 2009, and determined to what extent the recommendations presented in the Code shall be applied, having previously taken into careful consideration the interests of the company and its shareholders.

Transparency for investors and the public

ElringKlinger is committed to an open and transparent approach with regard to corporate policy and communication. The company provides its shareholders with prompt and comprehensive information about company developments by utilizing communication vehicles such as the Internet, road shows and analyst meetings, as well as by means of financial reports and ad hoc and press releases published on a regular basis.

Corporate bodies

As is the case with all German stock corporations, ElringKlinger operates on the basis of a dual system of corporate governance. The division of responsibilities between the Management Board and the Supervisory Board is governed by the German Stock Corporation Act and the Articles of Association.

The Management Board directs the company and manages its business on a day-to-day basis. At present, it is composed of three members, who are appointed by the Supervisory Board. The duties performed by the Management Board are assigned on the basis of functional criteria. The Management Board is obliged to observe the interests of the company and increase enterprise value on a sustainable basis. Notwithstanding the individual duties assigned to each member, the members of the Management Board are jointly responsible for directing the company, deciding in particular on fundamental and significant issues relating to corporate policy, planning and the strategic direction of the company. The Management Board is responsible for preparing the annual financial statements and submitting quarterly and half-yearly reports.

The Supervisory Board monitors the activities of the Management Board and acts in an advisory capacity. It consists of nine members; in its present composition it has been elected to discharge its duties until the end of the Annual General Meeting of Shareholders responsible for ratifying the acts of the Supervisory Board members for fiscal year 2009. The Management Board and Supervisory Board operate in close and trusted collaboration for the purpose of determining the strategic route to be taken by the Group and safeguarding the long-term and sustained success of the company as a whole. The Supervisory Board convenes in regular intervals – at least once a quarter – for the purpose of discussing business performance, planning, strategy and implementation of the latter. It monitors compliance with statutory provisions and company-specific guidelines. Significant decisions made at Management Board level, such as acquisitions or property purchases, are subject to the prior approval of the Supervisory Board. The Management Board informs the Supervisory Board promptly and comprehensively about the company's course of business as well as its corporate planning, strategy and risk management. The work of the Supervisory Board is conducted both through the plenum itself as well as through committees. At present, members from the Supervisory Board form an Audit Committee as well as a Personnel Committee. The tasks, responsibilities and internal organization of the committees are in accordance with the provisions of the German Corporate Governance Code. The Audit Committee comprises three members. It is responsible for monitoring procedures relating to financial reporting and discussing with the independent auditor the annual financial statements prepared by the company. The Personnel Committee comprises four members, including the Chairman of the Supervisory Board. The Personnel Committee is responsible for preparing appointments to the Management Board and drawing up employment contracts. Definitive decisions are always made by the full Supervisory Board.

Shareholders

Shareholders exercise their voting right at the General Meeting of Shareholders. Each share is equipped with one vote. The General Meeting of Shareholders takes place once a year on a regular basis within the first six months of the fiscal year. The agenda as well as documents and reports compiled for shareholders are also published on the company's website. For the purpose of facilitating the exercise of voting rights, the company organizes proxy vote representatives for shareholders upon request. These representatives then vote on behalf of the shareholder and in accordance with his/her instructions at shareholder meetings. This does not affect the right of shareholders to seek their own representation by a proxy of their choice, who is then authorized to vote on their behalf.

Declaration of conformity

Pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz – AktG), the supervisory board and management board of exchange-listed stock corporations are obliged to issue an annual declaration stating that the recommendations of the "Code of the Government Commission on German Corporate Governance" have been and will continue to be complied with and, if applicable, specifying which recommendations have not been or will not be applied. Any departures from the recommendations must be explained.

The Management Board and Supervisory Board of ElringKlinger AG hereby issue a Declaration of Conformity pursuant to Section 161 AktG, stating that the company has complied with, currently complies with and will in future comply with the recommendations of the "Government Commission German Corporate Governance Code" in the version dated June 18, 2009, with the following exceptions. As regards the period since issuance of the last Declaration of Conformity from December 4, 2008, to June 18, 2009, the explanations given relate to the recommendations of the Code in the version of June 6, 2008.

SECTION 2.3.2:

As in the past, in 2010 the invitation to the Annual General Meeting of Shareholders will again be dispatched by mail.
At present, for organizational reasons the company does not comply with the Code's recommendation on the electronic dispatch of the invitation to the General Meeting of Shareholders. As the company generally has no records of the e-mail addresses of its shareholders, from the company's perspective any additional dispatch would be associated with disproportionate time and effort without actually offering any substantive benefits for shareholders. Within this context, it should also be noted that the invitation to the General Meeting of Shareholders has been and will continue to be available for download from the company's website.

SECTION 3.8:

The deductibles agreed as part of the company's D&O insurance are the same for the Supervisory Board and the Management Board; based on the current employment contracts, these deductibles differ from those outlined in Section 3.8 of the Code.
As regards the D&O insurance policy for the Management Board, the company made use of statutory provisions whereby existing agreements with the Management Board concerning a deductible do not have to be adjusted in line with legal requirements during the applicable transitional period. Correspondingly, the company will not adjust the D&O insurance deductible for the Supervisory Board. The company is of the opinion that inconsistency in the treatment of the Management Board and the Supervisory Board would be inappropriate.

SECTION 4.2.5:

The compensation report, within the context of the management report, outlines the basic system of compensation. Rather than being presented in the compensation report, details of Management Board remuneration are disclosed in the notes to the financial statements.
The company presents data relating to Management Board compensation in an itemized format, i. e. separately for each member. Contrary to the recommendation, the components of compensation are disclosed in the notes to the financial statements. From the company's perspective, there is no need for additional disclosure, and thus presentation of duplicate information, in a compensation report.

SECTION 5.1.2:

No age limit has been set for members of the Management Board.
There is no general age limit for Management Board members. The main focus for ElringKlinger is on the qualifications as well as the experience required by candidates to be appointed to the board. Given the provisions set out in the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – AGG), which does not apply directly to this case but at the very least provides a basis for analogous application, the company is of the opinion that the approach of specifying an age limit is inappropriate.

SECTION 5.3.3:

At present there is no Nomination Committee to propose possible candidates for the election of shareholder representatives to the Supervisory Board.
Given the current size of the company's Supervisory Board, both the Management Board and the Supervisory Board are of the opinion that there is no need to form a Nomination Committee.

SECTION 5.4.1:
No age limit has been set for members of the Supervisory Board.
No general age limit has been set for members of the Supervisory Board, as the expertise of the individual members is considered an overriding priority. Within this context, experience in particular is seen as an integral element. Given the provisions set out in the German General Equal Treatment Act (Allgemeines Gleichbehandlungsgesetz – AGG), which does not apply directly to this case but at the very least provides a basis for analogous application, the company is of the opinion that the approach of specifying an age limit is inappropriate.

SECTION 5.4.3:
Proposals regarding candidates for the Chair of the Supervisory Board are not disclosed to shareholders.
The election of the Chairperson of the Supervisory Board is the sole responsibility of the Supervisory Board, as it is best placed to assess the suitability of the candidates. Against this background, the company is of the opinion that prior disclosure of the names of candidates for the Chair of the Supervisory Board would not be appropriate.

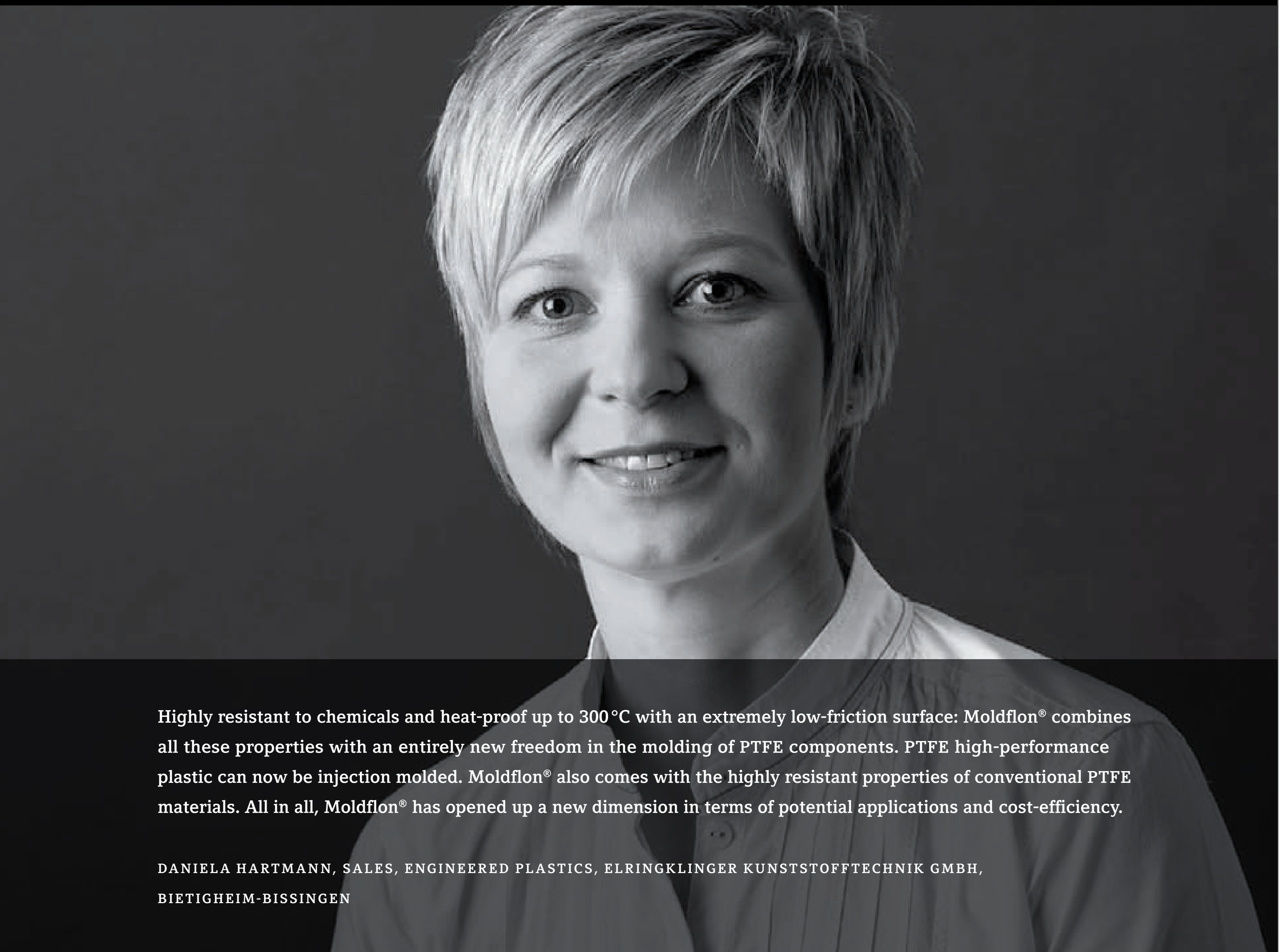
SECTION 5.4.6:
The compensation report, within the context of the management report, outlines the basic system of compensation. Rather than being presented in the compensation report, details of Supervisory Board remuneration are disclosed in the notes to the financial statements.
The company presents data relating to Supervisory Board compensation in an itemized format, i.e. separately for each member. Contrary to the recommendation, the components of compensation are disclosed in the notes to the financial statements. From the company's perspective, there is no need for additional disclosure, and thus presentation of duplicate information, in a compensation report.

SECTION 6.6:
No reports of the kind specified in Section 6.6 of the Code are made beyond the statutory disclosure requirements.
The company is of the opinion that transparent corporate communication is essential, particularly in order to maintain shareholder confidence. All relevant information is disclosed by the company in accordance with statutory requirements, which have been extended significantly in recent years. This information can also be accessed from the company's website. From the company's perspective, the other details recommended for disclosure under Section 6.6 of the Code are of no additional value to investors. The company believes that transparency is not dependent on the volume of information disclosed but rather on the quality and relevance of such information. Against this background, the company has chosen not to apply the Code's recommendations beyond those specified as required by law.

SECTION 7.1.3:
Details relating to stock option programs and securities-based incentive systems as elements of Management Board compensation are presented in the notes to the financial statements rather than in the corporate governance report.
Management Board compensation has to be disclosed in the notes to the financial statements. Explanations concerning the compensation system are given in the compensation report as a section within the management report, insofar as the compensation system contains elements relating to the recommendation outlined in Section 7.1.3. In the company's opinion, it would be inappropriate to present duplicate information in the corporate governance report.

"NEW FREEDOM"

Corrugated tube made of Moldflon®, which has numerous potential for new applications in industry.



Highly resistant to chemicals and heat-proof up to 300 °C with an extremely low-friction surface: Moldflon® combines all these properties with an entirely new freedom in the molding of PTFE components. PTFE high-performance plastic can now be injection molded. Moldflon® also comes with the highly resistant properties of conventional PTFE materials. All in all, Moldflon® has opened up a new dimension in terms of potential applications and cost-efficiency.

DANIELA HARTMANN, SALES, ENGINEERED PLASTICS, ELRINGKLINGER KUNSTSTOFFTECHNIK GMBH, BIETIGHEIM-BISSINGEN

Consolidated Financial Statements

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Consolidated Income Statement of ElringKlinger AG

for the period from January 1 to December 31, 2009

	Notes	2009 EUR ´000	2008 EUR ´000
Sales	**(1)**	**579,329**	**657,833**
Cost of sales	(2)	-426,320	-464,181*
Gross profit		**153,009**	**193,652**
Selling expenses	(3)	-46,480	-49,914
General and administrative expenses	(4)	-23,861	-23,904*
Research and development expenses	(5)	-35,684	-36,495
Other operating income	(6)	28,245	18,549
Other operating expenses	(7)	-11,941	-26,058
Operating result		**63,288**	**75,830**
Financial income		9,800	14,679
Financial costs		-23,697	-30,484
Net finance costs	**(8)**	**-13,897**	**-15,805**
Earnings before taxes		**49,391**	**60,025**
Taxes on income	(9)	-14,556	-16,845
Net income		**34,835**	**43,180**
Minority interests	(20)	-1,613	-3,335
Profit attributable to shareholders of ElringKlinger AG		**33,222**	**39,845**
Diluted and undiluted Earnings per share in EUR	**(10)**	**0.58**	**0.69**

* Comparative figures adjusted, please refer to explanations in the notes

Reconciliation to Comprehensive Income

	Notes	2009 EUR ´000	2008 EUR ´000
Net income		**34,835**	**43,180**
Unrealized gains (losses) from currency translation adjustments		6,560	-4,808
Other comprehensive income (loss)		**6,560**	**-4,808**
Total comprehensive income		**41,395**	**38,372**
Minority interests in total comprehensive income		-1,695	-3,809
Total comprehensive income attriutable to shareholders of ElringKlinger AG		**39,700**	**34,563**

Consolidated Statement of Financial Position of ElringKlinger AG

as at December 31, 2009

	Notes	Dec. 31, 2009 EUR ´000	Dec. 31, 2008 EUR ´000
ASSETS			
Intangible fixed assets	(11)	89,184	86,542
Property, plant and equipment	(12)	386,178	360,426
Investment property	(13)	27,400	28,588
Financial assets	(14)	1,610	1,592
Other non-current assets	(15)	5,105	5,467
Deferred tax assets	(9)	14,143	15,835
Non-current assets		**523,620**	**498,450**
Inventories	(16)	101,468	129,784
Trade receivables	(17)	106,761	98,032
Other current assets	(17)	11,651	18,527
Cash	(18)	25,580	19,741
Current Assets		**245,460**	**266,084**
		769,080	**764,534**

	Notes	Dec. 31, 2009 EUR ´000	Dec. 31, 2008 EUR ´000
LIABILITIES AND SHAREHOLDER'S EQUITY			
Share capital		57,600	57,600
Capital reserve		2,747	2,747
Revenue reserves		250,051	225,469
Other reserves		-6,079	-12,557
Equity attributable to shareholders of ElringKlinger AG	**(19)**	**304,319**	**273,259**
Minority interests	(20)	13,213	14,888
Shareholder´s equity		**317,532**	**288,147**
Provision for pensions	(21)	59,359	58,519
Non-current provisions	(22)	6,015	5,461
Non-current financial liabilities	(23)	164,269	150,148
Deferred tax liabilities	(9)	31,633	30,936
Other non-current liabilities	(24)	37,356	27,369
Non-current liabilities		**298,632**	**272,433**
Current provisions	(22)	10,651	22,915
Trade payables	(24)	35,712	33,269
Current financial liabilities	(23)	56,234	108,029
Tax payables	(9)	9,051	5,867
Other current liabilities	(24)	41,268	33,874
Current liabilities		**152,916**	**203,954**
		769,080	764,534

Consolidated Statement of Changes in Equity of ElringKlinger AG

	Share capital EUR ´000	Capital reserve EUR ´000
Notes	(19)	(30)
as of Dec. 31, 2007	**57,600**	**2,747**
Capital increase		
Dividends paid		
Changes in consolidated companies		
Comprehensive income		
Net profit Currency differences		
Other comprehensive income		
as of Dec. 31, 2008	**57,600**	**2,747**
Capital increase		
Dividends paid		
Changes in consolidated companies		
Comprehensive income		
Net profit Currency differences		
Other comprehensive income		
as of Dec. 31, 2009	**57,600**	**2,747**

	Revenue reserves		Other reserves			
	Revenue reserve first-time adoption of IFRS EUR ´000	Group Equity generated EUR ´000	Currency translation differences EUR ´000	Equity attributable to shareholders of ElringKlinger AG EUR ´000	Minority interests EUR ´000	Group equity EUR ´000
	(30)	(30)	(19)		(20)	
	26,181	**186,323**	**-7,275**	**265,576**	**15,484**	**281,060**
				0		0
		-26,880		-26,880	-449	-27,329
				0	-3,956	-3,956
		39,845	-5,282	34,563	3,809	38,372
		39,845		39,845	3,335	43,180
			-5,282	-5,282	474	-4,808
				0		0
	26,181	**199,288**	**-12,557**	**273,259**	**14,888**	**288,147**
				0		0
		-8,640		-8,640	-1,726	-10,366
				0	-1,644	-1,644
		33,222	6,478	39,700	1,695	41,395
		33,222		33,222	1,613	34,835
			6,478	6,478	82	6,560
				0		0
	26,181	**223,870**	**-6,079**	**304,319**	**13,213**	**317,532**

Consolidated Cash flow statement of ElringKlinger AG

	Notes	2009 EUR ´000	2008 EUR ´000
Earnings before taxes		49,391	60,025
Depreciation/Amortization (less write-ups) of non-current assets	(12)	71,219	61,653
Net interest	(8)	13,901	11,514
Change in provisions		-13,869	8,679
Losses from disposal of intangible assets and of property, plant and equipment		1,046	1,269
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		21,374	16,670
Change in trade liabilities and other liabilities not resulting from financing and investing activities		17,160	-14,625
Income taxes paid	(9)	-1,911	-33,708
Interest paid	(8)	-11,347	-8,064
Interest received	(8)	206	310
Other non-cash items	(6)	0	-5,792
Currency effects on items relating to operating activities		1,633	267
Net cash from operating activities		**148,803**	**98,198**
Proceeds from disposals of intangible assets and of property, plant and equipment		4,424	2,273
Proceeds from disposals of financial assets		834	578
Payments for investments in intangible assets	(11)	-5,343	-5,735
Payments for investments in property, plant and equipment and investment properties	(12), (13)	-89,676	-132,195
Payments for investments in financial assets	(14)	-845	-688
Payments for the acquisition of consolidated entities		-2,998	-75,894
Net cash from investing activities		**-93,604**	**-211,661**
Dividends paid to shareholders and minorities		-10,366	-27,329
Changes in current financial liabilities	(23)	-52,416	55,794
Additions to non-current financial liabilities	(23)	41,000	101,632
Repayment of non-current financial liabilities	(23)	-26,972	-12,686
Currency effects on items relating to financing activities		-496	-467
Net cash from financing activities		**-49,250**	**116,944**
Changes in cash		5,949	3,481
Currency on cash		-136	1,736
Other transactions		0	-195
Cash inflow from the acquisition of consolidated entities		26	7,314
Cash at beginning of period	(18)	19,741	7,405
Cash at end of period	**(18)**	**25,580**	**19,741**

Notes to the Consolidated Financial Statements for the 2009 Financial Year

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General disclosures

Presentation of the consolidated financial statements

ElringKlinger AG, the parent company of the group, is filed in the commercial register at the municipal court of Stuttgart under the number HRB 361242. The company is domiciled in Dettingen/Erms (Germany). The address is ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms. The articles of incorporation are dated May 26, 2009. The registered name of the company is ElringKlinger AG. The financial year is the calendar year.

The object of ElringKlinger AG and its subsidiaries (the "ElringKlinger group") is the development, manufacture and distribution of technical and chemical products, in particular, gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. The company also offers services relating to the technology used in its products. The corporate object also encompasses the administration and commercial exploitation of landed property.

Accounting principles

The consolidated financial statements of ElringKlinger AG as at December 31, 2009, have been prepared in accordance with the International Financial Reporting Standards (IFRS), and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) as adopted by the EU, and the supplementary commercial law regulations pursuant to § 315a (1) HGB. All IFRSs and IFRICs mandatory for the financial year 2009 have been observed.

The consolidated financial statements have been prepared in Euro. Unless otherwise stated, all amounts are in thousand EURO (EUR '000).

For the income statement the cost of sales method has been used. In order to enhance the clarity of presentation, various items in the balance sheet and in the income statement have been aggregated.

The following regulations and amendments to existing regulations became mandatory for the financial year 2009 for the first time:

IFRS 2 – Share Based payment

Amendments to IFRS 2 mainly relate to the definition of vesting conditions and rules for plan cancelations by a party other than the company itself. The amendments emphasize that vesting conditions only include performance conditions and target achievement conditions. The valuation of share-based payments granted by ElringKlinger has not changed due to the amendments of IFRS 2.

IFRS 7 – Financial instruments disclosure

The amendments to IFRS 7 issued by the IASB require enhanced disclosures about fair value measurement and liquidity risk. The amendments have no influence on the Group's financial position, financial performance or cash flows. The new requirements regarding fair value disclosures have been incorporated in the notes to the consolidated financial statements.

IFRS 8 Segment Reporting

IFRS 8 governs which financial information an entity has to include in its reporting on its operating segments. IFRS 8 follows the so-called "management approach" under which information on the operating segments must be given on the basis of the internal reporting of the entity. Organizational structure and internal reporting of the ElringKlinger Group are marked by a focus on five business areas. Thus, segmentation is still made into the reporting segments "Original Equipment", "Spare Parts", "Engineered Equipment", "Services" and "Industrial Parks". Prior year figures of the segment reporting have been adjusted accordingly.

IAS 1 Presentation of Financial Statements

With the amendment of IAS 1, the consolidated financial statements contain in addition to the consolidated statement of income a reconciliation to comprehensive income (loss). The latter comprises the profit or loss of the reporting period as well as equity changes other than those changes resulting from transactions with owners in their capacity as owners that are not recognized in profit or loss (other comprehensive income or loss).

IAS 23 Borrowing Costs

Starting January 1, 2009 revised IAS 23 Borrowing Costs removes the option to expense certain borrowing costs as expensed. For assets, where a substantial period of time is necessary to get them ready for use or sale (qualifying assets), capitalization of borrowing costs is now mandatory. Until 2009, ElringKlinger has expensed all borrowing costs as incurred. In 2009, ElringKlinger incurred no significant borrowing cost related to qualifying assets in the sense of IAS 23.

The other standards that have been amended or newly approved had no significant impact on the Group's financial position, financial performance or cash flows. These standards include:

- IAS 32 – IAS 1 Amendments with regard to puttable instruments and obligations arising from liquidations
- IAS 39 – IFRS 7 Reclassification of Financial Instruments
- IFRIC 9 – IAS 39 Reassessment of embedded derivatives
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The following published standards that are not mandatory for the financial year 2009 are not yet applied by ElringKlinger:

IAS 27 Consolidated and Separate Financial Statements (amended 2008)

Amended IAS 27 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. This will constitute a change in accounting policy for the Group as acquisitions of minority interests have been so far accounted for under the purchase method. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27 become mandatory for the Group's 2010 consolidated financial statements.

IFRS 3 Business Combinations (2008)

Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.

- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 becomes mandatory for the first financial year beginning on or after July 1, 2009. Amendments will be applied prospectively and therefore there will be no impact on prior period business combinations in the Group's 2010 consolidated financial statements.

IAS 24 Related party disclosures

The amendment of IAS 24 elucidated the definition of a related company or person. The amendments become mandatory for financial years beginning on or after January 1, 2011.

The other standards that have been approved but are not yet mandatory (IAS 32, IAS 39, IFRS 2 IFRIC 12, IFRIC 15, IFRIC 17, IFRIC 18) will probably have no impact on the Group's financial position, financial performance or cash flows.

IFRS 9 – Financial Instruments

On November 12, 2009, the IASB published IFRS 9 as first part of its three-phase project of a revision of IAS 39. The new standard provides guidance on the accounting of financial assets as far as classification and measurement are concerned. The standard will be effective for annual periods beginning on or after January 1, 2013.

IFRS 9 has not been adopted by the EU yet, but will have an impact on the classification and measurement of financial assets.

Scope of consolidation

Apart from the single entity statements of ElringKlinger AG, the consolidated financial statements of ElringKlinger AG as at 31 December, 2009, include the annual financial statements of four (2008: 4) domestic and 20 (2008: 20) foreign subsidiaries. Subsidiaries are companies in which the parent enterprise exercises more than half the voting rights or is able to control their financial and business policy for other reasons (control relationship). Inclusion commences at the time from which the control relationship exists; it ends when the possibility of control ceases.

Sevex Holdings, Inc., Kansas, USA, has been merged into ElringKlinger USA, Inc., Buford, USA (EKUS) as of July 31, 2009. ATD Thermsulate AG, i. L., Baar, Switzerland, in which EKUS is the sole shareholder, has been extracted from the commercial register on December 24, 2009 and has been deconsolidated.

The in 2009 acquired subsidiary ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş. (Turkey) and KITEK Kalip Ve Teknoloji Makina Sanayi Ve Ticared Ltd. Şirketi (Turkey), in which ElringKlinger AG is a majority shareholder, have been included for the first time in the financial year 2009.

The two joint ventures, ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corp., Tokyo, Japan, have been included in the consolidated financial statements proportionately pursuant to IAS 31. Under proportionate consolidation, all assets and equity & liability items, and all expenses and income of the joint ventures are included in the consolidated financial statements in the proportion held in the participation (50 %).

The business activity of ElringKlinger Korea Co. Ltd. is the production and distribution of cylinder head gaskets, specialized gaskets and cam covers. ElringKlinger Marusan Corp. is engaged in the production and distribution of cam covers and cylinder head gaskets.

On the basis of the proportion held in joint companies, the following values are attributable to the group:

	2009 EUR ´000	2008 EUR ´000
Fixed assets	10,721	11,573
Current assets	17,495	18,358
Non-current liabilities	1,451	1,778
Current liabilities	6,416	6,313
Income	19,163	18,388
Expenses	19,747	18,594

An overview of the 24 entities included, the four joint ventures is given on the following page.

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 BELEGSCHAFTSHILFE 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 (Switzerland)	100.00
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
Elring Klinger S.p.A.	Mazzo di Rho (Italy)	100.00
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	90.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	90.00
KITEK Kalip Ve Ileri Teknoloji Makina Sanayi Ve Ticaret Ltd. Şirketi	Bursa (Turkey)	70.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger North America, Inc.	Plymouth/Michigan (USA)	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brasil)	100.00
Elring of North America, Inc.	Branchburg/New Jersey (USA)	60.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
Elring Gaskets (Pty) Ltd.	Johannesbourg (South Africa)	51.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.	Qingdao (China)	74.50
Shares in joint ventures (included in the consolidated financial statements using proportionate consolidation)		
Foreign		
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	50.00
ElringKlinger Marusan Corporation	Tokyo (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd.	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd	Tokyo (Japan)	26.00

Acquisition of minority interests

ElringKlinger AG acquired in the second quarter of 2009 a further 10 % interest in the subsidiary Changchun ElringKlinger Ltd., China (CEK), which increased the interest of ElringKlinger AG to 88 %.

The price of the acquisitions was EUR ’000 2,198, of which EUR ’000 52 related to incidental costs.

The purchase of additional minority interests is accounted for in the consolidated financial statements using the purchase method. This means that, in an initial step, the proportions of dormant reserves and liabilities were identified and revealed in the assets and debts of CEK, both on and off the face of the balance sheet (i. e. both recognized and unrecognized). After additionally accounting for deferred tax liabilities on the revealed dormant reserves, a remaining difference of EUR ’000 403 was recognized as goodwill.

Business Combinations

As of October 27, 2009 ElringKlinger acquired a 90 % interest in Ompas Otomotiv Metal Plastik Imalat Sanayi ve Ticaret A. Ş. for a total consideration of EUR ’000 800 paid in cash. The acquired company holds a 70 % interest in KITEK Kalip Ve Ileri Teknoloji Makina Sanayi Ve Ticaret Ltd. Şirketi (KITEK). KITEK is a subsidiary of Ompas Otomotiv.

Subsequent to the acquisition Ompas Otomotiv Metal Plastik Imalat Sanayi ve Ticaret A. S. was renamed ElringKlinger TR Otomotiv Sanayi ve Ticaret A. Ş. (EKTR). The business activity of EKTR relates to the development, production and distribution of heat shields. EKTR was integrated into the business division heat shields of the ElringKlinger Group. The acquisition of EKTR contributed revenues of EUR ’000 444 and profit before tax of EUR ’000 - 45 (net of taxes EUR ’000 - 262). If the acquisition had occurred on 1 January 2009, management estimates that consolidated revenue would have been EUR ’000 2,600 and consolidated profit for the period would have been EUR ’000 - 770.

The acquisition had the following effect on the Group’s assets and liabilities on acquisition date:

Consideration paid was EUR ’000 800. Since cash acquired amounted to EUR ’000 26 net cash outflow was EUR ’000 774.

Prior to the purchase, the company only prepared financial statements in accordance with local GAAP. Therefore, a comparison of pre-acquisition and post-acquisition IFRS values is not practicable. The IFRS opening balance is presented as follows:

For purposes of the IFRS opening balance identifiable assets, liabilities and contingent liabilities have been recognized. The various balance sheet items are included in the following table.

	Recognized Values EUR ´000
Intangible assets	165
Property, Plant and Equipment	1,703
Deferred tax assets	290
Inventories	267
Trade Receivables	451
Other assets	81
Cash	26
Current liabilities	2,491
Non-current liabilities	158
Deferred tax liabilities	239
Minority interests	26
Net identifiable assets	**69**
Goodwill	731

The goodwill recognised on the acquisition is attributable mainly to the positive earnings prospects of EKTR.

Correction of prior period figures

Due to falsely performed allocations of expenses related to the fire in the Runkel plant to the different functional costs in the prior period, ElringKlinger adjusted 2008 figures for cost of sales and general and administrative expenses in the income statement. The correct allocations of the expenses lead to a reduction of cost of sales of EUR ’000 3,987 and an increase of general and administrative expenses in the same amount. The correction of prior period figures had no impact on net profit.

Summary of the principal accounting and measurement methods

The consolidated financial statements were prepared on the basis of historical acquisition and manufacturing costs except for the assets and liabilities, which according to IFRS have to be measured compellingly at fair value.

The fundamental accounting and measurement methods applied in preparing the consolidated financial statements are described below:

Consolidation methods

The assets and debts of the domestic and foreign companies included in the consolidated financial statements are recognized and measured using the accounting and measurement methods that apply uniformly across the ElringKlinger group.

On acquisition of a company, the assets and liabilities of the subsidiaries acquired are measured at their fair value at the time of acquisition. If the purchase price of the interests exceeds the identified assets and liabilities to be measured at fair value, the difference is capitalized as goodwill. If the difference is negative, a remeasurement is made of the identifiable assets and liabilities and of the acquisition costs. Any negative difference remaining is recorded in income.

Uncovered dormant reserves and charges are adjusted, written off or released under the subsequent consolidation in accordance with the corresponding assets and debts. Capitalized goodwill is not amortized, but is subject to an annual impairment test instead, pursuant to IFRS 3.

The minority interest held by shareholders outside the group must be shown as a separate line item under the equity caption.

The results of the subsidiaries acquired or sold in the course of the year are included correspondingly in the consolidated income statement from the effective time of acquisition or until the effective time of divestment.

The financial year of all companies included corresponds, except for three Joint Ventures, to the financial year of the parent company. In case of differing balance sheet dates, interim financial statements are prepared as of the balance sheet date of the parent company.

All receivables, liabilities, sales revenues, other income and expenses within the scope of consolidation are eliminated. Accumulated results from intergroup supplies of inventories are eliminated from inventories or non-current assets.

Currency translation

The reporting currency of the ElringKlinger Group is the Euro.

Foreign currency transactions are translated in the individual financial statements of ElringKlinger AG and its consolidated companies at the rates pertaining at the time of the transactions. As at the balance sheet date, assets and debts in foreign currency are measured at the rate on the balance sheet date. Differences arising on translation are recorded in the income statement.

The financial statements of the foreign companies are translated to EURO since this is the functional currency of the parent company. Since subsidiaries and joint ventures operate their business independently in financial, economic and organizational respects, the functional currency is identical with the relevant national currency of the company. In the consolidated financial statements, the expenses and income from financial statements of entities included that have been prepared in foreign currencies, are, for reasons of simplification and with due regard to the principle of materiality, translated at the average rate for the year, itself determined from daily rates, since the foreign currencies existing in the group are not generally subject to any sharp fluctuations in comparison with the Euro. Assets and debts are translated at the rate on the closing date. Goodwill is treated as an asset or debt and therefore it, too, is translated at the closing rate. Currency differences are treated without effect on the income statement and are shown under equity. In the event of a disposal of a consolidated entity, accumulated currency differences are recorded as part of the sales profit or loss.

The rates used for currency translation are shown in the table below:

Currency	Abbr.	Rate on the closing date Dec. 31. 2009	Rate on the closing date Dec. 31. 2008	Average rate in 2009	Average rate in 2008
US Dollar (USA)	USD	1.44050	1.39760	1.39660	1.47373
Pound (United Kingdom)	GBP	0.89000	0.95890	0.89005	0.80381
Franken (Switzerland)	CHF	1.48360	1.48820	1.50885	1.57871
Canadian dollar (Canada)	CAD	1.51000	1.71700	1.58070	1.56643
Real (Brazil)	BRL	2.50970	3.25740	2.76663	2.68120
Peso (Mexico)	MXN	18.82600	19.25890	18.87628	16.39797
RMB (China)	CNY	9.82990	9.53580	9.53857	10.20669
WON (South Korea)	KRW	1,678.97000	1,753.15000	1,764.09167	1,611.54750
Rand (South Africa)	ZAR	10.67500	13.17000	11.50169	12.09396
Yen (Japan)	JPY	133.06000	126.40000	130.64000	151.43750
Forint (Hungary)	HUF	270.15000	264.20000	281.24500	250.83333
Turkish Lira	TRY	2.15260	2.14740	2.16571	1.91609
Indian Rupee	INR	67.00340	67.71000	67.40177	64.20333

Accounting and measurement methods

Goodwill

The goodwill is allocated to the cash generating units (these being equivalent to segments) as follows:

	2009 EUR ´000	2008 EUR ´000
Original Equipment	68,229	66,582
Engineered Equipment	4,816	4,816
Spare Parts	1,604	1,604
Total	**74,649**	**73,002**

Goodwill is capitalized and subjected to an impairment test that must be performed annually. If the value is no longer recoverable, impairment is recorded. Otherwise the valuation of the prior year is retained. Impairment of goodwill is not reversed, even if the impairment has ceased to apply.

ElringKlinger conducts an impairment test of goodwill at least once annually. The regular annual impairment test is performed as of December 31. The recoverable amount of the cash generating unit is compared with its carrying value. The value in use that is applied is the recoverable amount.

The values in use of the cash generating unit are determined by discounting future cash flows. The computation is based on the following principal assumptions:

A detailed plan is made of the cash flows for the cash generating units over the forecast period of five years. Subsequent periods are accounted for by a terminal value that is determined on the basis of the last period of the detailed forecast.

The discount factor applied as at 31 December, 2009 was a uniform capital cost rate of 8.74 % (2008: 9.27 %).

The impairment test performed as of December 31, 2009 did not lead to an impairment of goodwill.

Goodwill from company purchases prior to April 1, 2004, is mainly capitalized and otherwise offset against reserves. On divestment of a consolidated company, any goodwill relating to it is included in the computation of the de-consolidation result. The goodwill that was offset against reserves, however, is not considered in determining the profit or loss made on the divestment.

Intangible fixed assets

Purchased intangible fixed assets, mainly patents, licenses and software, are capitalized at acquisition cost. Internally generated intangible fixed assets, with the exception of goodwill, are capitalized if it is sufficiently probable that a future economic benefit will flow from the use of the asset and the costs of the asset can be determined reliably. The manufacturing costs of internally generated intangible fixed assets are determined on the basis of directly attributable individual costs as well as their proportion of overheads.

All intangible fixed assets in the group – with the exception of goodwill – have determinable useful lives and are amortized normally straight-line over these useful lives. Patents, licenses and software generally have useful lives of 10 years. Capitalized development costs and simple standard software have useful lives of 5 years. If the actual useful life is materially longer or shorter than 10 or 5 years, the actual useful life is recognized.

Property, plant and equipment

Material assets that are used in the business operation for a period longer than one year are measured as property, plant and equipment at acquisition or manufacturing costs less scheduled straight-line depreciation in accordance with use as well as any necessary impairment. The manufacturing costs of internally generated property, plant and equipment are determined on the basis of directly attributable individual costs as well as their proportion of overheads. The allowed alternative of revaluation is not applied.

The following useful lives are applied for scheduled depreciation group-wide:

Category of property, plant and equipment	Years
Buildings	15 to 40
Plant and machinery	12 to 15
Special tooling	3
Operating and office equipment	5 to 15

The useful lives and the depreciation methods are reviewed periodically in order to ensure that the depreciation method and period are consistent with the expected useful lives.

Investment property

Investment property is measured at acquisition or manufacturing costs less scheduled, use-related, straight-line depreciation, or else, if lower, the fair value. It is shown separately under fixed assets.

The useful lives of the investment property are 40 years in the case of buildings and 20 years in the case of outside plant.

Impairment of property, plant & equipment and of intangible fixed assets other than goodwill

As at each balance sheet date, property, plant & equipment and intangible fixed assets are submitted to an impairment test pursuant to IAS 36 if there is evidence of impairment. If the carrying value of an asset exceeds its recoverable value, an impairment is made to the recoverable amount. The recoverable amount is the higher of the net realizable value less probable costs to sell and the value in use. If the recoverable amount for an individual asset cannot be determined, an estimate is made of the recoverable amount at the level of next higher cash generating unit.

Revaluations are made up to, at most, the adjusted acquisition or manufacturing cost, if in the following periods the recoverable amount exceeds the carrying value.

Impairments and revaluations are taken to profit and loss.

Financial instruments

Under IAS 39 a financial instrument is a contract that leads for one entity to a financial asset and for another entity to a financial liability or an equity instrument.

Original financial instruments

The financial instruments held in the group are divided into the following categories:

- Financial assets measured at fair value under profit and loss
- Financial liabilities measured at fair value under profit and loss
- Loans and receivables
- Financial instruments available for sale
- Financial investments held to maturity
- Other financial liabilities that are measured by the effective interest rate method at adjusted acquisition costs.

The financial instruments are classified at the time of acquisition on the basis of their intended use:

Financial assets comprise cash, trade receivables and other loans and receivables and derivative financial assets held for trading.

Financial liabilities include trade payables, bank borrowings, derivative financial liabilities held for trading and other financial liabilities.

Financial assets

All usual purchases and sales of financial assets are recorded in the balance sheet on the day of the trade, i.e. on the day that the group has entered the obligation to purchase or to sell an asset.

Upon initial recognition, financial assets are measured at fair value. In the case of all financial investments that are not classified as "measured at fair value under profit and loss" transaction costs are included that are directly attributable to the purchase.

Financial assets that have not been allocated to the category "fair value through profit and loss" are reviewed for recoverability at each balance sheet date. If the fair value of a financial asset is lower than the carrying value, the carrying value is written down to its fair value. This reduction represents an impairment expense and is charged as expense. Any impairment previously recorded as expense is reversed and credited to the income statement if warranted by events occurring after the original recognition of the impairment.

The fair values recognized in the balance sheet generally correspond to the market prices of the financial instruments. If market prices are not available, the fair values are computed using recognized measurement models and with recourse to current market parameters. The measurement methods include using the most recent transactions between knowledgeable, consenting and independent business partners (i.e. "at arm's length"), comparison with a current fair value of another, substantially identical financial instrument, the analysis of discounted cash flows and the application of other measurement models.

A financial asset is derecognized if the contractual rights to receive cash flows from this financial asset have extinguished or have been transferred. In the framework of the transfer, all significant opportunities and risks connected with ownership of the financial asset or the power of control over the asset must be transferred.

Financial assets are classified as **fair value through profit and loss** if they have been acquired for the purpose of sale in the near future ("financial instruments held for trading"). Within the ElringKlinger Group, these are derivatives for which the preconditions for hedge accounting do not apply.

Financial assets are classified as **loans and receivables** when they result from money transfer, the rendering of services or the procurement of merchandise involving third parties. The current assets and debts classified in this category are measured at acquisition cost, whereas the non-current financial assets and debts are measured at adjusted acquisition cost using the effective interest method.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables involving the creditworthiness of the customer concerned. Within the ElringKlinger Group an allowance for trade receivables is recognized if they are overdue for more than 90 days and have not been paid until the preparation of the consolidated financial statements, if it is disputed by the customer or if the customer is insolvent. The impairments on trade receivables are recorded initially on an adjustments account. When the receivable is classified as unrecoverable, the impaired receivable is retired.

Financial instruments are recorded in the category "**financial investments held to maturity**" when the group has the intention and the legal ability to keep them until maturity.

The **assets classified as available for sale** relate to securities measured at market values.

Cash and cash equivalents recognized in the balance sheet comprise cash in hand, bank deposits and short-term deposits with an original term of less than three months; they are measured at adjusted acquisition cost.

Financial liabilities

Financial liabilities comprise in particular trade payables, bank borrowings, derivative financial liabilities and other liabilities.

The financial liabilities are measured on initial recognition at their fair value less any transaction costs directly connected with the take-up of the credit.

Financial liabilities are retired when the liability on which the obligation is based is fulfilled, is terminated or has extinguished.

Financial liabilities that are measured at adjusted acquisition costs comprise at ElringKlinger the trade payables and interest-bearing loans. They are measured using the effective interest method at adjusted acquisition costs. Gains and losses are recognized in the income statement when the debts are retired or have been redeemed.

Financial liabilities measured at fair value through profit and loss comprise the financial liabilities held for trading purposes and, in this case, derivatives and any embedded derivatives that have been separated from the underlying contract, since these are not included as hedging instruments of collateral in hedge accounting. Gains and losses are included in profit or loss.

Derivative financial instruments and treatment of hedges

Under IAS 39, all derivative financial instruments (for example, currency, price and interest swaps as well as forward exchange transactions) must be recognized at market values, independently of the purpose or the intention of the agreement under which they were concluded. Since in the ElringKlinger Group no hedge accounting is applied, the changes in the fair value of the derivative financial instruments are always recognized in profit or loss.

The derivative financial instruments used in the ElringKlinger group are forward exchange, interest and price hedge transactions. The purpose of the derivative financial instruments is to reduce the negative effects of currency, interest and price risks on the financial position, financial performance and cash flows of the group.

Inventories

The inventories are recognized at acquisition or manufacturing costs or, if lower, their net realizable value. Raw materials, supplies and consumables as well as merchandise are measured at adjusted average acquisition costs. The manufacturing costs of the semi-finished and finished products are determined on the basis of directly attributable individual costs and a portion of the production-related overheads. The overhead portions are determined on the basis of normal levels of employment. The manufacturing costs do not include distribution costs and borrowing costs. General administration costs are included in manufacturing costs if related to production. The net realizable value represents the estimated sales price less all estimated costs until completion as well as the costs for marketing, sale and distribution. Markdowns are made for detectable impairment due to lack of marketability and quality defects as well as in order to account for falls in sales prices.

Cash

Cash includes cash in hand, cheques and bank deposits held on demand. No cash equivalents are held. Cash is recognized at face value.

Provisions for pensions

The provisions for pensions are computed using the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, consideration is given to expected future increases in pensions and salaries with the spirit of a cautious estimate of the relevant influences. The computation is based on actuarial reports that apply biometrical bases.

Actuarial gains and losses are offset, if the actuarial gains and losses unaccounted for exceed 10 % of the higher of (i) the obligation from the defined benefit plan and (ii) the fair value of the plan assets. In such cases, if the 10 % corridor is exceeded by up to a further 5 %, this amount is realized or accrued in full. In the case of overshooting by more than 15 %, the excess is distributed over ten years. If the average remaining service life of the employees with pension entitlements should be lower than ten years, the distribution is over this shorter remaining service life.

In determining the discount interest rates, the company is guided by the interest rates observed on the capital markets for corporate bonds of first-class standing (rating AA or better) with terms of 10 years (current pensioners) or 30 years (vested pensions).

Non-current and current provisions

Provisions are recorded when a past event gives rise to a present obligation to third parties for which an outflow of resources is probable and if the obligation can be estimated reliably.

The measurement of these provisions is at the presently best estimate of the expenses necessary to fulfill the obligation. If appropriate, the amount of the provision corresponds to the present value of the expenditures probably necessary to meet the obligations. Refund claims are capitalized separately, if applicable.

Leases

In leasing relationships in which the group is the lessee, the economic ownership of the leased items is attributed to the lessee, in accordance with IAS 17, if the lessee bears all opportunities and risks associated with ownership of the leased item (finance leases). The depreciation methods and useful lives correspond to those of comparable purchased assets. The leased item is capitalised at the time the contract is concluded at its fair value or, if lower, the present net value of the future minimum lease payments. Initial direct costs are accounted for as part of the asset. The lease obligations, the amount of which corresponds to the carrying value of the leased item, are shown under financial liabilities.

If economic ownership under a lease rests with the lessor (i. e. operating leases), it is the lessor that records the leased item in its balance sheet. The lease expenditures incurred are then recorded as expense, straight-line, over the term of the lease.

Realization of income and expense

Sales revenues are measured at the fair value of the consideration received or to be received and represent the amounts that are to be obtained for goods and services in the normal course of business. The revenues are shown after subtracting sales deductions, discounts and value added taxes.

Sales revenues are recognized when the performances due have been rendered and the principal opportunities and risks associated with ownership have passed to the purchaser and receipt of the payment may be expected reliably.

Interest income is accrued to the proper period according to the outstanding loan and the applicable interest rate. The applicable interest rate is specified in the loan agreement and discounts the estimated future inflows of funds over the term of the financial asset to the net carrying value.

Dividend income from financial investments is recorded at the time the payment claim arises.

Other income is recognized in the proper period in accordance with the provisions of the underlying contract.

Operating expenses are recorded in the income statement on the basis of a direct link between costs incurred and the corresponding income at the time the performance is called on or at the time of origination.

Research and non-capitalized development costs

Research costs are recorded as expense at the time they arise. Development costs are also recognized at the time they arise unless they meet the criteria for capitalization of IAS 38.57 as internally generated intangible asset.

Borrowing costs

Borrowing cost are expensed as incurred, if they are not directly related to the acquisition, construction or production of a qualifying asset and therefore have to be included in acquisition costs.

Income taxes and deferred taxes

The income tax expense represents the sum of current tax expense and deferred tax expense.

The current tax expense is determined on the basis of the taxable income for the relevant year. The taxable income is different from the net income for the year shown in the income statement since it excludes expenses and income which will be tax deductible in earlier or later years or which will never become taxable or tax deductible. The liability of the group for current tax expense is computed on the basis of the valid tax rates or of tax rates which have been agreed by the balance sheet date.

Deferred taxes are the expected tax charges and reliefs from the differences in the carrying values of assets and debts in the fiscal balance sheets of the individual companies compared with the valuations in the consolidated financial statements under IFRS. Here the balance-sheet oriented liability method is applied. Such assets and debts are not recognized if the temporary difference arises from (i) goodwill arising from a purchase of interests (a share deal) or (ii) from the first-time recognition of other assets and debts resulting from occurrences that do not affect the taxable income or the net income for the year. Deferred taxes are recorded on all taxable temporary differences when it is probable that taxable profits will be available against which it will be possible to offset the deductible temporary differences. Otherwise, deferred tax assets are set up on loss carryforwards to the extent that it may be expected that it will be possible to use them in future.

The carrying value of the deferred tax assets is examined each year as at the balance sheet date and is reduced if it is no longer probable that enough taxable income will be available.

The measurement of the deferred taxes is at the future tax rates, i. e. those that will probably be valid at the time of realization.

The changes in deferred taxes are recognized in the income statement as tax income or expense unless they relate directly to items recognized under equity, i. e. without effect on income; in this case the deferred taxes are shown under equity without effect on income.

Contingent liabilities and contingent assets

No contingent liabilities are recognized. They are shown in the notes, unless the possibility of an outflow of resources with economic benefit is remote. Contingent assets are not recognized in the financial statements. They are disclosed in the notes if the inflow of economic benefits is probable.

Use of estimates

For the preparation of financial statements in accordance with the pronouncements of the IASB estimates are necessary that influence the valuations in the balance sheet, the nature and the scope of contingent debts and contingent receivables as at the balance sheet date and the level of income and expenses in the reporting period. The assumptions and estimates relate at ElringKlinger mainly to the specification of useful lives, the recoverability of receivables, the recoverability of inventories, the recognition and measurement or provisions and the realization of future tax benefits. Actual results may deviate from these estimates. When changes occur in the light of improved knowledge, these are recorded in profit and loss.

Warranty obligations may arise by force of law, by contract or for policy reasons. Provisions are set up for the expected claims from warranty obligations. A claim may be expected especially if the warranty period has not yet expired, if warranty expenses have been incurred in the past, or if there is concrete evidence of warranty incidents about to occur. The warranty risk is derived depending on the circumstances from individual estimates or from past experience and appropriate provisions are set up.

The use of estimates in other items of the consolidated balance sheet and the consolidated income statement are described in the accounting principles for the items in question. This affects in particular the following matters: impairments of goodwill, impairments of property, plant & equipment and of intangible assets; impairments of receivables; and the valuation of provisions for pensions.

Risks and uncertainties

ElringKlinger's financial position, financial performance and cash flows are subject to numerous risks and uncertainties. The implications of the global economic environment against the backdrop of the financial market crisis and its impact on the real economy are still uncertain. This could cause actual results to vary from current expectations.

The strained sales and income situation of some of ElringKlinger's customers increases the risk of delayed cash inflows and bad debt losses for ElringKlinger. This general risk could not be provided for in the consolidated financial statements as it is neither quantifiable nor appreciable at the moment.

Provisions are formed for risks arising from litigation if an entity of the ElringKlinger group is the defendant and the weight of evidence speaks for rather than against a negative outcome of the lawsuit. The provision is in the amount that the entity will probably lose in the case of a negative outcome. This amount comprises any payments to be made by the entity such as compensation or severance pay and the expected costs of the lawsuit. In litigation in which the entity itself is the plaintiff, provisions are set up for the costs of the lawsuit only.

Individual disclosures on the Income Statement

1 Sales

Sales decreased by EUR ’000 78,504 to EUR ’000 579,329 in comparison with 2008.

The sales revenues of the group are made up as follows:

	2009 EUR ´000	2008 EUR ´000
Sale of goods	567,452	643,495
Proceeds from the rendering of services	4,070	5,929
Income from rental and leasehold	7,807	8,409
Total	**579,329**	**657,833**

Breakdown by geographical markets:

	2009 EUR ´000	2008 EUR ´000
Domestic	191,612	236,133
Foreign	387,717	421,700
Total	**579,329**	**657,833**

2 Cost of sales

The cost of sales shows the costs incurred to obtain the sales revenues.

The costs of sales include:

	2009 EUR ´000	2008 EUR ´000
Cost of materials	247,519	278,099
Personnel expenses	93,817	104,891
Amortization & depreciation	56,202	43,841
Other expenses	28,782	37,350
Total	**426,320**	**464,181**

Due to falsely performed allocations of expenses related to the fire in the Runkel plant to the different functional costs in the prior period, ElringKlinger retrospectively reduced 2008 figures for cost of sales by EUR ’000 3,987.

Selling expenses 3

Selling expenses decreased by EUR ’000 3,434 to EUR ’000 46,480 compared to 2008. The selling expenses comprise mainly personnel expenses, material and marketing costs as well as amortization/depreciation relating to the distribution function.

General and administrative expenses 4

The general and administrative expenses include personnel expenses and material costs as well as the amortization/depreciation relating to the administrative area. General and administrative expenses decreased by EUR ’000 43 to EUR ’000 23,861 compared to 2008.

Due to falsely performed allocations of expenses related to the fire in the Runkel plant to the different functional costs in the prior period, ElringKlinger retrospectively increases 2008 figures for general and administrative expenses by EUR ’000 3,987.

Research and development expenses 5

The research and development expenses comprise the personnel expenses attributable to these activities, depreciation & amortization, as well as the costs of experimental material and tools, except in the case of development costs, which, pursuant to IAS 38.57, must be capitalized. In 2009 development costs amounting to EUR ’000 4,590 have been capitalized. Amortization of capitalized development costs recognized in this line item of the income statement amounted to EUR ’000 3,145 in 2009.

Other operating income 6

	2009 EUR ’000	2008 EUR ’000
Fair value changes of derivative instruments	9,494	0
Release of provisions/accrued liabilities	6,301	4,831
Reimbursements from third parties	3,850	1,927
Government grants	3,584	1,190
Income from disposals of fixed assets	1,178	866
Insurance reimbursements	84	1,830
Gain recognized in accordance with IFRS 3.56	0	5,792
Sundry	3,754	2,113
Total	**28,245**	**18,549**

Other operating income includes gains from fair value changes of derivative instruments amounting to EUR ’000 9,494.

Income from release of provisions amounting to EUR ’000 3,603 relates to the release of the provision for raw material related derivatives.

The other operating income includes out-of-period income of EUR ’000 7,479 (2008: EUR ’000 5,697). This is comprised of income from the release of provisions and accrued liabilities (EUR ’000 6,301; 2008: EUR ’000 4,831) and gains on disposals of fixed assets (EUR ’000 1,178; 2008: EUR ’000 866).

7 Other operating expenses

	2009 EUR ´000	2008 EUR ´000
Losses due to onerous contracts	3,647	0
Losses on disposal of fixed assets	2,224	2,135
Warranties	1,401	355
Adjustments on receivables	1,345	1,148
Other taxes	220	166
Expenses in connection with raw material related derivative contracts	0	15,858
Other expenses, fire at Runkel	0	1,081
Impairments of property, plant & equipment	0	640
Sundry	3,104	4,675
Total	**11,941**	**26,058**

The other operating expenses include out-of-period expenses of EUR ’000 2,224 (2008: EUR ’000 3,245). These comprise losses on the disposal of fixed assets.

8 Financial result

	2009 EUR ´000	2008 EUR ´000
Financial income		
Income from currency differences	9,342	13,529
Interest income	449	914
Earnings from affiliated entities	1	42
Sundry	8	194
Financial income, total	**9,800**	**14,679**
Financial expenses		
Expenses from currency differences	-9,347	-18,055
Interest expenses	-14,350	-12,427
- there of from derivative financial instruments	0	(-1)
Sundry	0	-2
Financial expenses, total	**-23,697**	**-30,484**
Financial result	**-13,897**	**-15,805**

Of interest expenses, EUR ’000 2,945 (2008: EUR ’000 3,104) related to interest portions of the pension plans and the remainder to bank interest.

Expenses for taxes on income

9

The income tax expense is composed as follows:

	2009 EUR ´000	2008 EUR ´000
Current tax expense	12,315	22,119
Deferred taxes	2,241	-5,274
Tax expense shown	**14,556**	**16,845**

The taxes on income are corporation and municipal trade tax including the solidarity surcharge of the domestic group companies as well as comparable income taxes of the foreign group companies. The income tax rate computed for the companies in Germany is 27.5 % (2008: 27.5 %). The foreign taxation is computed at the tax rates that apply in the countries concerned and lies between 16.9 % and 42.0 % (2008: between 13.5 % and 45.0 %). The average foreign tax rate is 32.6 % (2008: 30.5 %).

The deferred taxes are computed by applying the tax rates in force or expected to be in force in the different countries at the time of realization as the law presently stands.

The following table shows a reconciliation of the income tax expense that might theoretically be expected to arise from application of the current domestic income rate if it were unchanged at 27.5 % (2008: 27.5 %) with the income tax expense that is in fact shown.

	2009 EUR ´000	2008 EUR ´000
Earnings before taxes	49,391	60,025
Expected tax rate	**27,5 %**	**27,5 %**
Expected tax expense	**13,582**	**16,507**
Change in the expected tax expense on account of:		
- changes in tax rates	0	0
- Tax-free income and non-deductible expenses	409	-1,874
- use of non-capitalized tax loss carry forwards	0	0
- out-of-period taxes	-183	1,100
- deviations due to foreign tax-rates	1,087	507
- other effects	-339	605
Actual tax expense	**14,556**	**16,845**
Effective tax rate	**29,5 %**	**28,1 %**

ElringKlinger recorded deferred tax liabilities for German tax of EUR ’000 98 (2008: EUR ’000 168) on EUR ’000 7,226 in cumulative undistributed earnings of German and non-German subsidiaries on the future payout of these foreign dividends to Germany. Further retained earnings of German and non-German subsidiaries are intended to be permanently reinvested in those operations.

Deferred tax assets on tax loss carry forwards have been recognized in Mexico, Japan and China. Deferred tax assets on tax loss carry forwards of group companies in the USA amounting to EUR ’000 1,559 have not been recognized as the criteria for capitalization are not met. Additional valuation allowances on deferred tax assets are not necessary.

The tax deferrals relate to the following line items:

	Deferred tax assets		Deferred tax liabilities	
Balance sheet items	Dec. 31, 2009 EUR ´000	Dec. 31, 2008 EUR ´000	Dec. 31, 2009 EUR ´000	Dec. 31, 2008 EUR ´000
Intangible fixed assets	236	262	2,951	2,911
Property, plant and equipment	207	510	25,240	24,909
Investment property	0	0	1,810	335
Financial assets	3	3	5	0
Other non-current assets	157	361	0	0
Inventories	1,562	1,478	372	1,175
Trade receivables	296	354	699	676
Other current assets	0	0	47	48
Provisions for pensions	4,484	4,063	0	0
Non-current provisions	281	395	0	0
Non-current financial liabilities	52	69	33	0
Other non-current liabilities	2,656	1,100	0	7
Current provisions	1,487	4,989	0	0
Trade payables	45	4	45	9
Current financial liabilities	24	62	333	328
Other current liabilities	2,101	1,675	0	370
Deferred taxes associated with investments in subsidiaries	0	0	98	168
Loss carry forwards	552	510	0	0
Shown in the balance sheet	**14,143**	**15,835**	**31,633**	**30,936**

Due to business combinations and share acquisitions deferred tax liabilities amounting to EUR ’000 261 have been recognized without effect on the income statement. Otherwise, all changes in deferred taxes have been recorded with effect on income.

Diluted and undiluted earnings per share

10

To obtain the undiluted (basic) earnings per share, the period profit attributable to the shareholders of the parent company is divided by the number of individual shares.

The diluted earnings per share correspond to the undiluted earnings per share and are calculated as follows:

	2009	2008
Profit attributable to shareholders of ElringKlinger AG in EUR '000	33,222	39,845
Dividend-bearing shares	57,600,000	57,600,000
Earnings per share in EUR	**0.58**	**0.69**

Individual disclosures on the Statement of Financial Position

11 Intangible assets

	Development costs (internally generated) EUR ´000	Goodwill (purchased) EUR ´000	Patents, licenses, software (purchased) EUR ´000	Tangible fixed assets under construction (purchased) EUR ´000	Total EUR ´000
Acquisition/manufacturing costs					
Balance as at Jan. 1, 2009	**13,763**	**86,130**	**26,461**	**2,478**	**128,832**
Currency changes	9	553	23	0	585
Change consolidated group	0	731	165	0	896
Additions	4,590	403	750	34	5,777
Reclassifications	0	0	2,648	-2,478	170
Disposals	1,064	0	298	0	1,362
Balance as at Dec. 31, 2009	**17,298**	**87,817**	**29,749**	**34**	**134,898**
Amortization					
Balance as at Jan. 1, 2009	**6,909**	**13,128**	**22,253**	**0**	**42,290**
Currency changes	6	40	9	0	55
Change consolidated group	0	0	1	0	1
Additions	3,145	0	1,585	0	4,730
Disposals	1,064	0	298	0	1,362
Balance as at Dec. 31, 2009	**8,996**	**13,168**	**23,550**	**0**	**45,714**
Net carrying value as at Dec. 31, 2009	**8,302**	**74,649**	**6,199**	**34**	**89,184**
Acquisition/manufacturing costs					
Balance as at Jan 1, 2008	**7,717**	**40,277**	**21,106**	**2,451**	**71,551**
Currency changes	138	-757	71	0	-548
Change consolidated group	2,466	39,211	3,337	0	45,014
Additions	4,188	7,399	1,911	27	13,525
Reclassifications	0	0	355	0	355
Disposals	746	0	319	0	1,065
Balance as at Dec. 31, 2008	**13,763**	**86,130**	**26,461**	**2,478**	**128,832**
Amortization					
Balance as at Jan. 1, 2008	**3,551**	**13,182**	**17,781**	**0**	**34,514**
Currency changes	79	-54	73	0	98
Change consolidated group	1,403	0	140	0	1,543
Additions	2,622	0	4,485	0	7,107
Impairment	0	0	93	0	93
Disposals	746	0	319	0	1,065
Balance as at Dec. 31, 2008	**6,909**	**13,128**	**22,253**	**0**	**42,290**
Net carrying value as at Dec. 31, 2008	**6,854**	**73,002**	**4,208**	**2,478**	**86,542**

The line item “change consolidated group” contains additions due to the acquisition of the Turkish Ompas-Group during 2009.

The additions in 2009 include goodwill of EUR ’000 403 from the acquisition of minority shares in a Chinese subsidiary.

The scheduled amortization on intangible assets is contained in full under the following line items in the income statement:

	2009 EUR ´000	2008 EUR ´000
Cost of sales	350	3,803
Selling expenses	476	84
General and administrative expenses	512	424
Research and development expenses	3,392	2,796
Total	**4,730**	**7,107**

The cost of sales in 2009 include amortization amounting to EUR ’000 73 (2008: EUR ’000 3,573) of orders on hand capitalized in connection with business combinations.

As at the balance sheet date, there were contractual payments obligations to acquire a licensed PTFE machining process of EUR ’000 800, 55 % of which will be offset against future sales-related license fees.

12 Property, plant and equipment

	Land and buildings EUR ´000	Technical plant and machinery EUR ´000	Other plant, office equipment EUR ´000	PPE under construction EUR ´000	Total EUR ´000
Acquisition/manufacturing costs					
Balance at Jan. 1, 2009	**137,961**	**426,362**	**115,050**	**57,437**	**736,810**
Currency changes	1,390	6,372	481	692	8,935
Change consolidated group	972	938	135	24	2,069
Additions	10,657	45,104	3,555	30,253	89,569
Reclassifications	10,634	38,839	1,694	-51,337	170
Disposals	1,604	10,341	2,557	1,930	16,432
Balance at Dec. 31, 2009	**160,010**	**507,274**	**118,358**	**35,139**	**820.781**
Depreciation					
Balance at Jan. 1, 2009	**42,614**	**236,399**	**97,371**	**0**	**376,384**
Currency changes	197	3,063	247	0	3,507
Change consolidated group	0	284	82	0	366
Additions	3,765	57,966	3,569	0	65,300
Impairment	0	0	0	0	0
Reclassifications	-4	0	4	0	0
Disposals	1,428	7,038	2,488	0	10,954
Balance at Dec. 31, 2009	**45,144**	**290,674**	**98,785**	**0**	**434,603**
Carrying value as at Dec. 31, 2009	**114,866**	**216,600**	**19,573**	**35,139**	**386,178**
Acquisition/manufacturing costs					
Balance at Jan. 1, 2008	**97,243**	**323,419**	**109,068**	**38,673**	**568,403**
Currency changes	-151	-5,357	-637	-1,649	-7,794
Change consolidated group	22,124	35,897	2,337	2,523	62,881
Additions	15,098	61,310	7,035	52,358	135,801
Reclassifications	9,638	23,206	1,264	-34,463	-355
Disposals	5,991	12,113	4,017	5	22,126
Balance at Dec. 31, 2008	**137,961**	**426,362**	**115,050**	**57,437**	**736,810**
Depreciation					
Balance at Jan. 1, 2008	**34,052**	**181,077**	**96,935**	**0**	**312,064**
Currency changes	429	-2,430	-297	0	-2,298
Change consolidated group	9,519	19,554	1,615	0	30,688
Additions	3,161	46,569	3,001	0	52,731
Impairment	0	630	0	0	630
Reclassifications	0	-2	-91	0	-93
Disposals	4,547	8,999	3,792	0	17,338
Balance at Dec. 31.12 2008	**42,614**	**236,399**	**97,371**	**0**	**376,384**
Carrying value as at Dec. 31, 2008	**95,347**	**189,963**	**17,679**	**57,437**	**360,426**

Property, plant and equipment contain technical equipment capitalized under finance lease arrangements of EUR ’000 432 (2008: EUR ’000 281). In 2009, depreciation expense on assets under finance lease arrangements amounted to EUR ’000 71 (2008: EUR ’000 43).

The line item “change consolidated group” contains additions due to the acquisition of the Ompas Group during 2009.

In 2009, there was no impairment on property, plant and equipment (2008: EUR ’000 630).

Investment property

13

	Investment Property EUR ´000	Investment property under construction EUR ´000	Total EUR ´000
Acquisition/manufacturing costs Balance at Jan. 1, 2009	**52,394**	**88**	**52,482**
Currency changes	-316	-2	-318
Additions	230	20	250
Reclassification	17	-17	0
Disposals	0	0	0
Balance at Dec. 31, 2009	**52,325**	**89**	**52,414**
Depreciation Balance at Jan. 1, 2009	**23,894**	**0**	**23,894**
Currency changes	-69	0	-69
Additions	1,189	0	1,189
Disposals	0	0	0
Balance at Dec. 31, 2009	**25,014**	**0**	**25,014**
Carrying value as at Dec. 31, 2009	**27,311**	**89**	**27,400**
Acquisition/manufacturing costs Balance at Jan. 1, 2008	**53,319**	**76**	**53.395**
Currency changes	-708	-4	-712
Additions	41	16	57
Disposals	258	0	258
Balance at Dec. 31, 2008	**52,394**	**88**	**52,482**
Depreciation Balance at Jan. 1, 2008	**22,953**	**0**	**22,953**
Currency changes	-138	0	-138
Additions	1,194	0	1,194
Disposals	115	0	115
Balance at Dec. 31, 2008	**23,894**	**0**	**23,894**
Carrying value as at Dec. 31, 2009	**28,500**	**88**	**28,588**

The investment property includes industrial parks in Ludwigsburg, Idstein and Kecskemét-Kádafalva (Hungary). The fair value determined using the discounted cash flow method is EUR ′000 77,795 (2008: EUR ′000 68,756). This was determined by discounting the surplus of expected future rental payments over the expected cash expenses to the valuation date. The capitalization factor applied was a risk-adjusted interest rate of 4.97 %. The measurement of the fair values was not made by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR ′000 7,807 (2008: EUR ′000 8,409). The expense directly connected with this financial investment was EUR ′000 5,283 (2008: EUR ′000 5,965).

14 Financial assets

	Participations EUR ´000	Non-current securities EUR ´000	Other financial assets EUR ´000	Total EUR ´000
Acquisition cost Balance at Jan 1, 2009	**8**	**1,545**	**40**	**1,593**
Currency changes	0	-2	0	-2
Change consolidated group	0	0	0	0
Additions	0	845	0	845
Reclassification	-8	0	8	0
Disposals	0	819	7	826
Balance at Dec. 31, 2009	**0**	**1,569**	**41**	**1,610**
Depreciation Balance at Jan 1, 2009	**0**	**1**	**0**	**1**
Additions	0	-1	0	-1
Revaluations	0	0	0	0
Balance at Dec. 31, 2009	**0**	**0**	**0**	**0**
Carrying value as at Dec. 31, 2009	**0**	**1,569**	**41**	**1,610**
Fair Value as at Dec. 31, 2009		1,610	41	

	Participations EUR ´000	Non-current securities EUR ´000	Other financial assets EUR ´000	Total EUR ´000
Acquisition cost Balance at Jan. 1, 2008	**3,086**	**1,418**	**49**	**4,553**
Currency changes	0	10	0	10
Change consolidated group	0	79	0	79
Additions	0	610	0	610
Disposals	3,078	572	9	3,659
Balance at Dec. 31, 2008	**8**	**1,545**	**40**	**1,593**
Depreciation Balance at Jan. 1, 2008	**0**	**10**	**0**	**10**
Additions	0	1	0	1
Revaluations	0	10	0	10
Balance at Dec. 31, 2008	**0**	**1**	**0**	**1**
Carrying value as at Jan. 1, 2008	**8**	**1,544**	**40**	**1,592**
Fair Value as at Dec. 31, 2008		1,570	40	

Of the securities of non-current assets, EUR ’000 1,375 (2008: EUR ’000 1,365) is pledged in full to secure pension claims.

Other non-current assets 15

The other non-current assets contain mainly the corporation tax credit of ElringKlinger AG in the amount of EUR ’000 4,323 (2008: EUR ’000 4,764), which has been capitalized at its net present value. The corporation tax credit will be disbursed to ElringKlinger AG in ten equal annual installments from 2008 until 2017.

Inventories 16

	Dec. 31, 2009 EUR ´000	Dec. 31, 2008 EUR ´000
Raw materials, consumables and supplies	37,476	48,985
Work in progress	10,671	9,872
Finished goods and merchandise	52,535	70,551
Prepayments	786	376
Total	**101,468**	**129,784**

Under inventories, markdowns of EUR ’000 14,898 (2008: EUR ’000 13,682) have been made to account for marketability risks.

17 Trade receivables and other current assets

For trade receivables and other current assets, impairments of EUR ’000 3,749 (2008: EUR ’000 4,045) were set up for specific detectable risks and probable use of discounts.

The carrying value of the trade receivables and other assets corresponds to their fair value.

Trade receivables do not carry interest and are generally due in 30 to 120 days.

The adjustment account for trade receivables has developed as follows:

	2009 EUR ’000	2008 EUR ’000
Balance as at Jan. 1,	**4,045**	**2,919**
Addition	1,264	2,242
Release/utilization	-1,686	-1,099
Exchange rate effects	126	-17
Balance as at Dec 31,	**3,749**	**4,045**

All expenses and income from impairment of trade receivables are presented under other operating expenses or income.

A breakdown of the due dates of the trade receivables is given below:

	Dec. 31, 2009 EUR ’000	Dec. 31, 2008 EUR ’000
Neither overdue nor impaired:	**79,195**	**74,463**
Overdue, not impaired:		
- less than 30	13,930	10,969
- from 30 to 60	6,059	4,571
- from 60 to 90	3,856	2,696
- from 90 to 180	306	222
- more than 180	99	460
Total:	**24,250**	**18,918**
Impaired	**3,316**	**4,651**
Carrying value	**106,761**	**98,032**

Neither with regard to the overdue nor to the impaired receivables was anything identified that indicated that the debtors will not meet their payments obligations.

Other current assets contain mainly tax receivables (EUR ’000 6,774; 2008: EUR ’000 13,791).

Cash

18

The item cash comprises cash and deposits held by the group on current accounts. As in the prior year, there were no cash equivalents.

The carrying value of these assets corresponds to their fair value.

Shareholders' equity

19

The changes in the individual items of equity in the group are shown separately in the "Statement of changes in equity".

The share capital shown is the nominal capital of the parent company ElringKlinger AG. The nominal capital of ElringKlinger AG amounts to 57.6 million Euro and is divided into 57,600,000 individual shares. The shares are registered.

Under the German stock corporation act, the distributable dividend is measured by the retained earnings, which are shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German commercial code (HGB). In the financial year 2009, ElringKlinger AG distributed to its shareholders a dividend of EUR '000 8,640 (EUR 0.15 per share) from the retained earnings for 2008. In the financial year 2008 the distribution was EUR '000 26,880 (EUR 1.40 per share) from the retained earnings for 2007. The amount for dividend per share relates to the number of shares outstanding prior to the stock split in 2008.

The management board and the supervisory board of the parent company ElringKlinger AG will propose to the shareholders' meeting to be held on May 21, 2010, distribution of a dividend of EUR 0.20 per share with dividend entitlement, representing a total distribution of EUR '000 11,520.

At the shareholders' meeting held on June 8, 2005, the approved capital was set at EUR '000 28,800. With the consent of the supervisory board, the management board can call this capital in until June 15, 2010.

The reconciliation of net exchange differences classified as a separate component of equity is as follows:

	2009 EUR '000	2008 EUR '000
Balance as at Jan. 1,	**-12,557**	**-7,275**
Currency differences in carry forward values	5,736	-4,121
Currency differences on book values of investments in foreign currency	201	-614
Currency differences due to differences between net profit according to income statement and net profit shown in the balance sheet	431	-213
Minority interest in currency differences in carry forward values	-98	-189
Currency differences due to capital increases at subsidiaries	190	-134
Sundry	18	-11
Balance as at Dec. 31,	**-6,079**	**-12,557**

20 Minority interests in equity and period result

ElringKlinger AG holds less than 100 % in some of the companies that have been included in the consolidated financial statements. In accordance with IAS 27, the relevant minority shareholdings are shown in the consolidated balance sheet, under equity, separate from the equity relating to the shareholders of the parent company. Similarly, in the consolidated income statement and in the reconciliation to comprehensive income, minority interests in the net profit and the comprehensive income are shown separately.

The minority shares in equity shown in the consolidated financial statements relate to non-group shareholders in subsidiaries. In an amount of EUR ’000 5,327 (2008: EUR ’000 6,236) they relate to interests in the capital; in an amount of EUR ’000 1,376 (2008: EUR ’000 1,522) to interests in the revenue reserves from the initial application of IFRS; and in the amount of EUR ’000 6,510 (2008: EUR ’000 7,130) to profit shares.

Due to the first-time inclusion of EKTR in the consolidated financial statements, minority interests in equity increased by EUR ’000 19 in 2009. The acquisition by ElringKlinger of minority interests in CEK resulted in 2009 in a reduction of the minority interests in equity of EUR ’000 1,633.

21 Provisions for pensions

The pension obligations at the foreign companies mainly take the form of defined contribution plans while in the case of domestic companies it is on the basis of defined benefit and defined contribution plans.

Under the **defined contribution plans** the entity pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. On payment of the contributions, the entity does not have any further obligations. The current contribution payments are shown as pension expense of the relevant year: they came to a group total of EUR ’000 434 (2008: EUR ’000 596).

The **defined benefit plans** are accounted for in the group by setting up provisions for pensions that are determined by the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, consideration is given to expected future increases in pensions and salaries with cautious estimate of the relevant influences. In the case of the domestic companies, the computation is based on actuarial reports using biometric calculations (guideline tables 2005 G of Prof. Dr. Klaus Heubeck).

Under the defined benefit plans, on reaching the retirement age of 63 years, employees have a claim to benefits that depend of their length of time with the company. Employees that come under the collective agreement receive a pension claim of about 0.16 % of the remuneration per year of employment, with the maximum being 30 years of employment and 4.87 % of remuneration. The company pension for senior employees is a maximum of 32 % of the final monthly salary.

The most important assumptions are:

Measurement at	Dec. 31, 2009 EUR ´000	Dec. 31, 2008 EUR ´000
Discount rate (weighted)	1.75–5.07 %	3.6–5.84 %
Expected percentage of salary increases	2.00 %	2.00 %
Future pension increases	2.00 %	2.00 %

The following amounts are recorded in the income statement for defined benefit plans:

	2009 EUR ´000	2008 EUR ´000
Current service costs	2,343	1,860
Interest expense	3,394	3,104
Expected return on plan assets	-365	-253
Past service costs	-16	179
Accrued actuarial gains (-)/losses	0	0
Total expense	**5,356**	**4,890**

Actual return on plan assets was EUR ´000 219 (2008: EUR ´000 269).

The current service costs and the recording of actuarial gains/losses are generally recorded under the personnel costs of the functional areas; the annual interest expense is shown under net interest.

The changes in the present value of the defined benefit obligations of the current financial year are as follows:

	2009 EUR ´000	2008 EUR ´000
Present value of the pension claims as at Jan. 1,	**65,624**	**52,107**
Current service costs	2,343	1,860
Interest expense	3,394	3,104
Disbursements/Utilization	-4,748	-3,347
Actuarial gains/losses	5,638	-1,003
Additions due to business combinations	0	12,903
Other changes	-47	0
Present value of the pension claims as at Dec. 31,	**72,204**	**65,624**

The amount shown in the balance sheet for the group's obligation is derived as follows:

	Dec. 31, 2009 EUR ´000	Dec. 31, 2008 EUR ´000	Dec. 31, 2007 EUR ´000	Dec. 31, 2006 EUR ´000
Present value of obligations covered by funds and not covered by funds	**72,204**	**65,624**	**52,107**	**55,892**
Fair value of the plan assets	-10,697	-10,750	-175	-180
Present value of net obligations	61,507	54,874	51,932	55,712
Actuarial losses not booked	-2,148	3,645	2,498	-2,261
Net debt recorded in the balance sheet	**59,359**	**58,519**	**54,430**	**53,451**
Experience adjustments arising on the plan liabilities	**5,638**	**-1,003**	**-4,767**	**-3,655**

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Current and non-current provisions

The current and non-current provisions are comprised as follows:

	Dec. 31, 2009 EUR ´000	Dec. 31, 2008 EUR ´000
Current provisions	10,651	22,915
Non-current provisions	6,015	5,461
Total	**16,666**	**28,376**

The provisions break down as follows:

	Personnel oblig-ations EUR ´000	Warranty oblig-ations EUR ´000	Losses in orders in hand EUR ´000	Litig-ation costs EUR ´000	Other risks EUR ´000	Total EUR ´000
Balance as at Jan. 1, 2009	**7,572**	**1,717**	**2,210**	**479**	**16,398**	**28,376**
Change consolidated group	89	0	0	12	0	101
Exchange rate difference	-16	0	4	1	59	48
Utilization	2,230	118	1,037	16	11,778	15,179
Release	450	32	513	255	3,655	4,905
Unwinding of discount	24	0	0	0	0	24
Addition	2,496	817	3,647	612	629	8,201
Balance as at Dec. 31, 2009	**7,485**	**2,384**	**4,311**	**833**	**1,653**	**16,666**

Provisions in the personnel area are set up for the pre-retirement part-time scheme, long-service anniversary benefits and similar obligations.

The provision for warranties represents the best estimate of management and was set up on the basis of past experience and the industrial average for defective products with regard to the group liability for a warranty of twelve months.

The other risks refer to numerous detectable individual risks and uncertain obligations, which have been taken into consideration in line with the probability of their incidence.

Current and non-current financial liabilities

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	Domestic EUR ´000	Foreign EUR ´000	Total Dec. 31, 2009 EUR ´000	Domestic EUR ´000	Foreign EUR ´000	Total Dec. 31, 2008 EUR ´000
Overdrafts	27,706	3,307	31,013	84,309	442	84,751
Financial liabilities up to one year	22,513	2,708	25,221	10,317	12,961	23,278
Current Financial liabilities	**50,219**	**6,015**	**56,234**	**94,626**	**13,403**	**108,029**
Financial liabilities more than one year	153,425	10,844	164,269	139,094	11,054	150,148
Total	**203,644**	**16,859**	**220,503**	**233,720**	**24,457**	**258,177**

The financial liabilities (excluding overdrafts) have the following terms:

	Domestic EUR ´000	Foreign EUR ´000	Total Dec. 31, 2009 EUR ´000	Domestic EUR ´000	Foreign EUR ´000	Total Dec. 31, 2008 EUR ´000
Payable on demand or less than one year	22,513	2,708	25,221	10,317	12,961	23,278
More than one and less than five years	101,938	10,844	112,782	63,011	10,905	73,916
More than five years	51,487	0	51,487	76,083	149	76,232
Total	**175,938**	**13,552**	**189,490**	**149,411**	**24,015**	**173,426**

Breakdown of financial liabilities by category, residual term and currency:

Currency	Category	Residual term	Weighted interest rate %	Amount in local currency ´000	Amount EUR ´000
at Dec. 31, 2009					
BRL	Overdraft	< 1 year	1.39	4,056	1,616
CHF	Overdraft	< 1 year	2.00	667	450
EUR	Overdraft	< 1 year	2.13	13,207	13,207
JPY	Overdraft	< 1 year	0.85	140,007	1,052
KRW	Overdraft	< 1 year	5.22	49,966	30
MXN	Overdraft	< 1 year	7.24	127,770	6,787
USD	Overdraft	< 1 year	3.45	10,335	7,174
TRY	Overdraft	< 1 year	3.70	1,023	475
CAD	Overdraft	< 1 year	2.00	335	222
	Total				**31,013**
CHF	Financial liabilities	< 1 year	3.86	15,051	10,145
EUR	Financial liabilities	< 1 year	4.47	14,934	14,934
KRW	Financial liabilities	< 1 year	5.22	149,899	89
USD	Financial liabilities	< 1 year	3.25	75	52
CHF	Financial liabilities	1-5 years	3.88	74,500	50,216
EUR	Financial liabilities	1-5 years	4.37	51,621	51,621
JPY	Financial liabilities	1-5 years	1.90	20,040	151
MXN	Financial liabilities	1-5 years	9.19	150,000	7,968
USD	Financial liabilities	1-5 years	4.30	4,000	2,777
TRY	Financial liabilities	1-5 years	6.00	109	50
EUR	Financial liabilities	> 5 years	4.42	51,487	51,487
	Total				**220,503**
Total					**220,503**

Currency	Category	Residual term	Weighted interest rate %	Amount in local currency ´000	Amount EUR ´000
at Dec. 31, 2008					
EUR	Overdraft	< 1 year	4.73	84,416	84,416
MXN	Overdraft	< 1 year	0.00	2,489	129
KRW	Overdraft	< 1 year	4.87	100,000	57
USD	Overdraft	< 1 year	4.50	208	149
	Total				**84,751**
EUR	Financial liabilities	< 1 year	4.73	8,157	8,157
BRL	Financial liabilities	< 1 year	1.65	4,037	1,239
CHF	Financial liabilities	< 1 year	3.67	5,000	3,360
CHF	Financial liabilities	< 1 year	3.67	12,887	8,660
JPY	Financial liabilities	< 1 year	1.32	215,000	1,701
USD	Financial liabilities	< 1 year	5.00	225	161
EUR	Financial liabilities	1-5 years	4.63	31,255	31,255
CHF	Financial liabilities	1-5 years	3.90	43,000	28,894
CHF	Financial liabilities	1-5 years	3.90	4,000	2,688
CNY	Financial liabilities	1-5 years	5.00	130	14
KRW	Financial liabilities	1-5 years	4.87	50,000	28
MXN	Financial liabilities	1-5 years	9.19	150,000	7,789
USD	Financial liabilities	1-5 years	4.32	4,000	2,862
USD	Financial liabilities	1-5 years	4.50	541	387
EUR	Financial liabilities	> 5 years	4.45	47,861	47,861
CHF	Financial liabilities	> 5 years	3.96	42,000	28,222
JPY	Financial liabilities	> 5 years	1.90	18,750	148
	Total				**173,426**
Total					**258,177**

The average interest rates were:

	Dec. 31, 2009 %	Dec. 31, 2008 %
Overdrafts:		
Domestic	3.67	4.73
Foreign	1.90	3.28
Financial liabilities:		
Domestic: up to one year	4.34	4.73
Domestic: more than one and less than five years	4.18	4.63
Domestic: more than five years	4.42	4.45
Foreign: up to one year	3.25	3.20
Foreign: more than one and less than five years	7.36	7.51
Foreign: more than five years	-	1.90

Fixed interest rates have been agreed for financial liabilities of EUR ’000 166,938 (2008: EUR ’000 150,401). In addition, interest swaps relating to loans that amount to EUR ’000 10,600 exist to transfer variable interest to fixed interest.

As collateral, land charges on works grounds with a carrying amount of EUR ’000 70,100 (2008: EUR ’000 52,383), and collaterals on inventories with a carrying amount of EUR ’000 3,397 (2008: EUR ’000 4,711) and trade receivables with a carrying amount of EUR ’000 6,490 (2008: EUR ’000 6,305) have been issued. As at the balance sheet date the secured liabilities value at EUR ’000 28,809 (2008: EUR ’000 18,389).

As at December 31, 2009, the group had unused credit lines of EUR ’000 109,686 (2008: EUR ’000 56,914).

24 Trade payables and other current and non-current liabilities

Trade payables and other current and non-current liabilities comprise outstanding obligations from trade and running costs.

The carrying value of the trade payables corresponds approximately to their fair value.

The trade payables and other current and non-current liabilities are not secured except for the reservations of title that are usual in trading relationships.

Current and non-current liabilities include accrued liabilities of tooling revenue and accrued expenses.

Hedging policy and financial instruments

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Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger group, changes in exchange and interest rates and in prices of raw materials have effects on the financial position, financial performance and cash flows of the Group. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. Additionally, there ate liquidity risks, which are connected with credit risks and market price risks or accompany a deterioration of business operations and disturbances of the financial markets, respectively.

In concluding hedges the management board of ElringKlinger has the objective of controlling the risk factors that may adversely affect the financial position, financial performance and cash flows and hence of minimising these influences. Within the ElringKlinger group, derivative financial instruments may only be entered into with the consent of the management board. ElringKlinger processes a significant volume of high-grade steel. Included therein are alloy surcharges, in particular for nickel, which as a quoted metal is subject to market price swings. In order to partly hedge alloy surcharges assessed in internal part price calculations, ElringKlinger uses derivative financial instruments. Hedged is a price range, in which the average budget price falls in. If the stock exchange quotation of nickel goes beyond the upper range of the corridor, ElringKlinger receives a compensatory payment. In case the stock exchange quotation of nickel falls below the lower range of the corridor, ElringKlinger has to make a compensatory payment. Existing hedging contracts for nickel have a remaining term until April 2010.

Hedge accounting in the meaning of IAS 39 (revised 2000) is not applied.

Currency risk

Due to the international nature of its business, the ElringKlinger Group is exposed to currency risks in the normal course of business.

The exchange rate risk arises for the group in its operating business principally when sales revenues are made in a different currency than the related costs. Sales revenues are generated generally in the functional currency (which is usually the relevant national currency) of the group entity concerned. In order to reduce currency risks from operating business, the purchases of goods, raw materials and services as well as investing and financing activates are generally accounted for in the functional currency of the group entity. The group also endeavours to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

In order to limit the currency risk, ongoing receivables, liabilities and debts in foreign currency are hedged with forward currency transactions.

The units are not permitted to take up finance in foreign currency or to invest it for speculative reasons. Intergroup finance and investment is usually denominated in the relevant functional currency.

A number of subsidiaries of ElringKlinger AG are domiciled outside the euro area. Since the reporting currency of the ElringKlinger group is the Euro, income and expenses of these participations are translated into euro on consolidation. Changes in the average exchange rates in comparison with the prior period can therefore have transaction effects that are reflected in the net profit of the group.

Due to these subsidiaries the group also recognizes assets and liabilities outside of the euro area that are denominated in national currencies. When these assets are translated into euro, currency exchange fluctuations can lead to changes in the values stated. The changes in these net assets are reflected in group equity.

ElringKlinger has taken up significant financial liabilities denominated in CHF (CHF '000 85,000). Depending on the revenues generated in CHF, currency swings can have a significant impact on the Group' s net profit.

In order to quantify the possibly effects of exchange rate changes on the consolidated results, consolidated revenues and group equity, a sensitivity analysis has been conducted. This represents the negative change in the consolidated results, consolidated revenues and group equity in the event that the Euro is revalued by 10 % in comparison with the other group currencies.

	USD Dec. 31, 2009 EUR ´000	CHF Dec. 31, 2009 EUR ´000	CAD Dec. 31, 2009 EUR ´000	Sundry Dec. 31, 2009 EUR ´000	Total Dec. 31, 2009 EUR ´000
Group sales revenues	-1,322	-4,761	-3,063	-11,685	-20,831
Consolidated result	94	-675	-34	-670	-1,285
Group equity	-471	-2,872	-2,021	-9,237	-14,601

Interest risk

The interest risk arises mainly from financial liability. The group controls the interest risk with the aim of optimizing interest income and expense.

Fixed interest rates have been agreed mainly for financial liabilities of the ElringKlinger group. In rare cases, Swap transactions have been concluded in order to transform variable interest rates into fixed interest rates. Hence the risk due to fluctuations in interest rates is only slight.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials used in production. In order to lessen fluctuations in the purchase prices for raw materials, ElringKlinger has concluded hedges for purchases of nickel.

Credit risk

Credit risk is the risk of economic loss arising from counterparty's failure to repay or service debt according to the contractual terms. Credit risk encompasses both the direct risk of default and the risk of a deterioration of creditworthiness as well as concentration risks. The maximum risk positions of financial assets, which generally can be subject to credit risk, are equal to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds comprise essentially bank deposits available on demand. In connection with the investment of liquid funds, the ElringKlinger Group would be exposed to losses from credit risks if financial institutions failed to meet their obligations. In order to minimise this risk, care is taken in selecting the financial institutions used for investment. The maximum risk exposure corresponds to the carrying value of the liquid funds as at the balance sheet date.

Trade receivables

Trade receivables relate mainly to the global sales of gaskets, sealing materials, plastic products and modules for the vehicle and for general industries. The credit risk resides in the possibility of default by a contractual partner.

In domestic business, most receivables are secured by reservation of title. In order to limit the credit risk, creditworthiness reviews are performed in the form of enquiries with credit information services for selected counterparties. Moreover, internal processes are in place to monitor continually receivables where a partial or complete default may be anticipated.

In its export business, ElringKlinger forms judgements on the credit standing of its counterparties by submitting enquiries to credit information services and on the basis of the specific country risk. Moreover, in certain cases credit guarantee insurance policies are concluded or letters of credit required as collateral for credit.

Moreover, adjustments are made to account for the default risk in the case of detectable individual risks as well as the probable utilisation of discounts. The maximum risk exposure from trade receivables corresponds to the carrying value of these receivables as at the balance sheet date. The carrying values of trade receivables, together with a separate presentation of overdue and adjusted receivables, are given in **note 17***.

* CF. PAGE 148

The dependence on the three biggest customers could be reduced in the past years by widening the customer basis in the international automotive industry and by increasing volumes of trade with other supplier companies. However, a significant part of revenues is still generated from sales to the three biggest customers.

Derivative financial instruments

Derivative financial instruments comprise derivatives that are not included in hedge accounting. ElringKlinger does not enter into derivative contracts for speculative reasons. In the ElringKlinger group, derivatives are usually used only for purposes of reducing interest risks, currency risks and commodity price risks.

ElringKlinger processes a significant volume of high-grade steel. Included therein are alloy surcharges, in particular for nickel, which as a quoted metal is subject to market price swings. In order to partly hedge alloy surcharges assessed in internal part price calculations, ElringKlinger uses derivative financial instruments. Hedged is a price range, in which the average budget price falls in. If the stock exchange quotation of nickel goes beyond the upper range of the corridor, ElringKlinger receives a compensatory payment. In case the stock exchange quotation of nickel falls below the lower range of the corridor, ElringKlinger has to make a compensatory payment. Existing hedging contracts for nickel have a remaining term until April 2010. The group controls the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks with unimpeachable credit standing and by applying uniform guidelines.

Liquidity risk

The liquidity risk describes the danger of ElringKlinger being unable to meet its payments obligations sufficiently.

ElringKlinger generates liquid funds mainly through its operating business and in addition from external finance. These funds are applied mainly to finance the working capital and investments.

Apart from the inflow of funds from operating activity ElringKlinger ensures its ongoing liquidity by maintaining sufficient liquid funds and credit facilities with banks. As at the balance sheet date, the group had facilities available of EUR ’000 109,686 (2008: EUR ’000 56,914).

At present, due to the crisis of the financial markets, refinancing for enterprises in general and in particular for firms within the automotive supplier industry – when taking up higher volumes – is generally impeded. However, due to ElringKlinger’s low debt-to-equity ratio, we see ourselves at present in a good position for the procurement of debt capital. In the case of a continued negative trend in the financial markets, ElringKlinger could be faced with increasing borrowing costs and lower financial flexibility.

The following table shows all contractually fixed payments for redemptions, repayments and interest from financial liabilities recognised in the balance sheet, including derivative financial instruments that have a negative market value.

	Trade liabilities EUR ´000	Financial liabilities EUR ´000	Finance Lease EUR ´000	Derivates EUR ´000	Total EUR ´000
as at Dec. 31, 2009					
Carrying value	**35,712**	**220,166**	**337**	**1,180**	**257,395**
Payments outflows					
expected payments outflows:	**35,712**	**251,407**	**416**	**1,112**	**288,647**
– up to one month	24,768	5,752	22	223	30,765
– from one to three months	10,654	20,930	40	334	31,958
– from three months to one year	312	34,443	165	298	35,218
– from one to five years	-22	136,754	189	257	137,178
– more than five years	0	53,528	0	0	53,528

* CF. PAGE 153 ET SEQ.

Further explanations on financial liabilities are given in note 23*.

Additional information on financial instruments

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This section provides an overview of the meaning of financial instruments and gives additional information on balance sheet line items containing financial instruments.

The following table shows the carrying values (CV) and the fair values (FV) of the financial assets:

	Cash		Trade receivables		Derivatives		Other financial instruments	
	CV EUR ´000	FV EUR ´000	CV EUR ´000	FV EUR ´000	CV EUR ´000	FV EUR ´000	CV EUR ´000	FV EUR ´000
per Dec. 31, 2009								
Cash	25,580	25,580	0	0	0	0	0	0
Loans and receivables	0	0	106,761	106,761	0	0	33	33
to be held until maturity	0	0	0	0	0	0	1,375	1,416
held for trading purposes	0	0	0	0	0	0	0	0
available for sale	0	0	0	0			232	232
Total	**25,580**	**25,580**	**106,761**	**106,761**	**0**	**0**	**1,640**	**1,681**
as at Dec. 31, 2008								
Cash	19,741	19,741	0	0	0	0	0	0
Loans and receivables	0	0	98,032	98,032	0	0	25	25
to be held until maturity	0	0	0	0	0	0	1,444	1,470
held for trading purposes	0	0	0	0	0	0	0	0
available for sale	0	0	0	0	0	0	108	108
Total	**19,741**	**19,741**	**98,032**	**98,032**	**0**	**0**	**1,577**	**1,603**

The fair value of loans and receivables coincides with their carrying values. This is in view of the short term to maturity of such instruments. For the financial instruments held to maturity, ElringKlinger applies as the fair value the market rate in an active market.

Financial assets available for sale are valued at market prices.

The following table shows the carrying values and the fair values of the financial liabilities:

	Trade payables		Liabilities from Finance Lease		Other financial liabilities	
	CV EUR ´000	FV EUR ´000	CV EUR ´000	FV EUR ´000	CV EUR ´000	FV EUR ´000
per Dec. 31, 2009						
Trade payables	35,712	35,712				
Financial liabilities			337	337	220,166	220,166
Financial liabilities measured at acquisition cost	**35,712**	**35,712**	**337**	**337**	**220,166**	**220,166**
held for trading purposes *)	0	0	0	0	1,180	1,180
Financial liabilities measured at fair value through profit and loss	**0**	**0**	**0**	**0**	**1,180**	**1,180**
per Dec. 31, 2008						
Trade payables	33,269	33,269	0	0	0	0
Financial liabilities	0	0	303	303	257,874	257,874
Financial liabilities measured at acquisition cost	**33,269**	**33,269**	**303**	**303**	**257,874**	**257,874**
held for trading purposes *)	0	0	0	0	16,162	16,162
Financial liabilities measured at fair value through profit and loss	**0**	**0**	**0**	**0**	**16,162**	**16,162**

*) These are derivatives that are not included in hedge accounting.

Financial assets and liabilities measured at fair value are classified into the following 3-level fair value hierarchy:

	Level 1 EUR ´000	Level 2 EUR ´000	Level 3 EUR ´000
Financial assets			
available for sale	232	0	0
held for trading purposes	0	0	0
Total	**232**	**0**	**0**
Financial liabilities			
available for sale	0	0	0
held for trading purposes*)	0	1,180	0
Total	**0**	**1,180**	**0**

*) These are derivatives that are not included in hedge accounting.

The levels of the fair value hierarchy are defined as follows:

- Level 1: Measurement based on quoted prices
- Level 2: Measurement based on inputs for the asset or liability that are observable on active markets either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Measurement based on inputs for assets and liabilities not representing observable market data.

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards to the Group as lessee. Future minimum lease payments under finance leases at December 31, 2009 amounted to EUR ’000 417 (2008: EUR ’000 311). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities is as follows:

	Minimum lease payments Dec. 31, 2009 EUR ´000	Interest included in future minimum lease payments Dec. 31, 2009 EUR ´000	Liabilities from finance lease Dec. 31, 2009 EUR ´000
Maturity			
within one year	228	156	181
between one and five years	189	33	156
later than five years	0	0	
Total	**417**	**189**	**337**

Net gains and losses on financial instruments:

	2009 EUR ´000	2008 EUR ´000
Financial instruments held for trading purposes*)	3,293	-17,252
Assets available for sale	1	72
Financial investments held to maturity	8	9
Loans and receivables	-112	-1,212
Financial liabilities measured at acquisition cost	319	-379

*) These are derivatives that are not included in hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values that have been recorded in full in the result for the period.

The net gains of the assets available for sale include income from participations.

Net gains and losses of financial instruments held until maturity include impairments and revaluations.

Net gains and losses on loans and receivables contain mainly impairments and revaluations.

Net losses from financial liabilities measured at acquisition costs include amortization on discounts.

Total interest income and expense for financial assets and liabilities that are not measured at fair value through profit and loss were as follows:

	2009 EUR ´000	2008 EUR ´000
Total interest income	177	296
Total interest expense	-11,218	-8,969

Of the total interest income, EUR ’000 0 (2008: EUR ’000 6) result from impaired financial assets.

Derivative financial instruments

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

	Fair value EUR ´000	Carrying value EUR ´000	Provision EUR ´000
Interest-related derivatives			
Interest swap	-392	-392	-392
Derivatives relating to raw materials			
Accrual swap	-788	-788	-788
Total	**-1,180**	**-1,180**	**-1,180**

The negative fair values are shown under the current provisions as provisions for onerous contracts and have correspondingly increased other operating expenses.

The computation of the market values of the financial derivatives, which are confirmed by a bank, uses recognized mathematical methods and the market data available as at the balance sheet date (mark-to-market method).

Capital management

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ElringKlinger considers a solid financial base of the group as constituting the condition for further growth. Good capital resources enable investments to be made for organic growth or external growth.

The management board of the parent company strive for a minimum equity ratio of 40 % in the group. The articles of incorporation of ElringKlinger AG do not define any capital requirements. ElringKlinger is not authorized to acquire own shares. There are no share option schemes with an effect on the capital structure.

The following table shows equity and balance sheet total (total assets) as at December 31, 2009 in comparison with December 31, 2008.

	2009 Million Euro	2008 Million Euro
Shareholders' equity	**317.5**	**288.1**
as % of total capital	41.3	37.7
Non-current liabilities	298.7	272.4
Current liabilities	152.9	204.0
Outside capital	**451.6**	**476.4**
as % of total capital	58.7	62.3
Total capital	**769.1**	**764.5**

The increase in equity from December 31, 2009 to December 31, 2008 mainly results from an increase of retained earnings. Debt has been reduced by 5.2 % compared to prior year. The reduction mainly results from the repatriation of short-term borrowings.

With equity ratios of 42.1 % in the AG and 41.3 % in the group, the equity ratio exceeds the 40 % equity ratio defined by the supervisory and management boards.

In 2009 ElringKlinger has complied with all externally imposed capital requirements.

Explanations on the cash flow statement

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The consolidated cash flow statement shows how the liquidity of the ElringKlinger group has changed as a result of inflows and outflows in the course of the financial year. Pursuant to IAS 7, a distinction is made between cash flows from operating activities and from investing and financing activities.

The cash considered in the **cash flow statement*** comprises liquid funds shown in the balance sheet, i. e. cash in hand, cheques and bank deposits.

* CF. GLOSSARY

The cash flows from investing and financing activity are determined by reference to payments. The cash flow from operating activity is derived indirectly from profit before taxes for the year. For the indirect computation, effects from currency translation and changes to the consolidated group are eliminated from the changes to the balance sheet items arising from operating activity. For this reason, it is not possible to reconcile the changes in the relevant balance sheet items with the corresponding figures evident from the published consolidated balance sheet.

The disbursement for the acquisition of consolidated entities contains in full the purchase price made in cash for the acquisitions of a 10 % interest in CEK and a 90 % interest in EKTR.

The disbursements for investments in intangible assets (EUR ’000 5,343) and disbursements for investments in property, plant and equipment and for investment property (EUR ’000 89,676) shown in the consolidated cash flow statement do not contain the additions from the acquisition of consolidated entities, in contrast to the schedule of fixed assets (pursuant to (11) and (12)), as these are shown in a separate line item of the cash flow statement.

29 Segment reporting

The ElringKlinger group is organized around five business areas. Correspondingly, the reportable segments are “Original Equipment”, “Spare Parts”, “Engineered Equipment”, “Services”, and “Industrial Parks”.

The activities in the reporting segments “Original Equipment” and “Spare Parts” relate to the manufacture and distribution of parts and modules for engine, gear and exhaust applications in motorized vehicles (Powertrain). Additionally, services are rendered that are connected with this activity. In the segment “Engineered Equipment”, technical products are manufactured and distributed for the vehicle and general industry made of heavy-duty PTFE plastics.

The reporting segment “Services” relates mainly to the operation of motor test benches and contributions for engine development.

The segment “Industrial Parks” comprises the administration and rental of landed property and buildings.

The presentation of the segment reporting has been changed simultaneously to the first time application of IFRS 8. In the following table “segment reporting”, the column “Consolidation and other” contains consolidations between the segments and amounts that cannot be allocated directly to the segments. The latter relates only to financial liabilities that cannot be directly allocated to the segments. Internal control and reporting are based on IFRS. The Group measures its segments’ performance based on earnings before taxes according to IFRS. Prior year figures of the segment reporting have been adjusted accordingly.

With the exception of the supplies in the area of Original Equipment to the Spare Parts area, trading between the different segments is only of an insignificant magnitude. Trade between the segments is conducted at prices that would also have been agreed with parties outside the group.

The prior year result of the Original Equipment segment includes an impairment charge of EUR ’000 630. The Original Equipment segment generated more than 10 % of the entity’s revenues from a single external customer (EUR ’000 73,894).

Segment Reporting

Segment	Original Equipment 2009 EUR ´000	Original Equipment 2008 EUR ´000	Spare Parts 2009 EUR ´000	Spare Parts 2008 EUR ´000	Engineered Equipment 2009 EUR ´000	Engineered Equipment 2008 EUR ´000
Segment sales	**433,439**	**496,888**	**93,258**	**98,107**	**56,377**	**69,125**
- Intersegment sales	-15,237	-20,428	0	0	0	0
Sales	**418,202**	**476,460**	**93,258**	**98,107**	**56,377**	**69,125**
EBIT[2]	**34,371**	**34,506**	**19,312**	**18,800**	**5,440**	**12,801**
+ Interest income	123	526	155	196	231	172
- Interest expenses	-11,915	-10,561	-1,048	-787	-652	-288
Earnings before taxes	**22,579**	**24,471**	**18,419**	**18,209**	**5,019**	**12,685**
Depreciation and amortization	65,448	56,255	839	645	2,710	2,223
Investments[3]	83,104	131,647	3,240	3,199	7,438	10,241
Segment assets	628,646	623,209	51,611	52,696	60,833	54,033
Segment liabilities	210,267	200,533	21,107	19,543	20,937	12,817

Segment	Industrial Parks 2009 EUR ´000	Industrial Parks 2008 EUR ´000	Services 2009 EUR ´000	Services 2008 EUR ´000	Consolidation and other[1] 2009 EUR ´000	Consolidation and other[1] 2008 EUR ´000	Group 2009 EUR ´000	Group 2008 EUR ´000
Segment sales	**8,102**	**8,551**	**7,475**	**9,594**	**-4,085**	**-4,004**	**594,566**	**678,261**
- Intersegment sales	0	0	0	0	0	0	-15,237	-20,428
Sales	**8,102**	**8,551**	**7,475**	**9,594**	**-4,085**	**-4,004**	**579,329**	**657,833**
EBIT[2]	**3,592**	**3,210**	**577**	**2,222**			**63,292**	**71,539**
+ Interest income	164	173	6	17	-230	-170	449	914
- Interest expenses	-937	-939	-28	-23	230	170	-14,350	-12,428
Earnings before taxes	**2,819**	**2,444**	**555**	**2,216**			**49,391**	**60,025**
Depreciation and amortization	1,109	1,112	1,113	797			71,219	61,032
Investments[3]	260	153	1,554	4,143			95,596	149,383
Segment assets	28,920	30,572	10,013	10,165	-10,943	-6,141	769,080	764,534
Segment liabilities	6,733	7,181	3,581	4,088	188,923	232,225	451,548	476,387

[1] Please refer to note (29)
[2] Earnings before interest and taxes
[3] Additions to Intangible Assets and Property, Plant & Equipment

Segment Reporting by regions

Region		Sales EUR ´000	Non-current Assets EUR ´000	Investments EUR ´000
Germany	2009	191,612	285,167	55,111
	2008	236,133	262,777	79,067
Other Europe	2009	186,181	120,998	18,708
	2008	212,955	116,867	30,653
NAFTA	2009	84,734	47,795	11,423
	2008	100,709	52,949	21,400
Asia and Australia	2009	79,862	35,207	8,020
	2008	73,744	32,944	13,151
South America and other	2009	36,940	15,205	2,334
	2008	34,292	11,611	5,112
Group	**2009**	**579,329**	**504,372**	**95,596**
	2008	**657,833**	**477,148**	**149,383**

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Statement of Changes in Equity

* CF. PAGE 149/150

Apart from the elements described in **Notes (19) and (20)*** “The statement of changes in equity” include capital reserves, revenue reserves from the first-time adoption of IFRS and group equity generated. The capital reserve equals the capital reserve shown in the balance sheet of the parent company ElringKlinger AG.

Revenue reserves from the first-time adoption of IFRS relate to the IFRS opening balance as of January 1, 2004.

Group equity generated contains undistributed profits.

Other disclosures

Contingent liabilities

The ElringKlinger group is subject to contingent liabilities of EUR ’000 227 (2008: EUR ’000 274) from the issue and transfer of bills.

A lawsuit against ElringKlinger in Brazil involves a contingent liability with a maximum risk of less than EUR 0.9 million.

Operating leases

The expense includes payments from operating leases of EUR ’000 4,676 (2008: EUR ’000 4,653).

As at the balance sheet date, the group had outstanding obligations arising from binding operating leases that fall due as follows:

	Dec. 31, 2009 EUR ´000	Dec. 31, 2008 EUR ´000
Up to one year	2,430	2,464
More than one and up to five years	5,248	5,637
More than five years	1,317	1,368
Total	**8,995**	**9,469**

Number of employees

The workforce in the ElringKlinger group, as an annual average and excluding board members, was as follows:

	2009	2008
Workers	2,687	2,815
Salaried staff	1,233	1,186
	3,920	**4,001**
Apprentices	109	84
	4,029	**4,085**

On the average in 2009, there were 65 workers and 52 salaried staff employed in Joint Venture companies within the ElringKlinger Group.

Personnel expenses

Personnel expenses in the reporting year came to EUR '000 159,811 (2008: EUR '000 161,545). A share of 8.2 % (2008: 7.4 %) of the personnel expenses relate to contributions to the statutory pension scheme.

Events after the balance sheet date

The management board of ElringKlinger AG released the consolidated financial statements for approval by the supervisory board on 22 March 2010.

Related party disclosures

Transactions between the parent company and its subsidiaries and participations, that are related parties, were eliminated in the course of consolidation and are not described in these disclosures in the notes. In addition, there are business relationships between companies in the ElringKlinger group and related persons and companies that are controlled by related persons, respectively, as follows:

Rental contract between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary, (TPH), and Lechler Kft, Kecskemét-Kádafalva, Hungary. The rental income of TPH from this contract was EUR '000 157 (2008: EUR '000 149) in the year under review. As at the balance sheet date there was no outstanding balance (2008: EUR '000 0).

Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen regarding training of apprentices and the consignment of canteen food. The receipts of ElringKlinger AG in 2009 were EUR '000 225 (2008: EUR '000 225). As at the balance sheet date there was an outstanding balance of EUR '000 3.7 (2008: EUR '000 3.5).

Contract between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, on assembly activities and storage of components. In the year under review this gave rise to sales revenues of EUR '000 335 (2008: EUR '000 414). As at the balance sheet date December 31 2009, there was a receivable in this connection of EUR '000 18 (2008: EUR '000 22).

Framework contract between Rich. Klinger Dichtungstechnik GmbH & Co. KG, Gumpoldskirchen, Austria, and companies of the ElringKlinger group on the procurement of material. Under this contract, ElringKlinger AG obtained material for EUR '000 1,014 (2008: EUR '000 2,462) in 2008. The outstanding balance as at the balance sheet date was EUR '000 250 (2008: EUR '000 65).

Framework contract between Klinger AG Egliswil, Switzerland, and ElringKlinger on the procurement of material. Under this contract, ElringKlinger AG purchased material for a price of EUR '000 58 (2008: EUR '000 155) in 2009. As at the balance sheet date, there were no outstanding liabilities in this context (2008: EUR '000 19).

The joint venture ElringKlinger Korea Co., Ltd. (EKKO), which is included in the consolidated financial statements by proportional consolidation, procured raw materials and merchandise for a price of EUR '000 310 (2008: EUR '000 306) from ElringKlinger's joint venture partner Jeil E&S Co., Ltd. in the year under review. As at the balance sheet date EKKO had liabilities arising from these supplies in the amount of EUR '000 103 (2008: EUR '000 8).

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 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 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 Holdings 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 EUR	(prior year)	variable EUR	(prior year)	total EUR	(prior year)
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 other operating income.

Management board

Dr. Stefan Wolf, Leinfelden-Echterdingen, Chairman	responsible for the group companies, the central divisions 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 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 the short-term performance-related remuneration in the amount of EUR ‘000 1,030 (p. y. EUR ‘000 671) and long-term results-dependent remuneration in the amount of EUR ‘000 94 (p. y. EUR ‘000 57). Until 2008, the short-term performance-related remuneration referred to the respective financial year; starting 2009 the basis for assessment is calculated on a 3-year average. The long-term performance-related remuneration relate 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 variable components (prior year) EUR	long-term variable bonuses (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)**

The variable remuneration shown as “components dependent on the result of the reporting year” reflects the expense, including accrued provisions based on the provisional income before taxes for the year 2009 of the consolidated accounts that are prepared in accordance with IFRS. In addition, the difference amounts between the provisions recognized as at December 31, 2008 and the amounts actually disbursed in 2008 are included. For Stock Appreciation Rights the fair value as of the grant date is used.

The Stock Appreciation Rights grant a right for cash settlement, but not for shares of ElringKlinger AG. The Stock Appreciation Rights currently outstanding have a maturity of 3 years and will be granted in annual stakes starting February 1, 2008 and January 1, 2009, respectively and February 1, 2010. 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 also calculated as an average from the stock price of the last 60 trading days, and the strike price. A payment only occurs in case that the ElringKlinger stock price increases more than the market index in which the ElringKlinger shares are listed, but at least 25%. The payment per tranche is limited to the amount of the yearly fixed salary amount.

Provisions are recognized in order to cover the estimated future obligation. The fair value of the obligations is determined based on the Cox-Ross-Rubinstein-Model 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 changes in the fair value are recognised in net income.

For the fiscal year 2009 the following data arose:

	Tranche 2008	Tranche 2009
Date of issue	2008	2009
Number of Stock Appreciation Rights granted	20,341	108,754
Strike Price	24.63	6.95
Number of Stock Appreciation Rights existing (still exercisable)	20,341	129,095
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 '000 169 (p.y. EUR '000 168) and are related to Dr. Stefan Wolf amounting to EUR '000 64 (p.y. EUR '000 64), Theo Becker amounting to EUR '000 48 (p.y. EUR '000 47) and Karl Schmauder amounting to EUR '000 57 (p.y. EUR '000 57).

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

Provisions of EUR '000 11,674 (2008: EUR '000 10,906) 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 (2008: EUR '000 837) in the financial year 2009.

The fees of the **auditor** were:

	2009 EUR '000	2008 EUR '000
Audit of the financial statements	450	487
Other confirmatory performances	0	0
Tax services	56	14
Other services	4	22
Total	**510**	**523**

This disclosure relates to the fees of the auditor of the consolidated financial statements and other domestic and foreign member firms of KPMG Europe LLP.

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

* CF. GLOSSARY

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 § 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 durable. It will be published in the Annual Report as part of the Corporate Governance Report.

Dettingen/Erms, March 22, 2010
The Management Board

Dr. Stefan Wolf | Theo Becker | Karl Schmauder

Responsibility Statement

Responsibility Statement According to §§ 297(2) Sentence 4 and 315(1) Sentence 6 HGB (German Commmercial Code)

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

Dettingen/Erms, March 22, 2010

Dr. Stefan Wolf Theo Becker Karl Schmauder

Auditor's Report

We have audited the consolidated financial statements prepared by the ElringKlinger AG, Dettingen/Erms, comprising the statement of financial position, the income statement, the reconciliation to comprehensive income, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2009. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a sec. 1 of the German Commerical Code (HGB) and the supplementary provisions of the articles of incorporation are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB 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 Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, March 22, 2010
KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Kursatz	Hagg
Wirtschaftsprüfer	Wirtschaftsprüfer

Glossary

Financials

A

Acquisition
An acquisition refers to the purchase of a company or of interests in a company.

C

Cash flow
Figure used to determine a company's financial strength and earnings power. It is calculated by taking the difference between cash inflows and outflows in the accounting period. Net cash from operating activities (also known as operating cash flow) is the cash surplus generated by operating activities over a certain period of time. Operating cash flow includes the earnings before taxes in the accounting period, the change in depreciation as well as the increase/decrease in long-term provisions.

Cash flow statement
The cash flow statement shows the calculation for the flow of funds generated or used by a company from operating, investing and financing activities during the financial year. In addition, cash and cash equivalents at the beginning of the financial year are reconciled with the amount at year-end. The cash flow statement helps determining the company's ability to generate cash and cash equivalents.

Corporate governance
Term that describes responsible company management and monitoring procedures focused on adding value and sustainability over the long-term as well as the consideration of a code of conduct according to which a corporation shall be directed.

E

Earnings per share
Earnings per share is used to evaluate a company's profitability. This figure is calculated by dividing profit attributable to shareholders of ElringKlinger AG by the number of shares outstanding.

EBIT/Operating profit
EBIT stands for earnings before interest and taxes; it corresponds to operating result before net finance costs and income from affiliated companies. At international level, this figure is commonly used to compare companies' earnings power. In contrast to the operating result, EBIT presented by ElringKlinger includes factors relating to foreign exchange movements.

EBIT margin
The EBIT margin is a financial indicator of a company's profitability over a specific period of time. It is defined as EBIT divided by sales revenues and is reported in percentage terms.

Equity method
A valuation method for interests in entities over which the investor has a significant influence (associate). The investor's share of the profit or loss of the investee is recognized in the booking value of the investor's shares in associates. Distributions received from an investee reduce the carrying amount of the investment.

F

Free cash flow
Free cash flow represents the funds freely available to the company. This figure is calculated as follows: cash flow (surplus in cash) minus investment expenditure minus dividend payments.

Free float
Free float refers to a company's shares which are freely traded on the exchange and which are not firmly held by certain groups of investors. According to the definition of Deutsche Börse AG, share packages under 5 % belong to the free float.

H

HGB
Abbreviation for Handelsgesetzbuch (German Commercial Code). The financial statements of the ElringKlinger AG are prepared in accordance with HGB.

I

IFRS
IFRS stands for International Financial Reporting Standards, formerly International Accounting Standards (IAS). They comprise the accounting provisions for exchange-listed entities. The application of IFRS has been mandatory in the EU since January 2005. In 2004, ElringKlinger made the transition from HGB to IFRS for its consolidated financial reporting.

Increase in shareholding
An increase in the ownership interest in a company, executed by means of a capital contribution either in the form of cash or assets other than cash.

M

MDAX
The Mid Cap Dax (MDAX) is a German stock market index introduced in 1996. It encompasses the stocks of 50 corporations that are positioned directly below Germany's DAX-listed companies in terms of market capitalization and trading volume.

N

Net finance income/cost

Net finance income or cost is a component of pre-tax earnings presented in the income statement. This item can include interest income and expense, income and expense from investments in affiliates as well as income and expense from foreign currency differences, e.g. in connection with operating and financing activities.

P

Purchase price allocation

Purchase price allocation (abbreviated: PPA) refers to the allocation of the price paid in the purchase of a company or an interest in a company to the individual identifiable assets acquired as part of this transaction. These also include intangible assets such as an existing customer base or order backlog. The allocation is performed on the basis of the relative fair values at the date of purchase.

S

SDAX

The SDAX comprises the next 50 stocks that are ranked below the MDAX in terms of market capitalization and trading volume. The SDAX came into existence in 1999.

W

WpHG

Abbreviation for Wertpapierhandelsgesetz (Securities Trading Act).

Technology

A

AdBlue

AdBlue is a fluid used to reduce nitrogen oxide (NOx) exhaust emissions from vehicles and consists of a highly purified, synthetically produced solution comprising 32.5 % urea. With the help of AdBlue, for example, diesel commercial vehicles are able to convert poisonous nitrogen oxides in the exhaust to water vapor and elemental nitrogen (a natural component of air). AdBlue is considered to be a key technology in achieving the stricter emissions standards stipulated by European and US legislation.

B

Bipolar battery

A bipolar battery consists of individual cells that are combined to create a stack in order to achieve therequired voltage level. One of the key benefits of this electrical cell connection is that the internal resistance is reduced, as a result of which a bipolar battery delivers higher performance and dynamics, together with lower weight, in comparison with conventional rechargeable battery technology. Therefore, bipolar batteries are particularly well suited to applications in micro- and mild-hybrid vehicles.

Bipolar plates

Bipolar plates are standard components of fuel cell stacks. Their main function is to create an electrical interconnection between two levels (cells) within a fuel cell stack. Bipolar plates are used for the purpose of supplying the reactant gases to the anode and cathode, as well as distributing the cooling fluid within an individual level. Metal bipolar plates perform these tasks simply and efficiently. Among the essential prerequisites for well-designed bipolar plates are high-precision metalforming within the contact area (in the micrometer range) and accurate, low-distortion laser welding of the cathode and anode plates.

C

C-steel

C-steel (or carbon steel) refers to steel with a carbon content of >0.25 % and is used for such applications as the production of cylinder-head gaskets and heat shields.

CAFE regulations

The Corporate Average Fuel Economy (CAFE) regulations in the United States are similar to European legislation governing CO_2 emissions. CAFE specifies the average fuel economy of a manufacturer's fleet of vehicles. In 2007, the limit was equivalent to 220 g of CO_2 per kilometer traveled. For 2020, the emissions limit has been set at just 162 g/km of CO_2. In Europe, this figure became compulsory as early as 2007. Vehicle manufacturers face considerable fines in the US if they fail to comply with the CAFE regulations.

D

DPF (Diesel Particulate Filter)

The diesel particulate filter is a component of the exhaust tract in diesel-powered vehicles. Its task is to remove diesel particulate matter or soot from the exhaust gas. One of the most commonly used filter materials is SiC (silicium carbide). In the EU, the Euro 5 emission standard introduced in September 2009 specifies a further reduction of around 80 % in the level of particulates emitted by new vehicles. Industry experts predict that by 2009 almost every diesel car newly registered in Europe will be equipped with a DPF.

E Elastomer

An elastomer is a polymer with the property of elasticity. In the automotive sector, elastomers are used for applications such as engine or transmission gasketing. Within this area, elastomers must create a seal under various engine conditions – at temperatures of -25 °C as well as at operating temperatures of +150 °C, independent of the degree of sealing gap movements.
ElringKlinger utilizes proprietary applications for its elastomer materials, which are then optimized to meet individual customer requirements.
ElringKlinger's specialization in high-performance materials underscores its system integration expertise in sealing systems within the area of engines and transmissions.

European emission standards

European emission standards define the acceptable limits for exhaust emissions of new vehicles sold in EU member states with regard to carbon monoxide, hydrocarbons, nitrogen oxides and particulate matter. Different standards apply for diesel and gasoline vehicles. The Euro 5 standard for passenger cars came into force on September 1, 2009. It prescribes a reduction in the particulate matter limit by 80 %. The Euro 6 standard is to be introduced in September 2014, the aim being to implement stricter limits for nitrogen oxide emissions in diesel vehicles.

F Fuel cell technology

Fuel cell technology has opened up new opportunities for energy generation.
Fuel cells enable chemical energy to be converted directly to highly effective electricity with a minimum of harmful emissions.

H Hybrid engine

In the automotive industry, the term hybrid engine refers to the combination of various engine types or energy sources; this includes, for instance, the combination of a diesel or gasoline internal combustion engine with one or more electric motors.
Depending on how they are used, hybrids can result in reduced emissions and lower fuel consumption. However, they are often heavier and more expensive than conventional engines.

L Lithium-ion battery

Lithium-based batteries are lighter, more compact and more durable than conventional lead-acid batteries. They also offer the advantage of higher efficiency levels. Therefore, rechargeable lithium-ion batteries are particularly suited to so called plug-in hybrids and fully electrically-powered vehicles. However, at present there are several obstacles concerning large-scale application, including technical issues, the risk of explosion, elevated costs and an inadequate infrastructure. ElringKlinger produces high-end cell and module connectors as well as cell housings used in lithium-ion batteries.

M Meander, honeycomb and segment stoppers

New embossing and stamping technologies provide engineers with various possibilities for influencing the distribution of pressure in the sealing gap. Aside from being cost-effective, metal layer cylinder-head gaskets with coined meander, honeycomb or segment stoppers provide other significant advantages. The meander stoppers in spring steel layers enable the optimal use of the geometric space provided by the engine. In the case of diesel engines, differing thickness upon installation is typically used to compensate for engine manufacturing tolerance; the exact calibration occurs through variable supporting plate thickness.

Metal-elastomer

Metal-elastomer gaskets are tailor-made, robust and long-lived sealing systems made from a metal core with vulcanized elastomer profiles.

Metaloflex®

Metaloflex® by ElringKlinger is an internationally recognized brand for innovative metal layer cylinder-head gaskets (CHG) made from beaded, elastomer-coated spring steel layers – single-layer or multilayer, depending on the application. Due to the modular construction elements, this sealing system can be individually tailored to specific engine demands.

Metaloseal®

Metaloseal® by ElringKlinger is a highly effective sealing system based on elastomer-coated and uncoated metal carrier materials.

Moldflon®

Moldflon®, a brand belonging to the plastics company ElringKlinger Kunststofftechnik, is injection moldable PTFE (polytetrafluoroethylene, known by the brand name Teflon®)

N NOx

Nitrogen oxide is a generic term for gaseous oxides of nitrogen. These are also abbreviated as NOx as numerous nitrogen and oxygen connections exist due to the various levels of oxidation. There is a trade-off in engine technology between low fuel consumption and the reduction of NOx emissions. Efficient engines have a high combustion temperature and thus produce more NOx.

P PEM

PEM stands for "Proton Exchange Membrane". In this low-temperature fuel cell the working temperatures are approx. 90°C. This type of fuel cell is operated by merging two elements, oxygen and hydrogen, which react with one another aided by a catalyst (usually platinum).
In the synthesis reaction, so-called "cold combustion", water forms and electricity is released.

Plug-in hybrid

The concept represents the next step for hybrid technology, with on-board batteries no longer being recharged solely by the vehicle's engine but also via an external electric power source. This reduces fuel consumption. At the same time, the vehicle's all-electric range can be increased.
One of the main problems is centered around the production costs, which are considerably higher than in the case of hybrid vehicles without plug-in technology.

S Shielding systems

Shielding systems are used in vehicle engines to protect temperature-sensitive engine parts. As a result of increasing power density, higher temperatures inside the engine and increasingly scarce interior space in modern engines, shielding systems have to operate under particularly challenging conditions.

SOFC

SOFC stands for "Solid Oxide Fuel Cell" and refers to the concept of "hot" fuel cells which function at operating temperatures of around 800°C. The hydrogen required for the cell can be extracted from gasoline, ethanol, natural gas and diesel. SOFC maintains a high degree of overall efficiency.

T Teflon® (Polytetrafluoroethylene)

Polytetrafluoroethylene (PTFE), commonly known as Teflon®, is a thermoplastic synthetic. It is milky-white in appearance and feels wax-like. Compared to other thermoplastic synthetics, PTFE maintains a unique position due to the special properties of its composition. The production process involves pressing PTFE powder into blocks. The incorporation of filler material (compounding) makes it possible to adapt the physical properties of PTFE to specific applications. The inclusion of filler material helps prevent so-called cold flow when exposed to mechanical stress. Key benefits: PTFE shows no changes when it comes into contact with the majority of chemicals, and it is non-reactive in conjunction with solvents and other aggressive chemicals. Its surface is so smooth that hardly any foreign substance will adhere to it. Neither moisture nor UV radiation cause changes in volume, decomposition or brittleness. PTFE can withstand temperatures of up to -200°C. Its melting point is at temperatures in excess of 320°C.

Imprint

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Paper (except Cover)
135 g/m² BVS matt, Schneidersöhne

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Further information is available at www.elringklinger.de

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This report contains forward-looking statements. These statements are based on expectations, market evaluations and forecasts by the Management Board and on information currently available to them. In particular, the forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialize. Whilst the Management Board is confident that the statements as well as the opinions and expectations on which they are based are realistic, the aforementioned statements rely on assumptions that may conceivably prove to be incorrect. Future results and circumstances depend on a multitude of factors, risks and imponderables that can alter the expectations and judgments that have been expressed. These factors include, for example, changes to the general economic and business situation, variations of exchange rates and interest rates, poor acceptance of new products and services, and changes to business strategy.

ElringKlinger Worldwide

North America

ElringKlinger Canada, Inc.
Leamington/Canada

ElringKlinger North America, Inc.
Plymouth, Michigan/USA

Elring of North America, Inc.
Branchburg, New Jersey/USA

ElringKlinger USA, Inc.
Buford, Georgia/USA

Elring Klinger México, S.A. de C.V.
Toluca/Mexico

South America

Elring Klinger do Brasil Ltda.
Piracicaba/Brazil

Germany

ElringKlinger AG
Dettingen/Erms, Langenzenn, Runkel

ElringKlinger Kunststofftechnik GmbH
Bietigheim-Bissingen, Heidenheim

Elring Klinger Motortechnik GmbH
Idstein

ElringKlinger Logistic Service GmbH
Rottenburg am Neckar

Europe

Elring Klinger (Great Britain) Ltd.
Redcar/Great Britain

Elring Parts Ltd.
Gateshead/Great Britain

ElringKlinger Abschirmtechnik (Schweiz) AG
Sevelen/Switzerland

Elring Klinger, S.A.U.
Reus/Spain

Elring Klinger S.p.A.
Mazzo di Rho/Italy

ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.
Bursa/Turkey

Africa

Elring Gaskets (Pty) Ltd.
Johannesburg/South Africa

Asia

ElringKlinger Automotive Components (India) Pvt. Ltd
Ranjangaon/India

Changchun ElringKlinger Ltd.
Changchun/People's Republic of China

ElringKlinger China, Ltd.
Suzhou/People's Republic of China

ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.
Qingdao/People's Republic of China

ElringKlinger Korea Co., Ltd.
Changwon/South Korea
Seoul/South Korea

ElringKlinger Marusan Corporation
Tokyo/Japan
Saitama/Japan

Calendar 2010

MARCH 30, 2010
Annual Press Conference, Stuttgart

MARCH 30, 2010
Analysts' Meeting, Frankfurt

MAY 10, 2010
Interim Report on the 1st Quarter of 2010

MAY 21, 2010
105th Annual General Shareholders' Meeting
Cultural and Congress Centre Liederhalle,
Stuttgart, Hegelsaal, 10.00 CET

MAY 25, 2010
Dividend distribution

JULY 30, 2010
Interim Report on the 1st half of 2010

SEPTEMBER 14 – 19, 2010
Traide fair, Automechanika, Frankfurt

OCTOBER 4 – 6, 2010
Engine colloquium, Aachen

NOVEMBER 4, 2010
Interim Report on the 3rd Quarter of 2010

NOVEMBER 22 – 24, 2010
German Equity Forum, Frankfurt

NOVEMBER 30 – DECEMBER 1, 2010
9th CTI-Symposium Innovative Automotive
Transmission, Berlin

MAY 31, 2011
106th Annual General Shareholders' Meeting
Cultural and Congress Centre Liederhalle,
Stuttgart, Hegelsaal, 10.00 CET

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