ANNUAL REPORT 2010

EMBRACING BOTH WORLDS

elringklinger

The sphere: Many years ago, the great philosopher and mathematician Pythagoras regarded the sphere as a symbol of forward motion, momentum and propulsion. Today, the future of the automotive industry is dominated by two distinct types of vehicle drive system: the conventional combustion engine, which is being constantly refined through downsizing, and alternative drive technologies, such as the battery-powered electric engine and the fuel cell.

ElringKlinger Group – Key Figures

(IFRS)

		2010	2009	2008	2007	2006
Order intake	€ million	886.6	612.9	621.3	644.7	558.9
Order backlog	€ million	333.1	242.2	208.6	245.1	208.2
Sales	€ million	795.7	579.3	657.8	607.8	528.4
Cost of sales	€ million	556.1	426.3	464.2	400.1	338.7
Gross profit margin		30.1 %	26.4 %	29.4 %	34.2 %	35.9 %
EBITDA	€ million	188.9	134.5	133.2	169.0	139.0
EBIT [1]	€ million	106.7	63.3	71.5	121.0	93.3
EBIT margin		13.4 %	10.9 %	10.9 %	19.9 %	17.7 %
Earnings before taxes	€ million	94.0	49.4	60.0	114.9	87.6
Net income	€ million	68.6	34.8	43.2	80.3	61.9
Profit attributable to shareholders of ElringKlinger AG	€ million	65.6	33.2	39.8	75.9	57.8
Net cash from operating activities	€ million	116.2	148.8	98.2	99.3	89.9
Net cash from investing activities	€ million	-128.1	-93.6	-211.7	-101.9	-47.0
Net cash from financing activities	€ million	84.0	-49.3	116.9	4.4	-41.7
Operating free cash flow [2]	€ million	-11.9	58.2	-37.6	5.5	42.9
Balance sheet total	€ million	981.4	770.1[5]	764.5	572.5	476.6
Equity	€ million	512.3	316.1[5]	288.1	281.1	231.2
Equity ratio		52.2 %	41.0 %[5]	37.7 %	49.1 %	48.5 %
Return on equity after taxes		16.6 %	11.5 %	15.2 %	31.3 %	29.0 %
Return on total assets after taxes		9.3 %	6.4 %	8.2 %	16.5 %	14.5 %
Return on Capital Employed (ROCE)		15.4 %	8.8 %	13.6 %	30.3 %	26.7 %
Earnings per share	€	1.11[3]	0.58	0.69	1.32	1.00
Dividends paid	€ million	22.2[4]	11.5	8.6	26.9	24.0
Dividend per share	€	0.35[4]	0.20	0.15	0.47	0.42

[1] including currency effects
[2] Net cash from operating activities minus net cash from investing activities (excluding acquisitions)
[3] Figure for 2010 calculated on the basis of average number of shares (taking into account capital increase of October 6, 2010)
[4] Proposal to the Annual General Shareholders' Meeting 2011
[5] Figures adjusted due to changes made in accordance with IAS 8, cf. Notes to Consolidated Financial Statements, "Adjustment of Accounting Policies"

Highlights of the year 2010

March

Award for ElringKlinger
ElringKlinger receives the 2009 Daimler Key Supplier Award in the "Powertrain" category for commercial vehicles' components. The decision in favor of ElringKlinger was based in particular on the company's newly developed plastic housing modules, whose lightweight design contributes to CO_2 reduction.
>> Research & Development cf. page 74

May

Battery technology proves successful
In developing a new technology to connect lithium-ion cells used in hybrid and electric vehicles, ElringKlinger manages to take pole position ahead of many competing concepts and secures its first contract for series production.
>> Research & Development cf. page 74

Photo: Daimler

June

Trucknology Supplier Award
The MAN Commercial Vehicle Group presents ElringKlinger with the Trucknology Supplier Award 2009. The truck producer bestows the award each year in recognition of outstanding collaboration with its top ten business partners.
>> More at www.elringklinger.de/referenzen-awards-en

July

ElringKlinger becomes "marathon corporation"
Having generated revenue growth in nine out of ten years, ElringKlinger joins the group of Germany's top ten companies in a ranking published by Focus Money magazine.
>> ElringKlinger and the Capital Markets cf. page 24

September

Gasket business acquisition
ElringKlinger strengthens its international position in the field of cylinder-head and highly heat-resistant specialty gaskets. The company signs an agreement with the Freudenberg Group for the sale of Freudenberg's cylinder-head and exhaust system gasket business to ElringKlinger. **>> Significant Events – Acquisitions cf. page 42**

September

Elring – turbo speed at Automechanika
The Aftermarket division showcases its portfolio at the world's leading trade show for automotive engineering, Automechanika (Frankfurt). At the company's newly designed exhibition stand all eyes are on the "Elring – Das Original" brand featuring its recently launched turbocharger fitting kits and an extended catalog range for dealers and auto mechanics.

October

Strong interest in share issue
In October, 5,759,990 new no-par-value shares are placed with international investors by means of an accelerated bookbuilt offering. The proceeds are to be used primarily for the purpose of financing future growth and developing the company's E-Mobility division.
>> ElringKlinger and the Capital Markets cf. page 24

November

New plant in Suzhou
In November, ElringKlinger China Ltd., unveils its new facility with production space of more than 5,000 m², double the size of the previous plant. In doing so, ElringKlinger has responded to the significant growth anticipated for what has become the world's largest automobile market.
>> Group Companies cf. page 59

EMBRACING BOTH WORLDS

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

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

Contents

AT A GLANCE

GROUP MANAGEMENT REPORT

KEY (TO SYMBOLS)

Glossary reference	Internet reference	Cross reference
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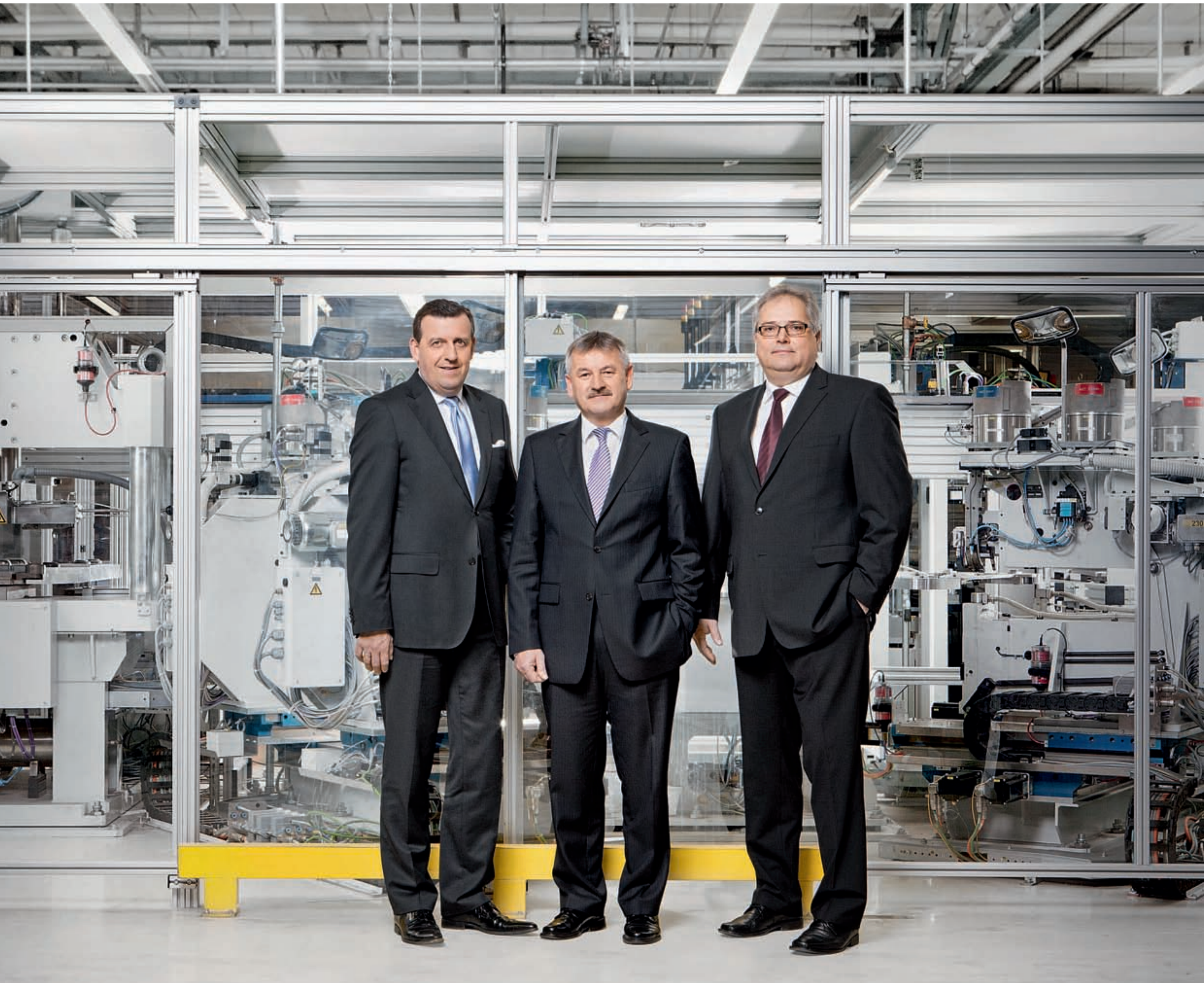


DR. STEFAN WOLF (Chairman/CEO)

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 ivisions

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,

Over the course of 2010, the global economy recovered surprisingly well from the crisis experienced in 2009. Vehicle manufacturers and the automotive supply industry, in particular, managed to return – at least in some cases – to the levels recorded prior to the slump.

ElringKlinger was able to reap the rewards of a resurgent vehicle market. In 2010, sales revenue generated by the ElringKlinger Group stood at EUR 795.7 million, i.e. 37% up on last year's figure of EUR 579.3 million. Pre-tax earnings were propelled to EUR 94.0 million, which corresponds to growth of 90% compared with the previous year (EUR 49.4 million).

Total Group assets rose to EUR 981.4 million, a year-on-year increase of 27%.

The equity ratio for the Group as a whole rose from 41.0% in 2009 to 52.2% in 2010, primarily as a result of the seasoned equity offering implemented in October 2010. This was well in excess of the minimum equity ratio of 40% set as a target for the Group. The additional capital generated from the issuance of new shares provides room for maneuver in terms of expanding the new E-Mobility division and pursuing further external growth.

As our shareholders, you stand to benefit from the encouraging business performance of the ElringKlinger Group. With the consent of the Supervisory Board, we therefore propose a dividend of EUR 0.35 per share, which represents an increase of EUR 0.15 per share compared with the dividend for 2009. Based on net income of EUR 36.5 million generated by ElringKlinger AG, this corresponds to a dividend ratio of 60.1%.

In 2010, as in the past, we focused heavily on the core issues facing our customers. Within this context, the emphasis was on reducing consumption and emission levels of conventional combustion engines. At the same time, we focused on new drive technologies. In 2010, we managed to secure – from a major car maker – our first series production contract for a newly developed cell contact system used in lithium-ion batteries. In doing so, we successfully entered the electric mobility market. What is more, the interest shown in this product by other customers has been encouraging. Other new products for lithium-ion batteries and electric motors are currently in the development pipeline. Prompted by the progress made within these areas, we established the new E-Mobility/Battery Technology division towards the end of 2010.

ElringKlinger has thus embraced both worlds – that of the optimized, fuel-efficient combustion engine and that of future drive technologies. Whether it is the electric motor with lithium-ion batteries or the fuel cell, ElringKlinger is well equipped to generate profitable growth in both areas.

The clear trend towards hybrid vehicles is very encouraging, as we are in a position to supply this market not only with gaskets, shielding components and plastic housing modules but also with our range of new products used in lithium-ion batteries. Moreover, the trend towards combining the combustion engine with electric drive solutions is unbroken. Hybrid has become an element of lifestyle, and this looks set to continue.

In acquiring the Flat Gaskets lead center of the Freudenberg Group, we took a major step forward within the context of progressive consolidation in the automotive supply industry. In fact, we acquired the operations of a significant competitor within this industry. The integration of the Flat Gaskets lead center formerly operated by Freudenberg will further strengthen the ElringKlinger Group, which now comprises a new location in France, a much larger site in Italy and a solid extension to its product portfolio, with turbocharger and other exhaust gaskets supplied by the Gelting plant in Germany. The market for flat gaskets is now served by just three suppliers, and ElringKlinger has assumed the leading role in this sector.

Asia is the market of the future when it comes to vehicle production and automotive supply. The region already accounts for significant growth in revenue. In 2010, ElringKlinger sent out a strong signal for profitable growth in Asia by building two major plants in China. The new facility in Suzhou will produce shielding parts and also to an increasing extent plastic housing modules. As from 2011, this site will also manufacture PTFE products on behalf of the Group company ElringKlinger Kunststofftechnik GmbH. The new plant in Changchun will focus on sealing technology and plastic housing modules. These plants will serve not only the Chinese factories operated by international vehicle manufacturers but also, to an increasing extent, local Chinese vehicle manufacturers.

ElringKlinger's share price developed well over the course of 2010. Recording a gain of 64% between January 1 and December 31, we outperformed both the DAX and the MDAX by a significant margin. The "Auto Stock of the Decade" award presented to ElringKlinger by the trade journal Automobilwoche is a testament to the sustained performance of our shares over the last ten years. We are committed to maintaining our forward momentum.

The results achieved by our Group would not be possible without a highly qualified and dedicated workforce. Our success is founded on the contribution made by each and every member of our team. The Management Board would like to thank all members of staff within the ElringKlinger Group for their efforts over the course of the year. The results achieved by the Group are a success shared by all those involved. At the same time, they should be seen as an encouragement to go that extra mile during the current financial year 2011.

On the back of this successful performance, we are fully committed to driving the ElringKlinger Group forward over the coming years. Exceptional technological expertise, an outstanding global position and the growing importance of environmental awareness and climate protection worldwide will provide excellent growth opportunities for ElringKlinger. This applies not only to the existing product portfolio but also to the technologies and products we are currently developing in all of our divisions. E-Mobility, in particular, is an area in which we consider ourselves well positioned, given our core competencies and technological abilities. In parallel, external technologies that are related to our line of work will contribute to profitable growth.

This annual report outlines our business performance in 2010. At the same time, it provides details of the strategic direction taken by the ElringKlinger Group in response to the challenges of the future. We hope you enjoy reading our 2010 annual report.

Sincerely,

Dr. Stefan Wolf

Report by the Supervisory Board 2010

During the financial year 2010, the Supervisory Board of ElringKlinger AG monitored the activities of the Management Board as required by the German Stock Corporation Act (Aktiengesetz – AktG) as well as the German Corporate Governance Code and supported its work and business assessments in an advisory capacity.

The Supervisory Board was given a monthly written report by the Management Board outlining developments in the wider economy and ElringKlinger's business performance with regard to order intake, order backlog, revenue and earnings (each with a prior-year and target comparison) and to important new orders, the employment situation for the Group, the AG, divisions and subsidiaries and the level of borrowing.

In 2010, the Supervisory Board held four scheduled meetings, one unscheduled meeting and two telephone conferences.

At each of these scheduled meetings of the Supervisory Board, the Management Board provided a detailed review of performance over the last intra-year period, including the main business indicators, an assessment of whether targets had been achieved and comparisons with the previous year for the Group, the AG and the subsidiaries. These reports also examined the anticipated full-year results on the basis of current information as well as borrowing levels, the macroeconomic situation, markets, competition, risk and the status of ongoing legal proceedings.

The Supervisory Board also focused on the following specific issues at its meetings:

Scheduled meeting on March 23, 2010
2009 financial statements and management reports for the AG and the Group; auditor's report; adoption of the financial statements, approval of the Management Board's proposal for the appropriation of profit; arrangements for the 2010 Annual General Meeting.

Scheduled meeting on May 21, 2010
Review of the Annual General Meeting held on the same day; election of a Chairperson of the Supervisory Board following the election (under a new system of equal representation) of six employee and six shareholder representatives at the Annual General Meeting; election of members of Supervisory Board committees.

Unscheduled meeting on June 25, 2010
Approval of Management Board plan to acquire Freudenberg's Flat Gaskets operations.

Approval to carry out a seasoned equity offering in order to finance the planned acquisition and other future projects.

Scheduled meeting on September 3, 2010
Establishment of a Mediation Committee in accordance with the German Codetermination Act and adoption of rules of procedure for that committee.

Progress of the acquisition of Freudenberg's Flat Gaskets operations.

Discussion of latest changes to the German Corporate Governance Code, especially with regard to the new emphasis on diversity targets (appropriate level of participation of women and persons of non-German origin on supervisory and management boards). These targets were generally welcomed during discussion and indeed have already been partially met at ElringKlinger. The intention, where possible, is to appoint suitably qualified women to vacant positions among the shareholder representatives on the Supervisory Board. As a medium-term objective, it was agreed that one-third of Supervisory Board positions should be occupied by women.

Presentation of the internal control and risk management system by the Management Board followed by a plenary discussion by the Supervisory Board of its suitability and effectiveness.

DR. HELMUT LERCHNER (Chairman of the Supervisory Board)

Telephone conference of the Supervisory Board on October 4, 2010
Approval of the seasoned equity offering planned by the Management Board and authorized in principle. A decision was postponed to October 5, 2010.

Telephone conference of the Supervisory Board on October 5, 2010
Approval of the seasoned equity offering planned by the Management Board, to be executed on October 6, 2010.

The declaration of conformity of the Supervisory Board and the Management Board as required by Section 161 of the German Stock Corporation Act concerning the German Corporate Governance Code as amended on May 26, 2010, was adopted by written circulation. The declaration was published on the website of ElringKlinger AG on December 4, 2010.

Scheduled meeting on December 7, 2010
2011 budget for the Group, the AG and the subsidiaries and extension of the medium-term forecast to the period 2011 to 2015.

Discussion of the results of internal audits conducted during the reporting year as part of the company's control and risk management system. No significant objections had arisen.

Particular emphasis was again placed at the meeting on the importance of ensuring that all employees carry out their duties in line with the relevant laws (compliance).

Update on the acquisition process with regard to Freudenberg's Flat Gaskets operations.

Initial plans for the 2011 Annual General Meeting.

Approval for the acquisition of a further 20% stake in ElringKlinger Logistic Service GmbH, Rottenburg am Neckar.

Approval for the acquisition of two plots of land in Dettingen/Erms in order to realign two operating sites.

Adoption of a proposal by the Personnel Committee concerning the contractually stipulated review on February 1, 2011, of the fixed compensation of

Dr. Stefan Wolf and Karl Schmauder of the Management Board.

With the exception of the unscheduled meeting of the Supervisory Board on June 25, 2010, and the telephone conference on October 5, 2010, at each of which one member of the Supervisory Board was unable to attend, all members attended or took part in all meetings and the other telephone conference.

At regular intervals throughout the entire year, the Chairman of the Supervisory Board discussed the latest developments with the Chairman of the Management Board in person, by telephone or by e-mail. These ongoing exchanges covered the state of business, assessment of the current situation, new business plans and events of particular significance. Where appropriate, the Chairman of the Supervisory Board informed and involved his colleagues on the Supervisory Board by e-mail.

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

In response to a proposal of the Management Board to acquire minority shares held by third parties in an overseas subsidiary of ElringKlinger AG, the Supervisory Board granted its consent by way of circulation.

No separate preparations were made for employee and shareholder representatives regarding the Supervisory Board meetings. The comprehensive documentation distributed by the Management Board was self-explanatory and therefore made this unnecessary.

At the Annual General Meeting on May 21, 2010, elections were held to appoint shareholder representatives to the Supervisory Board for a period of office from 2010 to 2015. This election was necessary, as the previous period of office had expired. Since ElringKlinger AG and its domestic subsidiaries permanently employ more than 2,000 people and therefore constitute a stock corporation with equal representation on the Supervisory Board under Germany's Codetermination Act, the employee representatives on the Supervisory Board were elected by the workforce in March prior to the Annual General Meeting. As with the shareholder representatives, their period of office commenced at the end of the Annual General Meeting.

At present, the shareholder representatives on the Supervisory Board are Dr. Rainer Hahn, Karl-Uwe van Husen, Dr. Thomas Klinger-Lohr, Walter Herwarth Lechler, Dr. Helmut Lerchner and Manfred Strauß. The employee representatives are Gert Bauer, Armin Diez, Pasquale Formisano, Paula Monteiro-Munz, Markus Siegers and Gerhard Wick.

There were no conflicts of interest in 2010 between Supervisory Board members and the company.

At its meeting following the Annual General Meeting, the Supervisory Board re-elected Dr. Helmut Lerchner to the position of Chairman. Markus Siegers was elected to the position of Deputy Chairman.

The Supervisory Board established three committees:
- the Audit Committee made up of Armin Diez, Karl-Uwe van Husen (Chairman), Walter Herwarth Lechler and Dr. Helmut Lerchner;
- the Personnel Committee made up of Gert Bauer, Karl-Uwe van Husen, Walter Herwarth Lechler, Dr. Helmut Lerchner (Chairman) and Dr. Thomas Klinger-Lohr;
- the Mediation Committee made up of Walter-Herwarth Lechler, Dr. Helmut Lerchner (Chairman), Paula Monteiro-Munz and Markus Siegers.

The Audit Committee held two meetings in 2010.

At the meeting in March, the auditors from KPMG reported to the Audit Committee on the results of their 2009 statutory audit. The Committee examined the results of the audit in detail and was consequently able to recommend that the Supervisory Board adopt the financial statements for 2009 without reservation.

At its meeting in September, the Audit Committee held preliminary talks with the newly appointed auditors from the accountancy firm PriceWaterhouse Coopers AG. These talks established the main focus of the audit from the perspective of both the Audit Committee and the auditors. The requirements of Germany's Act to Modernize Accounting Law (Bilanzrechtsmodernisierungsgesetz – BilMoG) in terms of risk management and compliance were discussed in particular detail. This meeting was also attended by Dr. Stefan Wolf, CEO/Chairman of the Management Board, as a guest.

The Chairman of the Audit Committee maintained regular contact throughout the year 2010, both in person and by telephone, with the manager of the audit team in order to ensure that the audit was progressing smoothly and with a view to providing support if required should problems arise during the preparation and conduct of the audit.

The Personnel Committee held one meeting in December 2010 to consult and take a decision on its recommendation to the Supervisory Board regarding the contractually stipulated review of the fixed compensation of Management Board members Dr. Stefan Wolf and Karl Schmauder scheduled for February 1, 2011.

No meetings of the Mediation Committee were required in 2010.

At the end of 2010, the Supervisory Board conducted a review of its own effectiveness and delivered a thoroughly positive assessment with regard to the actual issues dealt with by the Board, its methods and collaborative approach.

The 2010 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 PriceWaterhouse Coopers AG. The relevant audit mandate was issued by the Supervisory Board in accordance with the resolution passed by the General Meeting of Shareholders on May 21, 2010.

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 2010 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.

At its meeting on March 25, 2011, 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 2010. Thus, the financial statements of ElringKlinger AG for 2010 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.

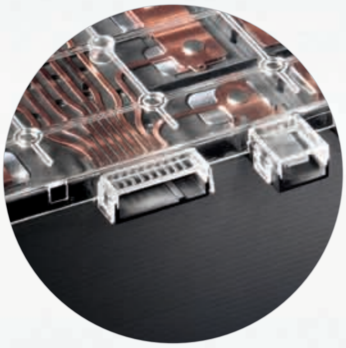
The Supervisory Board would like to thank the Management Board and all members of staff at ElringKlinger AG and its domestic and international subsidiaries for their high level of commitment and very successful work in the financial year 2010.

Aichtal, March 25, 2011
The Supervisory Board

Dr. Helmut Lerchner
Chairman of the Supervisory Board

E-MOBILITY ›› BATTERY TECHNOLOGY

Storing energy



Batteries are used to store energy in both hybrid and all-electric vehicles. ElringKlinger supplies complete contact systems for lithium-ion batteries.

Cell contact systems for prismatic cell structures with thermal and electrical monitoring


elringklinger

Theory Meets Practice

Prof. Dr. Stefan Bratzel from the Center of Automotive at the University of Applied Sciences for Industry (FHDW) in Bergisch Gladbach discusses current trends in the automotive industry with Dr. Stefan Wolf, CEO of ElringKlinger AG

DR. STEFAN WOLF: Prof. Bratzel, one of the biggest crises the automotive industry has ever faced is now behind us. The markets have recovered much more quickly than expected. In your opinion, what has changed?

PROF. DR. STEFAN BRATZEL: Yes, it was surprising that car manufacturing in the US recovered so rapidly. And growth in China has been phenomenal. There are enormous changes ahead, and not just because of the industry crisis. We are currently witnessing a paradigm shift. At the same time, the international landscape is changing and new players are emerging, particularly in Asia.

DR. STEFAN WOLF: Yes, people in Asia want to be mobile too. Along with South America, Asia has performed the most strongly. Even if China cannot fully maintain its rapid growth rate, it is nonetheless the world's biggest growth market. One factor is that the car is popular as a status symbol in this region.

PROF. DR. STEFAN BRATZEL: Our most recent studies show that in Germany the car's role as a status symbol will diminish in future. In Asia that is not the case, which will boost demand in the premium segment. But because of regulatory limitations, the high level of vehicle density reached in Germany will never be possible in China. So although growth in China should continue to be slow, this market still offers excellent potential. We need new concepts. We can safely assume that a car sold in China in 20 years' time will look very different from those sold today.

DR. STEFAN WOLF: And how do you think the automotive supply industry will develop? We expect some incredible innovations in the field of drive technology. A high level of investment will be required.

PROF. DR. STEFAN BRATZEL: During the industry crisis, the strong players became stronger. Although the trend towards consolidation is set to continue in the supply industry, it will be a more subtle process. Automotive suppliers that became victims of the crisis remained in the market because they were given some form of support by the manufacturers.

DR. STEFAN WOLF: I am convinced that in the next few years we will see another wave of consolidation sweeping through the market. Financially strong and

"Innovative, financially sound companies that remained committed to investment even at the height of the crisis will prevail."

DR. STEFAN WOLF, CHIEF EXECUTIVE OFFICER

innovative companies that continued to invest during the crisis will win the day. By way of example, we recently purchased the Static Metal Gaskets division from the Freudenberg Group, thereby strengthening our position in the gaskets market. And we have identified further opportunities. Many smaller and mid-sized suppliers are not geared up for international business, or are forced to consider the issue of succession. In both cases, these companies will come up against problems.

PROF. DR. STEFAN BRATZEL: On the other hand, new players from regions such as China and India will provide additional competition, potentially increasing their share of value-added through acquisitions and thereby contributing to the consolidation process. I also think that partnerships will become increasingly important in the current climate.

DR. STEFAN WOLF: What do you expect to see from a technological perspective? Is the combustion engine's monopoly coming to an end?

PROF. DR. STEFAN BRATZEL: In 2025, 75% of us will still be driving cars with diesel or petrol engines. And we shouldn't forget that it's going to take a while before companies can make any money from the new drive technologies. But electric vehicles will definitely have their place.

DR. STEFAN WOLF: Yes, our industry is very strongly cost-driven. And the potential of the combustion engine has by no means been exhausted. At the same time, we are seeing a clear trend among many of our customers towards the hybrid vehicle as a model for transition. It solves the problem of limited cruising range that arises for pure electric vehicles. We see the role of plug-in hybrids, which can be charged from a standard household wall socket, growing in importance. Because the additional costs associated with this vehicle are still high, the concept will inevitably only be offered in the high-end vehicle segments, to begin with. Certainly, the hybrid will become more of a life-style product.

PROF. DR. STEFAN BRATZEL: I agree. But there is definitely still potential to increase the efficiency of the combustion engine by 20% in the coming years. Downsizing is the order of the day. Carmakers are desperately looking for solutions to help them reduce consumption.

DR. STEFAN WOLF: This is where ElringKlinger will make a key contribution. The combustion engine will still dominate the market for the next 15 to 20 years. Nevertheless, as a forward-thinking company, we need to ready ourselves now for the long-term development of electric vehicles and make targeted investments in this new opportunity.

> “OEMs prefer to work with suppliers that can reduce complexity for them. On the other hand, they don’t really want to increase the number of suppliers either.”
>
> PROF. DR. STEFAN BRATZEL

PROF. DR. STEFAN BRATZEL: The electric vehicle is set to change the entire value creation system in the automotive industry considerably. And this is where we find out just how technology-friendly our society is. That’s why it’s so important for us in Germany to start driving electric vehicles – not wait for other countries to do it first. New business models are emerging – in the area of battery infrastructure, for instance. Other areas, such as the networked vehicle, are quickly gaining in importance, as are new infrastructures and business models for alternative drive technologies.

DR. STEFAN WOLF: Early on, we began to examine how we could use our process expertise for new products related to the electrification of the motor vehicle. As a company, you need to be on board from the start to move up the learning curve with everybody else. This is the only way you can then set up the right kind of production system. We have managed to gain a foothold in the electric vehicle market through the production of battery components. We are currently setting up series production for our new cell contact systems for the lithium-ion batteries used in hybrid and pure electric vehicles.

PROF. DR. STEFAN BRATZEL: It is crucial to establish these new key areas of activity early on. And suppliers that are prepared to tread this path alongside manufacturers are in strong demand. Only recently, a well-known management consulting company recommended that manufacturers leave the production of battery cells and connectors to specialist suppliers and concentrate on assembly instead. Original equipment manufacturers prefer to work with suppliers that can reduce complexity for them. On the other hand, they don’t really want to increase the number of suppliers they use either.

DR. STEFAN WOLF: I think we are in a good position in this respect. Our traditional products make a key contribution to improving the combustion engine. But we can also supply cell connectors and module connectors for batteries.

PROF. DR. STEFAN BRATZEL: It’s definitely a good thing if suppliers can position themselves so that they can operate comfortably in both worlds. Although in Germany we have started one or two years later, “e-mobility” is clearly not a sprint – it’s an endurance race.

DR. STEFAN WOLF: What are the future prospects of fuel cells? Some manufacturers have significantly stepped up their activities in this area again recently.

PROF. DR. STEFAN BRATZEL: The trouble is that the price of fuel cell stacks means that they won’t be saleable for a long time yet. Then there is the odd technical problem to consider. I wouldn’t expect large-volume sales within the next ten years, because the infrastructure problems remain completely unresolved as

well. Mind you, I must say that fuel cell vehicles drive well and do not have the cruising range problem associated with battery-powered vehicles.

DR. STEFAN WOLF: I think the race to find which drive technology will succeed in the long-term is still open.

PROF. DR. STEFAN BRATZEL: Absolutely. It is still not clear how we will be driving in 30 years' time. It is important not to concentrate on just one technology. Suppliers can't risk falling behind in their development of new drive technology applications or giving them low priority.

DR. STEFAN WOLF: What is the outlook for 2011? We have almost reached pre-crisis levels. From here on, we expect growth rates to return to normal. In future, we think growth in the industry will be concentrated on the emerging nations. In China, car sales will continue to rise, but not at the galloping rate of the last two years. While Europe's growth should remain at the same level as last year, we expect it to be moderate in the USA.

PROF. DR. STEFAN BRATZEL: My predictions would be similar. China's growth will definitely flatten out compared to previous performance but it will remain the most important single market in the world. South America and Russia will also see positive growth. Overall, an increase in global vehicle production of three percent should be feasible in 2011.

DR. STEFAN WOLF: Demand for cars is also rapidly increasing in the densely populated ASEAN countries such as Thailand, Malaysia, Indonesia and Vietnam, where the national economies are growing. With incomes on the rise, more and more people can afford to buy a car.

PROF. DR. STEFAN BRATZEL: Yes, but suppliers still need to develop structural growth. Key focus areas are still the energy efficiency of the engine and lightweight construction. Suppliers that can help to solve these kinds of problems for the automotive industry are in a very good position.

DR. STEFAN WOLF: That's why we are focusing on technology issues such as downsizing, turbocharging and reduced-weight plastic housing modules, as well as identifying additional components with which we can consolidate our portfolio for hybrids and pure electric vehicles. We are not just relying on market growth. Every year, ElringKlinger launches new products on the market. In this way, we expect organic growth of 5-7% a year in the long term.

Prof. Bratzel, it's clear that theory and practice are not as divorced from each other as might be expected. I thank you for joining me to discuss these topics and look forward to our next exchange.

E-MOBILITY ›› FUEL CELLS

Grid-independent energy

In the area of fuel cell technology, we have made considerable progress in the development of commercially viable product concepts. High-temperature fuel cells are being designed by ElringKlinger to provide energy for stationary electric A/C in the driver's cab of heavy trucks and for stationary applications in the field of combined heat and power generation.

Fuel cell system for on-board power supply, including ElringKlinger stack and thermo box

ElringKlinger and the Capital Markets

Share price continues upward trend in 2010

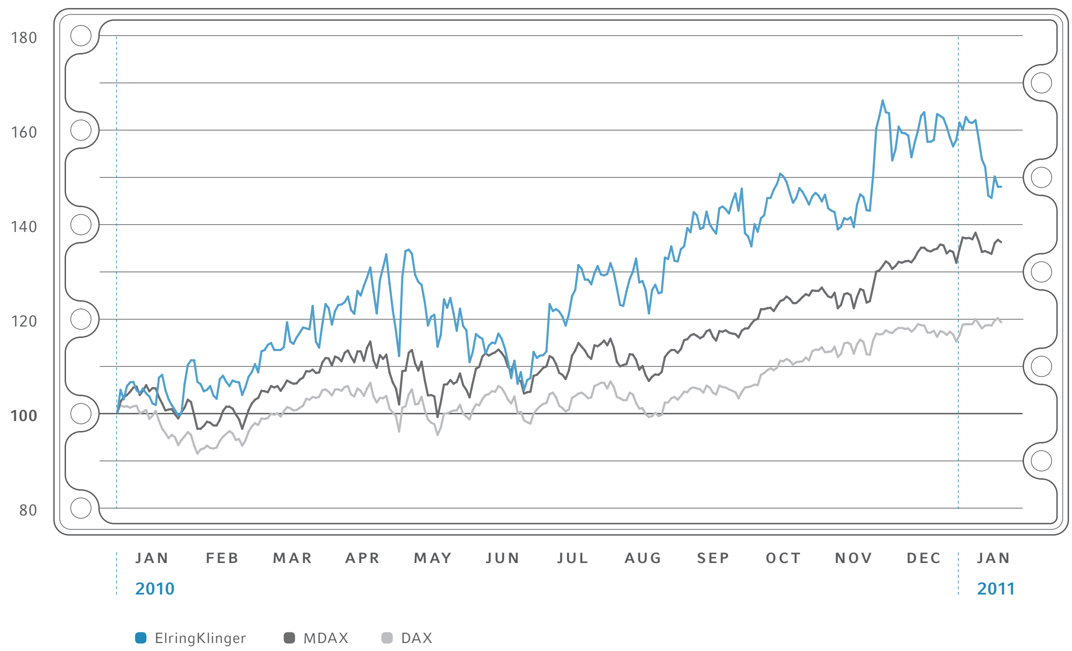
After a 133% rise in 2009, shares in ElringKlinger gained further ground in 2010. Bolstered by a strong recovery in the global automotive industry and by the company's positive results, the stock ended the year 63.6% higher.

As global automotive markets picked up in the first quarter, shares in ElringKlinger also trended higher. After starting the year at EUR 16.20, by April 2010 the price had risen above the EUR 20 mark for the first time since mid-2008, although it subsequently fell back to EUR 17 in response to the uncertainty generated by the European debt crisis in mid-year.

With the capital markets reacting positively to the announcement that ElringKlinger planned to acquire the cylinder-head and exhaust gasket business of the Freudenberg Group and to the publication of ElringKlinger's half-year figures for 2010, the stock then began a dynamic recovery that took it above the important EUR 22 mark.

ELRINGKLINGER'S SHARE PRICE PERFORMANCE (XETRA) SINCE JANUARY 1, 2010

compared to MDAX and DAX



Following the announcement of a seasoned equity offering on October 5, 2010, which increased the number of shares by almost 10%, the stock suffered a temporary reverse before regaining any lost ground in just a few days.

With ElringKlinger revising its forecast upwards on several occasions and vehicle manufacturers continuing to report strong growth in production figures, the stock had reached a new high for 2010 of EUR 26.98 by early December, before ending the stock exchange year on EUR 26.50, just short of its previous all-time high of EUR 29.00 at the end of 2007.

ElringKlinger shares outpace benchmark indices MDAX and DAX

In 2010, shares in ElringKlinger once again outperformed the benchmark indices **MDAX*** and DAX. While the MDAX ended the year up 34.9% and the DAX rose by 16.1%, shares in ElringKlinger recorded a gain of 63.6%.

* CF. GLOSSARY

ElringKlinger stock	2010	2009
Earnings per share IFRS (after minority interests, in EUR)	1.11[1]	0.58
Shareholders' equity per share (in EUR)[2]	8.09	5.49
High (in EUR)[3]	26.98	16.36
Low (in EUR)[3]	16.09	6.20
Closing price at Dec. 31 (in EUR)[3]	26.50	16.20
P/E (price to earnings ratio)[2]	23.9	27.9
Dividend per share (in EUR)	0.35[4]	0.20
Average daily trading volume (German stock exchanges; no. of shares traded)	119,900	115,200
Average daily trading value (German stock exchanges; in EUR)	2,466,000	1,352,000
Market capitalization (in EUR million)[2]	1,691.0	933.1

[1] Figure calculated on the basis of average number of shares (taking into account capital increase of October 6, 2010)
[2] as of December 31
[3] XETRA trading
[4] Proposal to 2011 AGM

Trading value almost doubled

Buoyed by a general improvement in trading volumes on the stock markets and by an increase in the number of shareholders, the stock gained greater liquidity over the year. Compared to 2009, the average daily trading value of ElringKlinger shares at German exchanges rose by 82.4% from EUR 1,352,000 to EUR 2,466,000 in 2010.

Increase in capital improves liquidity and index weighting

* CF. GLOSSARY

Following the **capital increase*** (i.e. seasoned equity offering) on October 6, 2010, the **free float*** in ElringKlinger shares rose from 44.6% to 48%. As well as improving liquidity, which is a key factor for institutional investors in particular, the move also enhanced the stock's MDAX weighting. According to the latest analysis of MDAX stocks in December 2010, shares in ElringKlinger rank 37th out of 50 in terms of market capitalization and are in 48th place in terms of average trading volume over the last 12 months.

Proactive communication with the capital markets

In 2010, as in previous years, ElringKlinger maintained an intensive dialog with the capital markets. In light of a major upturn in the industry's prospects after coming through the economic crisis and given the widespread debate about alternative drive concepts, there was again considerable interest in the company from investors, analysts and the business media.

Over the course of 2010, management took part in thirteen international capital market conferences and answered questions from analysts and institutional investors at a total of eight road shows in Germany and elsewhere. As part of its investor relations program, ElringKlinger hosted numerous visits by investors to the production and R&D facilities in Dettingen/Erms and Bietigheim-Bissingen. The company also held a number of telephone conferences and one-to-one discussions in order to report on its current business performance and the latest market trends.

* CF. GLOSSARY

There was growing interest in the Group's R&D activities and new products in the fields of battery and **fuel cell*** technology.

Investors also showed great interest in ElringKlinger's fast-growing business in Asia, and for the first time the Group's Chinese subsidiary ElringKlinger China, Ltd. welcomed two groups of international investors and analysts at its newly established production plant in Suzhou.

Commitment to private investors

ElringKlinger is particularly keen to promote communication with private investors, who in 2010 made full use of the opportunities available to make personal contact with the company via the telephone hotline and the website. In particular, numerous inquiries were received in connection with the company's latest activities in the field of e-mobility and the capital increase.

* INTERNET LINK

As part of the Baden-Württemberg Small Caps initiative (BWSC/**www.bwsc.de***), ElringKlinger AG, together with nine other listed companies from the region, has taken steps to encourage private investors by participating in a series of investor information events held in conjunction with regional banks. The aim here is to make personal contact with asset managers and private investors. Several events are planned for 2011 under the slogan 'personal, direct, transparent'.

Major expansion of IR content on new website

September 2010 saw the launch of ElringKlinger's redesigned website, with a modern system of navigation and a large amount of new content, much of it in the Investor Relations section.

As well as the latest financial reports and announcements, private investors in particular can now take advantage of a comprehensive array of support and dialog mechanisms, including chart tools and benchmarking options, to analyze movements in the ElringKlinger's share price. The integrated investment calculator provides an overview of individual gains/losses, while recent audio and video articles from Börsenradio Network AG, Deutsches Anlegerfernsehen and other media offer a fascinating insight into the company. There was considerable enthusiasm among investors wishing to 'Chat with the CEO' **(www.elringklinger.de/de/chat-mit-dem-ceo)** * in the shareholder forum within the investor relations section. This feature was introduced to coincide with the website relaunch and provides an opportunity to speak to the CEO directly at regular intervals.

* INTERNET LINK

ElringKlinger achieves high ranking for Investor Relations

Once again, the company's investor relations work brought it an encouraging result in the annual ranking published by the financial magazine 'Capital'. Every year since 1997, in cooperation with the DVFA (Deutsche Vereinigung für Finanzanalyse und Asset Management), Capital has assessed the financial market communications of listed German companies in various stock indices and bestowed 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 individual market communication, the main criteria being the transparency, consistency and target group orientation of each company's IR activities. Additionally, the survey looks at details provided by companies with regard to governance and social issues. Despite competing against much larger corporations in the MDAX, ElringKlinger AG nevertheless took ninth place to secure itself a top-ten ranking.

For the first time, ElringKlinger AG's annual report achieved a TOP 15 position in the rankings published by the business review 'manager magazin'. Based in Hamburg, the magazine analyses the annual reports of around 200 listed corporations, and the review is regarded as one of the most extensive and demanding in Europe. The results are based on the criteria Content, Design and Language. The judges were suitably impressed by the report's consistent visual language and high-quality design. The 2009 Annual Report achieved 11th place compared to last year's 18th.

At international level, too, there was recognition for the quality of the Group's investor relations work. ElringKlinger AG won second place in the 'Vehicle Manufacturer/Automotive Supplier (Europe)' category at the Best Investor Relations Awards run by Institutional Investor Magazine (IIM). The awards are based on an assessment by international analysts.

Shares in ElringKlinger – Stock Details

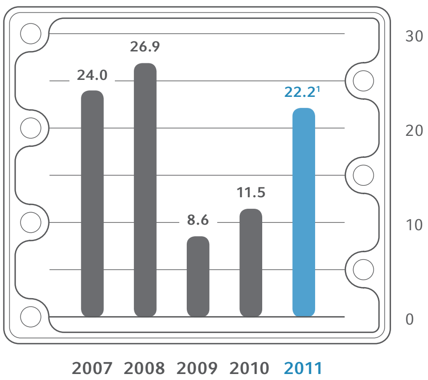
ISIN	DE 0007856023
German Securities Identification Code (WKN)	785 602
Bloomberg	ZIL2
REUTERS	ZILG n.DE
Capital stock (since October 6, 2010)	Euro 63,359,990
Number of shares outstanding	63,359,990
Stock exchanges	Official trading: XETRA, Frankfurt, Stuttgart, Munich, Dusseldorf, Hamburg, Berlin-Bremen
Market segment	Prime Standard
Index	MDAX

AGM approves dividend increase and share buyback

ElringKlinger AG's 105th Annual General Meeting was held in Stuttgart on May 21, 2010, and was attended by around 700 shareholders, shareholder representatives and guests. The Management Board and Supervisory Board reported a major improvement in the company's situation, and the shareholders who were present at the meeting approved a resolution to increase the dividend by around 33% from EUR 0.15 to EUR 0.20 for the fiscal year 2009. Based on the net income of ElringKlinger AG, the dividend ratio for 2009 was 54.6%. Furthermore, for a period of five years, the AGM authorized the company to repurchase its own shares up to a total amount of 10% of the share capital at the date on which this resolution was passed. The company was also authorized to increase its share capital by up to EUR 28.8 million in the period up to 2015.

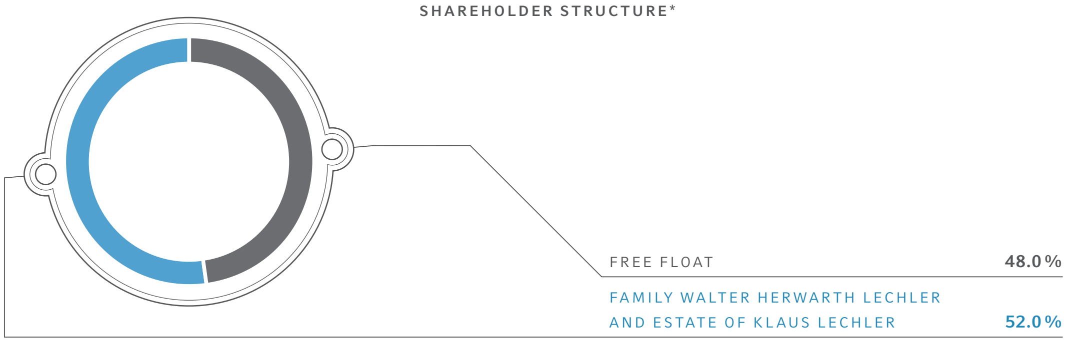
TOTAL DIVIDEND PAYMENTS

in EUR million



[1] Proposal to the AGM 2011

SHAREHOLDER STRUCTURE*



* Based upon information available to the company as of end of January 2011

Shareholder structure – Free float dominated by international institutional investors

In contrast with the crisis year 2009, when it was primarily family offices and value-oriented investors who joined the company's body of shareholders, in 2010 it was predominantly large international funds that built up substantial holdings.

As of December 31, 2010, the proportion of ElringKlinger shares held by banks, insurers, investment companies and asset managers stood at 33.8% (31.1%). This group included substantial holdings by international institutional investors. In regional terms, there was a marked increase in the holdings of North American, Scandinavian and Swiss investment companies.

ElringKlinger also attracted investments from a number of large sustainability funds. These place great emphasis on the long-term viability of the target company's business model as well as on environmental, social and ethical criteria. This trend reflects the company's inclusion (as the only automotive supplier) in the **DAXglobal® Sarasin Sustainability Germany Index*** (Sustainability, page 73).

* CF. PAGE 73

As at December 31, 2010, when the figures were compiled, the number of private investors had risen significantly to 9,217 (6,546). At year-end approximately 11.5% (11.6%) of the company's shares were held by private investors.

As a result of the capital increase, the overall proportion of shares held by the Walter Herwarth Lechler family and the estate of Klaus Lechler fell from 55.4% to 52.0%.

Outlook

In 2011, ElringKlinger intends to expand its investor relations work even further, especially at international level. Given the company's strong product background in the field of CO_2 reduction and electromobility, it will increasingly appeal to investors with a focus on the issue of sustainability. ElringKlinger will be holding an analyst/investor event as part of its program of activities at the IAA 2011 International Motor Show in Frankfurt and will use the opportunity to provide first-hand information on the latest technological developments.

COMBUSTION ENGINE & E-MOBILITY

An overview

The automotive industry is currently dominated by two fundamentally different approaches to vehicle propulsion – the refined combustion engine and new e-mobility drive technologies.

The combustion engine is set to retain its lead for the next decade. Downsized, more efficient and technologically advanced engines with higher injection and combustion pressures and turbocharging systems are now increasingly common. ElringKlinger is playing a key role in this transition through its focus on improved sealing systems, thermal management and weight reduction.

However, most forecasters also anticipate a considerable increase in the number of hybrid models. These combine a conventional combustion engine with an electric drive and could account for almost half of all new vehicle registrations by the year 2025.

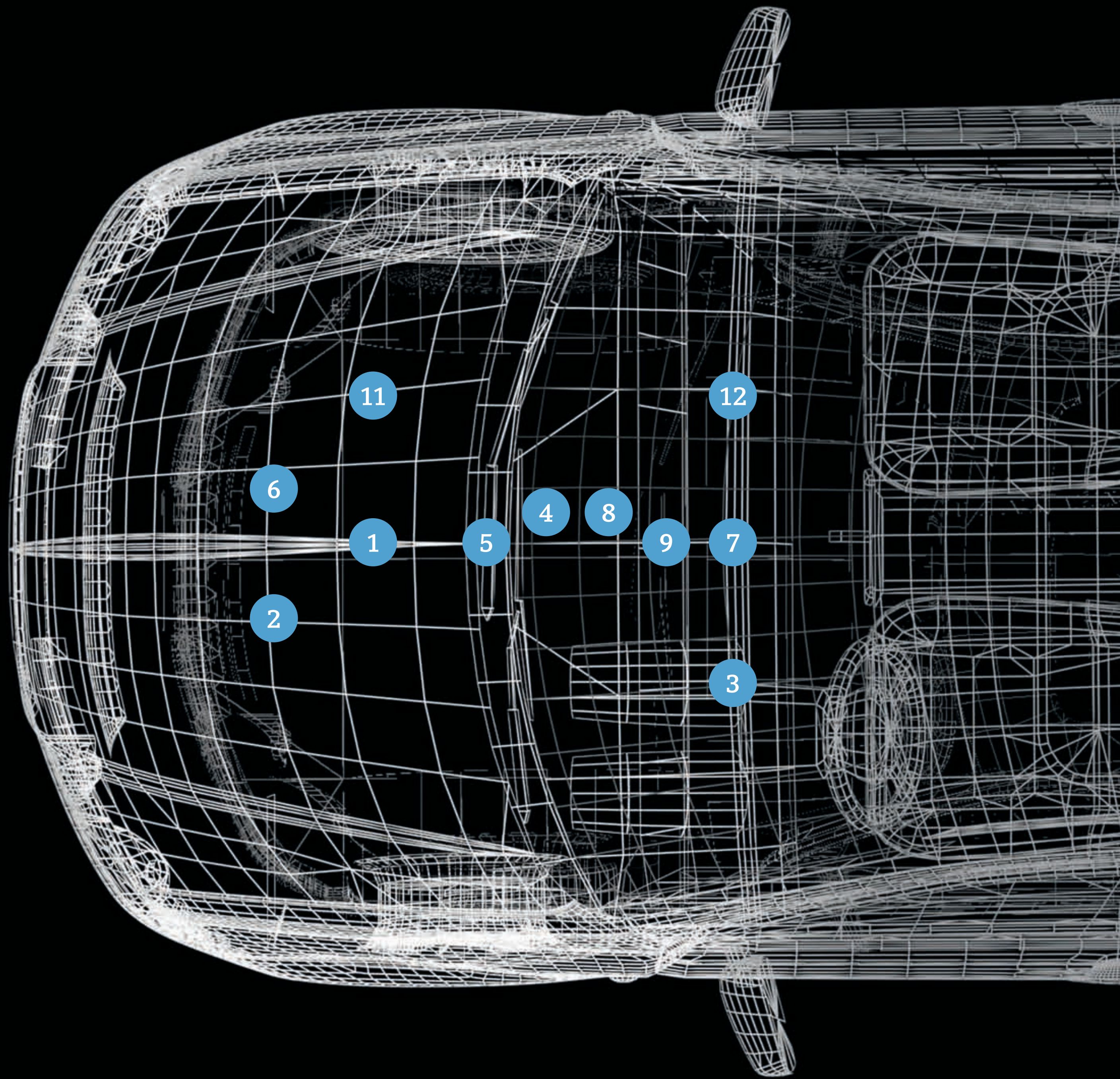
All-electric drive vehicles, using either a battery for energy storage or a drive system based on fuel cells, continue to gain ground as a niche market. By 2025, it is expected that they will make up around 5% of all vehicle production.

As regards e-mobility, ElringKlinger has a particular interest in hybrid models with lithium-ion batteries. This market provides opportunities for our main product portfolio as well as for sales of new components designed for use in electric-drive vehicles. With the established range of products, the company can expect in most cases to generate between EUR 25 and EUR 50 of revenue per car. By contrast, the new components developed for hybrids offer much greater additional sales potential in the medium term than is the case with cars driven solely by a combustion engine.

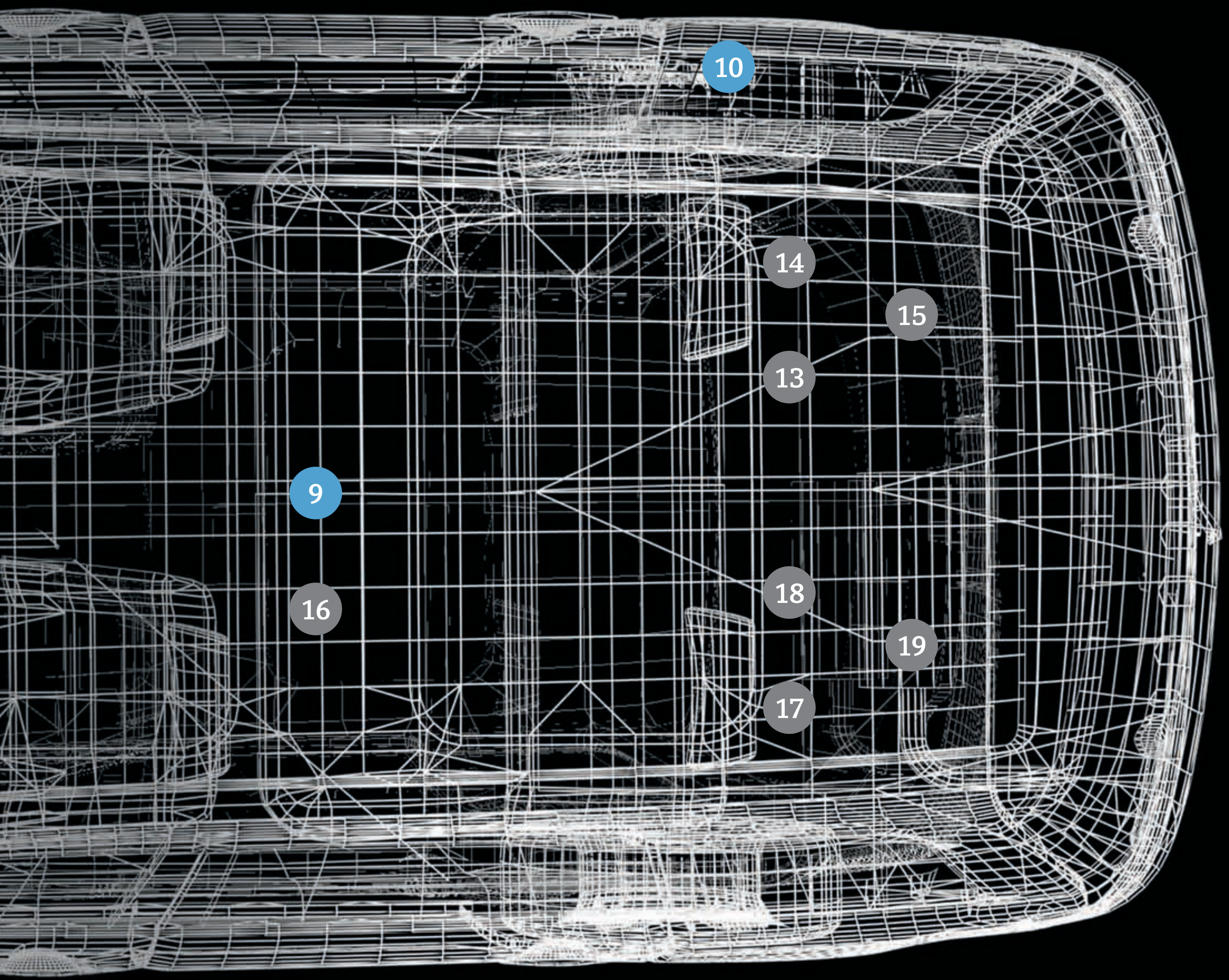
The diagram shows in detail the positions occupied by ElringKlinger's traditional products for the engine, transmission and exhaust system (blue) and highlights the new components we can supply for lithium-ion battery and fuel-cell applications (grey).

With its components for the combustion engine of the future and for the electromobility market, ElringKlinger has established a very strong position in terms of both research and development and manufacturing processes.

ElringKlinger. Embracing both worlds.



COMBUSTION ENGINE (DOWNSIZING) >>



COMBUSTION ENGINE (DOWNSIZING)

1. Cylinder-head gasket

2. Specialty gaskets (engine)
3. Specialty gaskets (transmission)
4. Specialty gaskets (exhaust system)
5. Specialty gaskets (turbocharger)

6. Shielding components (engine)
7. Shielding components (transmission)
8. Shielding components (underbody)
9. Shielding components (exhaust system)
10. Shielding component (tank heat shield)

11. Plastic housing modules (engine compartment) – cam cover, oil pan
12. Plastic housing modules (transmission) – casings, oil pan

ELECTRIC DRIVE

13. Cell contact system – battery cell and battery module connectors
14. Battery housing seals
15. Battery pressure equalization system
16. Rotor and stator sheets for electric engines

17. Bipolar plates for fuel cells
18. Complete fuel cell stack for auxiliary unit to provide on-board electrical power
19. Fuel cell stack for vehicle drive and range extension

ElringKlinger AG Group Management Report for the Financial Year 2010

Contents

An overview of ElringKlinger's activities and structure

ElringKlinger is an independent and global automotive supplier. Around 90% of the Group's sales revenue is derived from the vehicle industry and the independent aftermarket business. As a development partner and original equipment manufacturer, ElringKlinger supplies high-performance cylinder-head and specialty gaskets, plastic housing modules, thermal acoustic shielding technology and both fuel cell and battery components to almost all the world's car, truck and engine manufacturers. In recent years, the Group's customer base has also been extended to include numerous automotive suppliers, particularly within the area of exhaust technology and transmission engineering. Additionally, the Group supplies the independent aftermarket, the main focus being on flat gaskets and complete gasket sets.

Organization and Group structure

The ElringKlinger Group goes back over 130 years and is now a global enterprise. As at December 31, 2010, in addition to the parent company ElringKlinger AG, it comprised 24 subsidiaries and two joint ventures. These 27 companies cover 29 locations in 16 countries around the globe. In addition to as the well-established markets of Europe, North America and Japan, they serve the **emerging countries of Asia and South America*** (Group Companies, page 59 et seqq.) 69.1% of the Group's sales revenue is now generated from international markets. Out of the above total of 27, 22 are production companies, two are sales companies, and three are involved in the aftermarket business

* CF. PAGE 59 ET SEQQ.

ElringKlinger AG handles the Group's core management tasks and is also responsible for numerous Group-wide activities in the areas of research and development, purchasing, legal affairs and human resources.

The business is divided into five segments: Original Equipment, Aftermarket, Engineered Plastics, Industrial Parks and Services. The financial statements published by the ElringKlinger Group are prepared in accordance with International Financial Reporting Standards **(IFRS)***. Segment reporting is based on the five segments listed above in line with the Group's operating structure.

* CF. GLOSSARY

The Original Equipment segment develops, produces and sells components and modules for vehicle engines, gearboxes and exhaust systems and accounts for around 76.3% of consolidated sales revenue. In the gasket area, the Group's main competitors are two US groups, whose business activities are spread over many different fields, and smaller regional firms in discrete local markets. With regard to shielding technology and plastic housing components, the competition is more diverse.

The Aftermarket segment manufactures and sells a range of components under the logo 'Elring – Das Original'. These include OEM-quality cylinder-head and specialty gaskets as well as gasket sets and service parts for repairs to engines, gearboxes, exhaust systems and auxiliary units. The segment's main customers are its partners in the independent aftermarket business, which accounts for around 13.5% of the Group's entire revenue.

Engineered Plastics includes ElringKlinger Kunststofftechnik GmbH and its subsidiary in Quingdao, China. These companies develop and manufacture components and technical products made of high-performance **PTFE plastics*** for applications in the automotive sector and general industry as well as the field of medical technology. Engineered Plastics accounts for approximately 9.0% of consolidated revenue. Around two-thirds of the segment's revenue is generated outside the vehicle industry, and in the area of PTFE applications development it is one of Europe's largest suppliers. In the Asian market, and above all China, its market share has been growing continuously.

* CF. GLOSSARY

The Services segment is made up of Elring Klinger Motortechnik GmbH and ElringKlinger Logistic Service GmbH. In terms of engine technology, the segment specializes in development services and engine testing for vehicle manufacturers and an increasing number of automotive suppliers. As a result, ElringKlinger has established a strong link to its customers' development units and is therefore an integral part of the process when it comes to elaborating on solutions for overall power-train development. Engine technology resources are also put to good use for the Group's internal development purposes. The Logistics Services arm provides logistics services within the Group and to outside customers.

The Industrial Parks segment includes sites in Ludwigsburg, Idstein and Kecskemét-Kádafalva in Hungary. Its purpose is to manage and generate revenue from property and buildings.

The Group is also divided into nine operating divisions: Cylinder-head Gaskets, Specialty Gaskets, Shielding Technology, Plastic Housing Modules/**Elastomer*** Technology, Engineered Plastics, E-Mobility, Independent Aftermarket, Services and Industrial Parks.

* CF. GLOSSARY

Business Model and Positioning

The ElringKlinger Group is the world's number one supplier of cylinder-head gaskets and has established a top three position worldwide in its other well-established divisions, including Specialty Gaskets, Shielding Technology, Plastic Housing Components and Independent Aftermarket.

In addition to pointing the way in the development of technology, the Group plays a leading role in the area of cost-efficient production, an achievement that has been made possible by sustained investment in research and development above the level usually found in the sector. Its robust culture of innovation is geared towards the search for new products and technologies and for new applications for existing products and technologies.

The Group's development activities are focused on the central issues facing today's automotive industry: the reduction of fuel consumption and emissions as well as the introduction of new drive technologies. With regard to New Business Areas, the company is currently working on innovative solutions in the field of fuel cell and battery technology. ElringKlinger thus considers itself a partner to automobile manufacturers for the entire range of future drive technologies from the optimized conventional combustion engine through hybridization to pure electric mobility. Consequently, the Group is one of just a few suppliers worldwide in a position to deliver state-of-the-art components for every possible form of future drive technology.

Legal structure

ElringKlinger AG, as the parent company of the Group, is registered in the Commercial Register of the Stuttgart District Court under the registration number: HRB 361242. The company is headquartered in Dettingen/Erms (Germany). The address is ElringKlinger AG, Max-Eyth-Strasse 2, 72581 Dettingen/Erms, Germany. The registered name of the company is ElringKlinger AG. As defined in the Commercial Register, the purpose of ElringKlinger AG and its subsidiaries is to develop, manufacture and market technical and chemical products, particularly gaskets, gasket materials, plastic products and components for the vehicle and other general industries. In addition, the company offers services associated with its product range. The administration, lease and sale of real estate together constitute a further objective of the company. The Articles of Association, October 6, 2010 version, apply.

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, the individual Group entities and the Group as a whole is measured on the basis of ROCE (Return on Capital Employed). The level of tied-up capital is thus also significant in relation to investment decisions. For ElringKlinger as an exchange-listed stock corporation, EBIT (Earnings Before Interest and Taxes) represents a key performance indicator.

* 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 management report.

* CF. PAGE 84 ET SEQQ.

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", "Sustainability", "Research and Development", "Employees" and Report on Opportunities and Risks".

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, in addition, centrally. The principles governing the use of derivative financial instruments are described in the risk report under the heading "**Risks from derivatives**"*. The nature and scope of the derivative instruments held by the Group as at December 31, 2010, are detailed under the heading "**Hedging policy and financial instruments**"* in the Notes to these consolidated financial statements.

* CF. PAGE 92

* CF. PAGE 170

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

Macroeconomic Conditions and Business Environment

World economy recovers faster than expected

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

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

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

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

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

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

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

Vehicle demand driven by BRIC markets and US in 2010

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

Business within the international automotive market picked up considerably faster in 2010 than originally anticipated. Among the key growth drivers were the BRIC economies (Brazil, Russia, China and India), although the US market also proved surprisingly buoyant. With the exception of Russia, ElringKlinger is represented by subsidiaries in all of the BRIC markets, allowing the company to profit from the upturn in the local automobile markets over the course of 2010. Global vehicle production rose by 23.1% to 70.9 million units in 2010, which was just above the previous record of 70.8 million units in 2007.

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

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

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

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

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

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

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

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

Asia was by far the most important sales region for the international automotive industry in 2010. China emerged as the single largest market worldwide. The number of newly registered vehicles in China rose to 18.1 million, which corresponded to a 32.4% rise in sales – up from a significant base in 2009. Vehicle manufacturers in China also expanded their production by 32.4%, with 18.3 million new vehicles – 16.5 million of which were cars and light trucks – rolling off the assembly lines. With newly built facilities and the thus resulting twofold increase in production capacity at the subsidiaries located in Changchun and Suzhou, the ElringKlinger Group has been quick off the mark in its efforts to tap into the substantial market growth seen in this region.

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

Elsewhere in Asia, the mature Japanese vehicle market also developed well, with automobile sales rising by 7.4% year on year to 4.2 million vehicles in 2010. Over the same period, car production grew by around one-fifth to 8.3 million units. The Japanese market is served mainly by local production from the Group's joint venture company ElringKlinger Marusan Corporation.

Commercial vehicle market on track for recovery

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

The ElringKlinger Group generates around 12% of its revenue through sales in the truck sector and was thus able to benefit from ongoing recovery with regard to demand for commercial vehicles. However, capacity utilization has yet to reach pre-crisis levels.

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

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

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

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

Significant Events – Acquisitions and Capital Measures

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

Acquisition of Static Flat Gaskets lead center from Freudenberg Group

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

The Static Flat Gaskets lead center of the Freudenberg Group encompasses business operations relating to cylinder-head and exhaust system gaskets. Besides the Freudenberg subsidiary Burgmann Automotive GmbH, Gelting, Germany, ElringKlinger also acquired a part of Freudenberg-Meillor S.A.S., Nantiat and Chamborêt, France, as well as Oigra Meillor s.r.l., Turin, Italy.

* CF. GLOSSARY

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

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

Successful placement of new shares from Authorized Capital

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

* CF. GLOSSARY

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

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

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

Sales and Earnings Performance

Continued upturn in sales

The global vehicle market experienced a continuous recovery in 2010. A surprisingly large increase in car production and numerous product start-ups helped to boost the ElringKlinger Group's sales revenue by 37.4% to EUR 795.7 (579.3) million. It should be noted, however, that in the previous year many vehicle manufacturers had cut back production, in some cases on a huge scale, as a result of the crisis. There was also a continued recovery in the sale of components to manufacturers of heavy trucks, although figures in this area were still well below pre-crisis levels at the end of 2010.

Asia and Americas act as key growth drivers

The ElringKlinger Group recorded double-digit revenue growth in all sales regions around the globe, with Asia and North and South America delivering the biggest increases. In 2010, the share of total Group revenue attributable to foreign sales rose to 69.1% (66.9%).

Although the discontinuation of Germany's scrappage scheme was followed by a collapse in new car registrations, revenue for the domestic market nevertheless ended the year 28.2% higher at EUR 245.6 (191.6) million. This was mainly due to a strong rise in exports by German vehicle manufacturers, especially to Asia and North America.

Sales revenue for the Rest of Europe in 2010 was up 28.2% on the previous year at EUR 238.7 (186.2) million.

Vehicle demand in the United States recovered at a surprisingly fast pace, albeit from an extremely low level in 2009. With a major upswing in the volume of components requested by customers as part of their production scheduling and new start-ups, especially in the area of shielding technology components, the Group was able to generate sales revenue of EUR 142.0 (84.7) million in the NAFTA zone, up 67.7% on the figure for 2009.

The Group also benefited from a continued high level of vehicle sales in South America and the Rest of the World and exceeded its 2009 total for this region by 38.8%. The principal factors here were sustained high rates of growth at Elring Klinger do Brasil Ltda., the Group's Brazilian subsidiary. Overall, sales revenue for South America and the Rest of the World during the period under review stood at EUR 51.2 (36.9) million.

GROUP SALES BY REGION IN 2010 (prior year) in %

SOUTH AMERICA AND REST OF WORLD	**6.4**	(6.4)
ASIA AND AUSTRALIA	**14.8**	(13.8)
NAFTA	**17.8**	(14.6)
REST OF EUROPE	**30.0**	(32.1)
GERMANY	**30.9**	(33.1)

* CF. PAGE 59 ET SEQQ.

Looking at the fast-expanding Asian markets, ElringKlinger was able to boost its sales revenue by 47.8% to EUR 118.1 (79.9) million. Growth in this region was driven primarily by the two Chinese subsidiaries, ElringKlinger China, Ltd. and Changchun ElringKlinger Ltd. In 2010, additional manufacturing capacity was installed by the Group at both production sites in Suzhou and Changchun, and the available **production area in Suzhou was nearly doubled*** (Group Companies, page 59 et seqq.) following the completion of a new manufacturing facility. ElringKlinger's entire range of products – from flat metal gaskets and shielding components to plastic housing modules – is now being made in China. Elsewhere, a recovery in the Japanese vehicle market and above all in the heavy truck sector helped to push up demand at ElringKlinger Marusan Corporation (Japan). As a whole, the Asia region achieved another increase in its share of total Group sales to 14.8% (13.8%).

Growth driven by recovery in Original Equipment

With the exception of Industrial Parks, each of the Group's business segments contributed to the increase in sales achieved in 2010. One of the best performers in this respect was the Original Equipment segment, which maintained the steady recovery of the previous year. Within this segment, sales were driven by strong demand from the automotive industry. Sales of commercial vehicle components showed some improvement, although capacity utilization remained well below pre-crisis levels.

Several new product start-ups helped the Original Equipment segment to deliver a percentage increase in revenue for 2010 that exceeded the rise in global vehicle production. This improved performance was partly due to the Group's strong focus on the emerging markets.

Compared to the previous year, when sales remained weak, revenue for the Original Equipment segment was up EUR 188.7 million at EUR 606.9 (418.2) million.

The ElringKlinger Group develops and produces metal-based gaskets and shielding components for lean, downsized engines that work at high temperatures and combustion pressures. In 2010, the

Group benefited from the increasing application of this engine concept among nearly all vehicle manufacturers. The company employs state-of-the-art heat management and sealing technology.

Both the Plastic Housing Modules/Elastomer Technology and Specialty Gaskets divisions achieved above-average growth. The Plastic Housing Modules/Elastomer Technology division was able to take advantage of considerable enthusiasm among its customers for weight reduction solutions that make a significant contribution towards cutting CO_2 emissions. Sales revenue in Germany and at the Group's international subsidiaries in Asia was given a substantial boost by several product start-ups.

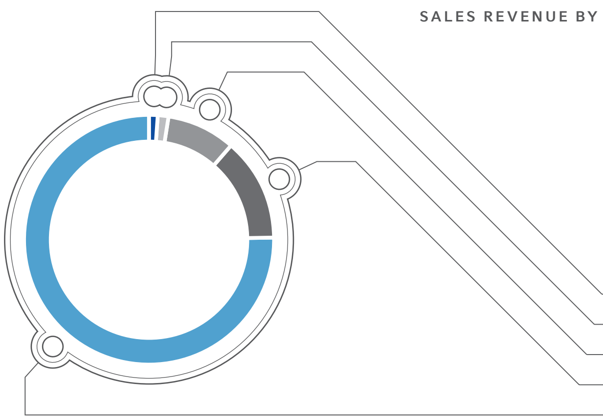
The main factor driving above-average sales growth in the Specialty Gaskets division was strong customer demand for gasket systems in the turbocharger area, control plates for automatic transmissions and high-temperature metal-layer gaskets for the exhaust system.

Demand for cylinder-head gaskets also put on a considerable spurt in response to a widespread recovery in car production numbers and new series start-up projects. ElringKlinger greatly expanded its customer base in the fast-growing Chinese market, which thus played a key role in boosting sales within the Cylinder-head Gaskets division.

In the Shielding Technology division, it was combined thermal-acoustic shielding components that proved most popular among customers. Overall, increased sales were driven by higher volumes at ElringKlinger Abschirmtechnik (Schweiz) AG, several new projects at ElringKlinger USA, Inc. in Buford and the Group's Chinese subsidiary ElringKlinger China, Ltd. in Suzhou.

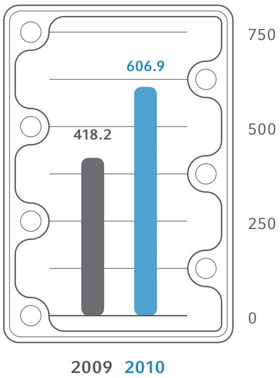
In the crisis year 2009, the Original Equipment segment's pre-tax earnings had struggled to reach EUR 22.6 million as a result of dramatic cutbacks in production by vehicle manufacturers. By contrast, in 2010, given a major improvement in the utilization of production capacity across the Group and continued efforts to maintain a lean cost structure, the segment's pre-tax earnings were up EUR 34.9 million at EUR 57.5 million.

SALES REVENUE BY SEGMENT IN 2010 (prior year) in EUR million

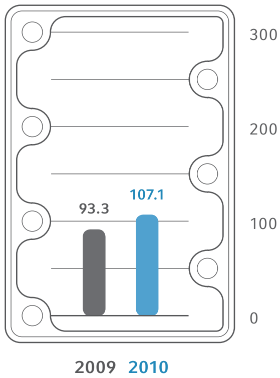


SERVICES	**8.4**	(7.5)
INDUSTRIAL PARKS	**8.1**	(8.1)
ENGINEERED PLASTICS	**71.5**	(56.4)
AFTERMARKET	**107.1**	(93.3)
ORIGINAL EQUIPMENT	**606.9**	(418.2)

SALES IN THE ORIGINAL EQUIPMENT SEGMENT
in EUR million



SALES IN THE SPARE PARTS SEGMENT
in EUR million



Significant growth in Aftermarket business

The Aftermarket segment also achieved an increase in sales revenue, which ended the year 14.8% higher at EUR 107.1 (93.3) million.

Overall, with the government's scrappage scheme considerably reducing the stock of older vehicles dating back more than nine years, there was little movement in the domestic market in 2010. As a result, demand for repair work and spare parts was less pronounced, although there was a slight improvement in sales revenue in the domestic market.

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

In addition, ElringKlinger increased its market share through the targeted expansion of its product range. In September 2010, some of these were presented under the brand name 'Elring – Das Original' at 'Automechanika' in Frankfurt/Germany, the world's biggest aftermarket trade fair. The list of products on display included a new and comprehensive portfolio of turbocharger installation and gasket sets that will make a substantial contribution to future sales revenue.

The Aftermarket segment increased its earnings before taxes by 16.8%, taking pre-tax earnings for 2010 to EUR 21.5 (18.4) million.

Recovery underway in Engineered Plastics segment

As the year progressed, ElringKlinger's broadly based Engineered Plastics segment showed increasing signs of recovery from the impact of the economic and financial crisis. Demand from customers in the automotive industry improved considerably in the first quarter and was followed by an upswing in orders from sectors such as machine construction and industrial engineering. The largest increase in sales was generated by products designed for medical technology applications. There was a particularly noticeable rise in demand for components and product applications made of the high-performance material **Moldflon®***, which can be processed using thermoplastic methods. This led to the purchase of a new production system. In total, revenue from the Engineered Plastics segment in 2010 rose by EUR 15.1 million to EUR 71.5 (56.4) million.

* CF. GLOSSARY

Increasingly, this improvement in segment revenue is being driven by the Group's Chinese subsidiary, ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd. At ElringKlinger China Ltd. in Suzhou, initial preparations were made for the construction of the company's own PTFE facility, the aim being to meet growing demand from Chinese customers out of local production. The new production line is due to begin operating in the first half of 2011.

Earnings in the Engineered Plastics segment also showed an improvement in 2010, although again it was not yet possible to return to pre-crisis levels. The EBIT margin rose to 16.1% (9.6%). Some production areas are not yet operating at full capacity. The segment's earnings also reflected development and start-up costs for a large number of new Moldflon® applications and up-front costs for the further expansion of its business in China.

Increasing sales and the consequent overall improvement in capacity utilization at the factory in Bietigheim-Bissingen, which was only extended in late 2009, helped considerably to boost pre-tax earnings in the Engineered Plastics segment to EUR 11.1 (5.0) million.

Rental income from Industrial Parks unchanged

At EUR 8.1 (8.1) million, rental income from the Group's three industrial parks in Ludwigsburg and Idstein (Germany) and Kecskemét-Kádafalva (Hungary) remained at the level of the previous year. At present, a major German vehicle manufacturer is constructing its first large production factory in Eastern Europe very close to the Technik-Park Heliport Kft. technology park in Hungary. The resulting heavy demand for leasehold premises and land presents ElringKlinger's Industrial Parks segment with attractive opportunities to increase its sales revenue and the value of its assets. Pre-tax earnings for 2010 were unchanged at EUR 2.8 (2.8) million.

Renewed interest from customers in Services segment

After a lackluster period in the first half of 2010, the Services segment was able to report a marked improvement in demand for development and testing services over the rest of the year. It was noticeable that many automobile manufacturers were again awarding contracts for engineering services to external providers in order to ease the pressure on their own development units. There was a particularly favorable response from customers to the range of specialized products made by Elring Klinger Motortechnik GmbH in the field of vehicle emissions. The emphasis here is on **SCR*** technology (Selective Catalytic Reduction), which reduces levels of **nitrogen oxide (NOx)***.

* CF. GLOSSARY

In total, the Services segment increased its sales revenue by 12.0% over the previous year to EUR 8.4 (7.5) million. The segment's pre-tax earnings also rose to EUR 1.0 (0.6) million, primarily on account of an improvement in capacity utilization.

Further improvement in Group financial performance

The significant rise in the volume of components requested by vehicle manufacturers as part of their operations scheduling led to a tangible improvement in plant utilization within the ElringKlinger Group. Cost structures had been further streamlined during the economic crisis. As the effects of these measures remained largely intact in the period under review, the Group saw its earnings increase at a more pronounced rate than revenue.

In this context, all areas of business contributed to the positive direction taken with regard to financial performance. In 2010, all segments within the Group achieved an improvement in earnings before taxes compared to 2009.

Exceptional charges from provisions for partial retirement and ERA

In 2008, a collective pay agreement (known in German as the TV FlexÜ) was reached with employees in the metals and electrical industry on the flexible transition to retirement. The TV FlexÜ lays out the terms under which employees may be entitled to request a partial-retirement agreement. The legal consequences arising from the TV FlexÜ are dependent on a permanent collective financing contribution on the part of employees. During the collective pay negotiations held in February 2010, it was agreed that for the period from May 1, 2010, to March 31, 2012, the employee contribution stipulated in the TV FlexÜ would consist of the terms negotiated in relation to the matter of job security. As a result, it also became necessary to create provisions to cover partial-retirement benefit claims potentially made by those with a corresponding entitlement in the period up to March 2012. This produced an overall one-off increase of EUR 1.9 million in staff costs within the respective functional areas.

Totaling EUR 2.4 million, the profit-sharing bonus of EUR 1,000 per employee, agreed for 2008 and 2009 with regard to employees of ElringKlinger AG and ElringKlinger Kunststofftechnik GmbH, led to a further one-time increase in staff costs for 2010.

Furthermore, one-time provisions of EUR 1.7 million were created in response to a ruling of the German Federal Labor Court in December 2010 on the interpretation of the Framework Collective Pay Agreement (Auslegung der Bestimmungen des Entgeltrahmentarifabkommens – ERA), which had a corresponding impact on earnings in the fourth quarter of 2010. The purpose of this provision is to hedge against potential settlement payments for the company's obligations under the structural fund established by the Framework Collective Pay Agreement.

Gross margin up 3.7 percentage points

While sales expanded by 37.4%, the rise in cost of sales was restricted to 30.4%. This was attributable not only to the positive effects of higher capacity utilization in production but also to further measures aimed at improving efficiency levels. The level of automation, for instance, was further expanded at the majority of the Group's production sites. The gross margin improved to 30.1% (26.4%) in 2010. Within this context, it should be noted that expenses in respect of provisions for warranties and contingent losses were recognized in cost of sales for the first time as from the fourth quarter. In 2009, by contrast, a figure of EUR 5.0 million in expenses relating to provisions for warranties and contingent losses had been accounted for as other operating expenses.

Material prices remained within a manageable range compared to the prices seen in 2007. However, relative to the low levels recorded in 2009, prices have already begun to rise sharply. Against the backdrop of an expanding world economy, the prices of most of the **raw materials*** (Procurement, page 64 et seqq.) required by ElringKlinger increased continuously over the course of 2010, and in some cases at a significant rate.

* CF. PAGE 64 ET SEQQ.

Partial price hedging for alloy surcharges (nickel) associated with high-grade steel resulted in additional material expenses of EUR 0.6 (9.6) million in total in 2010 due to requisite settlement payments. In parallel, however, the overall trend of the fair value of commodity-related derivatives had a favorable impact on earnings of EUR 0.2 (3.6) million due to the positive net effect of the reversal/use of current provisions for commodity-related hedges (other operating income of EUR 0.8 (13.2) million) on the one hand and the settlement payments on the other. All hedging contracts ended during the second quarter of 2010.

During the economic crisis in 2009, ElringKlinger had availed itself of the option to postpone the wage increase stipulated under the collective agreement for the German sites in question by nine months to December 2009. The discontinuation of short-time work at the German-based facilities also prompted a corresponding increase in staff costs within the various functional areas from the beginning of 2010 onward. In the second half of 2010, the ElringKlinger Group gradually began to adjust its capacities to the dynamic rise in demand and recruited additional staff.

ElringKlinger introduced additional streamlining measures, particularly with regard to automated manufacturing, for the purpose of addressing the issue of – at times significant – wage increases at sites in some of the emerging countries. Programs aimed at raising efficiency levels throughout the Group served to counteract the rise in wages. In aggregate, the ElringKlinger Group was thus able to offer more jobs, while restricting the percentage increase in its headcount to a figure that was lower than revenue growth.

New applications and E-Mobility prompt rise in R&D expense

The ElringKlinger Group spent EUR 43.7 (35.7) million on research and development in 2010, EUR 8.0 million more than in the previous financial year.

With respect to the Group's portfolio of existing technologies, the focus was on developing and introducing new applications, particularly in the areas of Plastic Housing Modules/Elastomer Technology and Shielding Technology, but also within the Specialty Gaskets division, which developed new products and processes centered around turbocharger sealing.

* CF. GLOSSARY

* CF. PAGE 74 ET SEQQ.

Additionally, ElringKlinger significantly expanded its R&D activities in the newly established E-Mobility division, with an emphasis on battery technology. The initial series production contracts for **cell connectors*** and cell contact systems used in lithium-ion batteries, which are essential components in hybrid and pure electric vehicles, are to be seen as important flagship projects for ElringKlinger, generating strong interest among other customers within this **market*** (Research and Development, page 74 et seqq.).

In 2010, ElringKlinger received EUR 3.3 (3.6) million in government grants for ongoing development projects in the field of battery and fuel cell engineering, for which there was corresponding development expense.

Of the research and development expense incurred by the Group in 2010, a total of EUR 6.1 (4.6) million was capitalized. Systematic depreciation/amortization of capitalized R&D work stood at EUR 4.0 (3.1) million in the period under review.

Both selling expenses as well as general and administrative expenses rose at a slower rate relative to revenue growth, up by just 16.8% and 31.8% respectively. This includes the above-mentioned exceptional items associated with the staff profit-sharing program and the increase in partial-retirement provisions, which led to a corresponding rise in selling and general/administrative expenses.

Year-on-year reduction in other operating income

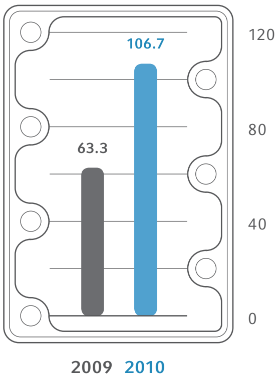
Other operating income declined year on year by EUR 16.6 million to EUR 11.6 (28.2) million. This significant contraction was due to the fact that the figure posted in 2009 had been buoyed by the positive effects of commodity price hedging equivalent to EUR 13.2 million – in connection with changes to the fair value of the commodity-related derivative instrument.

Other operating expenses fell by EUR 6.3 million to EUR 5.6 (11.9) million, i.e. their year-on-year reduction was much less pronounced than the decline in other operating income. The reduction in other operating expenses was primarily attributable to the above-mentioned changes in accounting policies with regard to provisions for warranties and contingent losses.

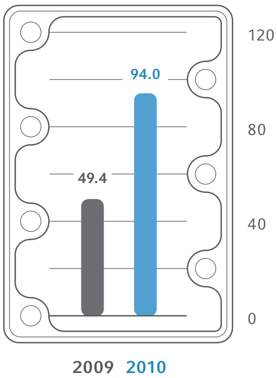
Non-recurring expenses in the fourth quarter

In the fourth quarter of 2010, earnings were impacted by one-off charges in connection with the migration of activities relating to shielding technology from the site in Dettingen/Erms to ElringKlinger Abschirmtechnik (Schweiz) AG as well as relocation costs attributable to Changchun ElringKlinger Ltd., China, where a new facility with double the previous floorspace is scheduled to open in May 2011. In total, these cost items resulted in additional expenses of EUR 1.8 million. The discontinuation of aftermarket sales activities at the Spanish subsidiary ElringKlinger S.A.U., Reus, and the takeover of these tasks by ElringKlinger AG resulted in non-recurring termination costs of EUR 0.5 million.

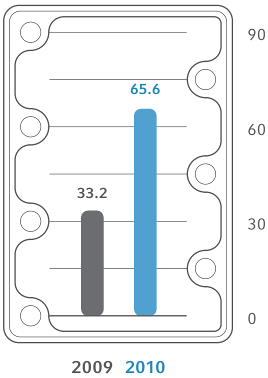
EBIT
in EUR million



EARNINGS BEFORE TAXES
in EUR million



PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF ELRINGKLINGER AG
in EUR million



As outlined above, a one-time figure of EUR 1.7 million was allocated to provisions – also in the fourth quarter – for the purpose of covering possible obligations arising from the ERA structural fund.

Compared to the accounting method adopted in the past, the changes in accounting policies, particularly with respect to inventories, receivables, warranties and contingent losses, resulted in additional non-recurring expense of EUR 0.5 million.

More extensive flexitime accounts necessitated an increase in provisions by EUR 1.1 million in the fourth quarter.

Operating result benefits from lean cost structure and high capacity utilization

The increase in expenses was more than offset by the positive effects of higher capacity utilization and measures aimed at raising efficiency levels.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were up EUR 54.4 million on last year's figure, taking the total to EUR 188.9 (134.5) million. The significant investments recorded in previous years and in 2010 within the area of machinery, plant and tooling technology prompted a rise in systematic depreciation/amortization to EUR 82.2 (71.2) million.

The ElringKlinger Group managed to lift its operating result by EUR 52.7 million year-on-year to EUR 116.0 (63.3) million. Compared to the previous year, which had been severely impacted by the crisis, the Group's operating result thus expanded by 83.3% in 2010, i.e. at a more pronounced rate than revenue. On this basis, the operating margin was 14.6% (10.9%). Earnings before interest and taxes (EBIT), which in contrast to the operating result takes account of foreign exchange gains and losses, was adversely affected by net foreign exchange losses of EUR 9.3 (0.0) million in 2010. At EUR 106.7 (63.3) million, EBIT grew by 68.6% in 2010.

Significant rise in finance costs

At EUR -22.1 (-13.9) million, net finance costs were significantly higher in 2010 than in the previous financial year.

Finance costs rose by EUR 13.1 million to EUR 36.8 (23.7) million. The reduction in current financial liabilities from proceeds of the seasoned equity offering in the fourth quarter of 2010 led to savings in respect of interest payments. However, this had no significant impact on the Group's net interest result for the financial year as a whole. Interest expense fell by EUR 0.8 million, while expenses attributable to exchange differences rose sharply by EUR 13.9 million. As a result of the appreciation of the Swiss franc against the euro, ElringKlinger was forced to increase the carrying amount of liabilities attributable to existing loans taken out for the purpose of financing the acquisition of the Swiss SEVEX Group in 2008. ElringKlinger AG had financed the purchase consideration for the SEVEX Group in Swiss francs. Due to the remeasurement performed on December 31, 2010, the Group recorded non-cash expenses from exchange differences of EUR 8.9 million; of this amount, EUR 2.9 million was attributable to the fourth quarter.

Finance income rose by EUR 4.9 million to EUR 14.7 (9.8) million. Alongside an increase of EUR 4.6 million from exchange differences, the Group saw interest income rise by EUR 0.3 million.

As a result, earnings before taxes for the ElringKlinger Group rose by 90.3% in 2010 and stood at EUR 94.0 (49.4) million.

Net income almost doubled year-on-year

Tax expense totaled EUR 25.4 (14.6) million in 2010, which represented a substantial increase compared to last year's figure. This was attributable to the rise in annual profit and the higher tax base that this entailed. The Group income tax rate fell to 27.0% (29.5%). This was due chiefly to the significant increase in earnings contributions from ElringKlinger Group companies with a below-average tax rate based on a Group comparison.

As a result, net income rose by 97.1% to EUR 68.6 (34.8) million.

Due to the additional interests acquired in 2010, the percentage interest in profit attributable to minorities declined slightly. Overall, however, the positive earnings performance of companies with minority interests meant that profit attributable to minority interests rose to EUR 3.0 (1.6) million.

Having deducted minority interests, profit attributable to the shareholders of ElringKlinger AG increased by EUR 32.4 million to EUR 65.6 (33.2) million in 2010.

Following the seasoned equity offering of October 6, 2010, the number of ElringKlinger AG shares outstanding as at December 31, 2010, was 63,359,990 (57,600,000). Basic and diluted **earnings per share***, calculated on the basis of the average number of shares in 2010 as a whole, stood at EUR 1.11 (0.58).

* CF. GLOSSARY

Group outpaces original forecast for 2010

ElringKlinger had originally anticipated organic growth of 7 to 10% in revenues for fiscal 2010, while earnings before interest and taxes were expected to rise by a more pronounced rate of 12 to 15%.

On the back of buoyant growth in the automotive sector, the volumes requested by customers as part of their operational scheduling increased at such a dynamic rate that the Group was in a position to revise its forecast upwards in the interim financial reports issued over the course of the year. Recording revenue growth of 37.4% and an improvement in EBIT by 68.6%, the Group by far exceeded its original targets for 2010. In doing so, the ElringKlinger Group once again illustrated its ability to apply its business model in such a way as to drive revenue and earnings beyond the general level of market growth achieved within the automotive industry.

Dividend to rise

In keeping with its consistent dividend policy, ElringKlinger AG will again allow shareholders to participate in the company's success at an appropriate level with regard to profit generated in the financial year 2010. After allocation of EUR 14.3 (9.6) million to revenue reserves, net retained earnings, i.e. distributable profit, for ElringKlinger AG amounted to EUR 22.2 (11.5) million. With the consent of the Supervisory Board, the Management Board will propose to the Annual General Meeting a dividend of EUR 0.35 (0.20) per share for the financial year 2010, which corresponds to an increase of 75.0% compared to the previous year. Within this context, it should be noted that the 5,759,990 new shares in ElringKlinger AG issued on October 6, 2010, as part of a seasoned equity offering are entitled to dividends as from January 1, 2010.

Financial Position

The Group's solid financial position and **cash flows*** proved to be a tangible advantage when it came to securing new long-term customer contracts. The seasoned equity offering of October 2010 helped to create additional potential with regard to the Group's further growth.

* CF. GLOSSARY

The direction taken by the balance sheet total is a reflection of the Group's significant growth in 2010 and the aforementioned seasoned equity offering. Compared to December 31, 2009, it rose by 27.4% to EUR 981.4 (770.1) million. Owing to the substantial investments in land, new plant facilities and in particular machinery and equipment, the total figure attributable to property, plant and equipment increased by EUR 63.3 million to EUR 449.5 (386.2) million, despite the countereffects of higher write-downs.

Rise in inventories and receivables outpaced by revenue growth

In response to the significant increase in customer demand, the Group adjusted its inventory management to the dynamic rise in production quantities. Inventories expanded by EUR 37.1 million year-on-year to EUR 138.6 (101.5) million as at December 31, 2010. As a result, the share of inventories in total assets reached 14.1% (13.2%). However, the expansion of inventory levels by 36.6% was slightly lower than revenue growth.

The amount of capital tied up in trade receivables also rose at a less pronounced rate than revenue in the period under review. Compared to December 31, 2009, trade receivables increased by EUR 31.4 million, or 29.4%, to EUR 138.2 (106.8) million.

As at December 31, 2010, cash held by the ElringKlinger Group stood at EUR 101.2 (25.6) million. The marked increase in cash was attributable primarily to the proceeds from the issuance of new shares.

Equity ratio at 52.2%

At EUR 11.5 (8.6) million, the dividend distributed in 2010 for the 2009 financial year was EUR 2.9 million higher than in the previous year. In view of the substantial net income generated by the AG, it was possible to allocate a significant amount to revenue reserves, as a result of which this item rose by EUR 54.0 million to EUR 304.1 (250.1) million.

The equity ratio was influenced to a large extent by the seasoned equity offering outlined above. As a result, share capital rose from EUR 57.6 million to EUR 63.4 million. The share premium from the issue of equity was recognized in capital reserves, which consequently increased by EUR 115.5 million to EUR 118.2 (2.7) million.

Exchange differences from currency translation led to a rise in other reserves by EUR 18.7 million. As at December 31, 2010, other reserves thus stood at EUR 11.2 (-7.5) million.

In total, Group equity rose by EUR 196.2 million to EUR 512.3 (316.1) million. Correspondingly, the equity ratio increased to 52.2% (41.0%).

Reduction in net debt

* CF. PAGE 166/167

The amount allocated to pension provisions had to be raised due to an increase in pension benefit rights for entitled staff within the Group as well as changes in accounting policies. In total, **pension provisions*** (Notes page 166/167, section (21)) rose by EUR 4.8 million to EUR 66.6 (61.8) million.

Compared to December 31, 2009, trade payables rose by EUR 10.7 million to EUR 46.4 (35.7) million as a result of the significant increase in production volumes over the course of the year.

As at September 30, 2010, the Group had taken out additional financial loans of EUR 29.7 million for the partial financing of investments and to cover its working capital requirements, as a result of which financial liabilities stood at EUR 250.2 million at that time. Using net cash from operating activities and some of the proceeds from its seasoned equity offering of October 6, 2010, the Group repaid long-term bank borrowings and reduced its current financial liabilities.

As a result of these measures, non-current financial liabilities fell by EUR 41.9 million to EUR 122.4 (164.3) million as at December 31, 2010. Current financial liabilities were scaled back by EUR 25.5 million compared to the figure recorded on September 30, 2010. Compared to December 31, 2009, however, current financial liabilities rose by EUR 20.7 million to EUR 76.9 (56.2) million. In total, financial liabilities decreased by EUR 21.2 million to EUR 199.3 (220.5) million as at December 31, 2010.

The Group's **net debt*** (non-current and current financial liabilities less cash) fell by EUR 96.8 million to EUR 98.1 (194.9) million, despite a higher dividend payment and far-reaching investment activity.

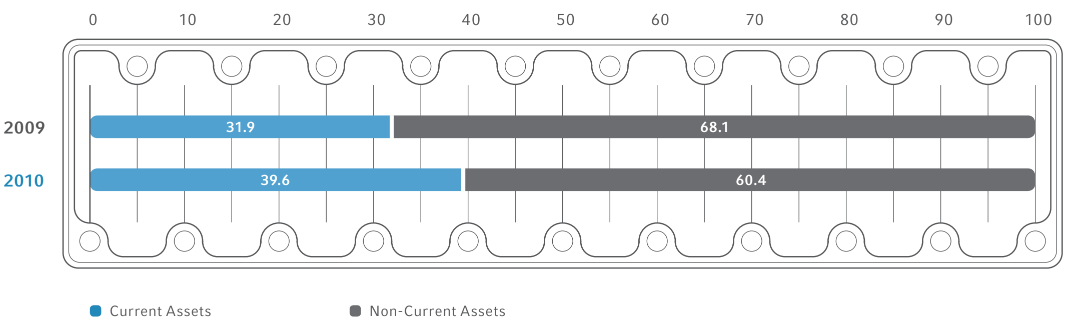
* CF. GLOSSARY

Other current liabilities, which mainly comprise accruals from tool-related revenue as well as deferred income, increased by EUR 14.9 million to EUR 56.2 (41.3) million compared to December 31, 2009.

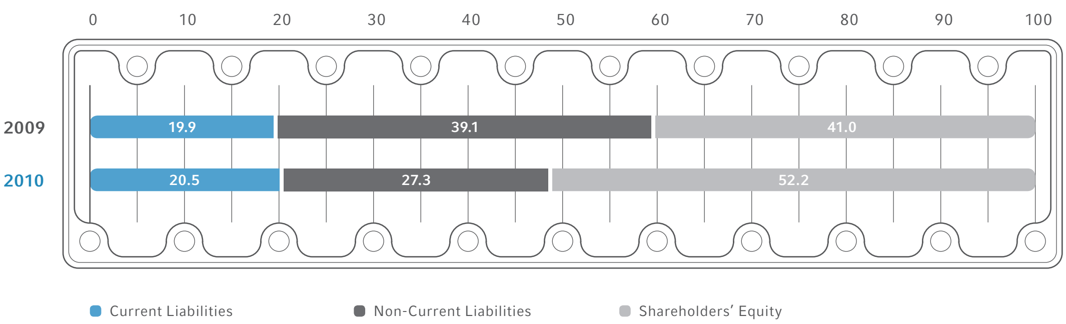
In aggregate, the share of liabilities as a percentage of total Group equity and liabilities fell significantly, standing at just 47.8% (59.0%).

BALANCE SHEET STRUCTURE ELRINGKLINGER GROUP

ASSETS in % of Balance Sheet Total



LIABILITIES AND SHAREHOLDERS' EQUITY in % of Balance Sheet Total



Cash Flows

Operating cash flow dominated by dynamic market recovery

In the financial year 2010, the ElringKlinger Group generated net cash from operating activities of EUR 116.2 (148.8) million, a year-on-year decline of 21.9%.

Compared to the previous financial year, which had been dominated by a significant reduction in working capital (inventories plus trade receivables) as a result of crisis-induced production downsizing on the part of vehicle manufacturers, the dynamic expansion of production volumes in fiscal 2010 prompted a substantial rise in inventories and receivables. An improvement in pre-tax earnings of EUR 44.6 million in conjunction with a rise in depreciation/amortization by EUR 11.0 million was not sufficient to fully offset these effects.

Inventories and trade receivables, as well as other assets not attributable to investing or financing activities, rose by EUR 69.9 million in the period under review. In 2009, by contrast, the ElringKlinger Group had scaled back its inventories and trade receivables, as well as other assets not attributable to investing or financing activities, by EUR 21.4 million.

Cash flow from operating activities benefited from the fact that the expansion of trade payables and other liabilities not attributable to operating activities was up EUR 6.5 million on last year's figure, mainly as a result of the significant increase in procurement volumes within the Group in the period under review.

While provisions rose by EUR 2.1 million in 2010, the Group had seen a total of EUR 13.9 million in provisions utilized or reversed in 2009, mainly due to the change in fair values of commodity-related hedging transactions aimed at counteracting fluctuations in alloy surcharges for nickel.

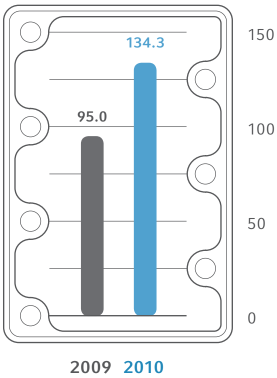
In addition, the significant rise in earnings in 2010 led to a year-on-year increase in the level of income taxes paid, up EUR 20.9 million to EUR 22.8 (1.9) million.

Investment spending remains buoyant

In the financial year 2010, payments relating to property, plant and equipment as well as tools, investment property and other intangible assets totaled EUR 134.3 (95.0) million. Thus, the ElringKlinger Group invested EUR 39.3 million more during the previous financial year. The investment ratio (payments for investments in property, plant and equipment as well as tools, investment property and other intangible assets in relation to sales) stood at 16.9% (16.4%), which is relatively high when compared with the long-term average.

In addition to channeling funds into land purchases and the construction and expansion of facilities, the Group mainly invested in equipment, machinery and tools for new product start-ups and streamlining projects.

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



At the head office of ElringKlinger AG, in Dettingen/Erms, the parent company invested in refurbishment measures for existing buildings and the expansion of test and laboratory premises in the area of research and development. Investments were also made with regard to land required for a new facility at the site in Dettingen/Erms for the production of plastic housing modules; construction work on this plant is scheduled to commence in 2011. Construction work on a new logistics center at the Dettingen/Erms site, with an investment volume of EUR 14.0 million, was largely completed in 2010.

Within the Cylinder-head Gasket division, the main focus was on purchasing new machinery at the parent company's sites in Dettingen/Erms and Runkel for projects emerging from the pipeline as well as for further optimization of efficiency levels in production.

Specialty Gaskets invested primarily in the expansion of capacities, as well as focusing on measures aimed at adding to its expertise in the field of exhaust technology. For this purpose, investments were made in a fully automated production system and state-of-the-art stamping/punching technology for the manufacture of multilayer exhaust gaskets as well as V-rings for turbochargers. ElringKlinger AG also purchased new plant technology for the production of transmission control plates used in modern automatic transmission systems.

The Shielding Technology division based in Langenzenn invested in additional machining centers for the production of thermal and acoustic shielding components.

* CF. GLOSSARY

In preparation for the start of production relating to plastic housing modules, such as ElringKlinger's new ultra-light **MuCell*** plastic cam covers, the Plastic Housing Modules/Elastomer Technology division located in Dettingen/Erms invested in new production lines and automated manufacturing systems.

With respect to the New Business Areas division, ElringKlinger AG directed additional investments at the automation of SOFC fuel-cell stack production as well as new test stand technology. ElringKlinger AG purchased extensive laboratory equipment and testing systems required by the newly established E-Mobility division for the purpose of producing samples, prototypes and small-scale batches of components used in lithium-ion batteries. Additionally, investments were made with regard to plant and machinery for the serial production of **cell contact systems***, which are used in lithium-ion batteries, scheduled to commence in 2011.

* CF. GLOSSARY

* CF. PAGE 59 ET SEQQ.

At the international level, the focus of capital expenditure was on expanding **production capacity*** (Group Companies, page 59 et seqq.) at the Group's Chinese facilities in Changchun and Suzhou. Additionally, manufacturing capacity was expanded significantly at ElringKlinger USA, Inc. in Buford as well as at the Brazilian subsidiary Elring Klinger do Brasil Ltda., Piracicaba, the emphasis being on systems required for the planned start of series production with regard to newly launched products.

In total, the significant level of investment spending resulted in an outflow of EUR 128.1 (93.6) million in fiscal 2010, which exceeded operating cash flow. Consequently, the ElringKlinger Group generated operating **free cash flow*** (cash flow from operating activities less cash flow from investing activities, adjusted for acquisitions) of EUR -11.9 (58.2) million.

* CF. GLOSSARY

Cash inflow from seasoned equity offering

In 2009, the ElringKlinger Group had repaid a net amount of EUR 52.4 million relating to current financial liabilities. By contrast, current financial liabilities were reduced by only EUR 1.7 million in 2010.

While long-term bank borrowings had been extended by a net amount of EUR 14.0 million in 2009, the Group made net principal repayments of EUR 21.8 million in 2010 in respect of long-term bank borrowings.

The main factor influencing cash flow from financing activities in 2010 was the seasoned equity offering discussed above, the net proceeds of which produced a cash inflow of EUR 121.3 million.

In 2010, a total of EUR 1.6 million was paid for the acquisition of interests from minority shareholders.

Distributions made by the Group to shareholders and minority interests rose by EUR 1.8 million year-on-year to EUR 12.2 (10.4) million.

In total, the Group recorded net cash from financing activities of EUR 84.0 million in 2010, compared to EUR -49.3 million in net cash used for financing activities in 2009.

As at December 31, 2010, the ElringKlinger Group had cash amounting to EUR 101.2 (25.6) million.

Group Companies

As at December 31, 2010, the ElringKlinger Group consisted of the parent company ElringKlinger AG, 24 active and fully consolidated subsidiaries and two joint ventures. The joint ventures (ElringKlinger Korea Co., Ltd., Changwon (South Korea), and ElringKlinger Marusan Corporation, Tokyo (Japan)) together with two subsidiaries were included in the consolidated financial statements for the year under review in the proportion of the equity interest held by ElringKlinger AG, i.e. 50%. In total, the number of entities included in the consolidated group remained unchanged year on year.

Global production network

Thanks to its global production network, the Group was able to respond quickly to orders and manufacture all its products in close proximity to customers at its subsidiaries and joint ventures. The Group's subsidiaries are in competition with each other for projects, and the best choice of location is made in each case with due regard for production factors and processes. In this respect, the main criteria are proximity to the customer, overall Group costs as part of internal value chains and the reduction of potential currency and other risks.

In 2010, the companies that make up the ElringKlinger Group operated in sixteen countries. As at December 31, 2010, there were 22 production companies, two sales companies and three companies in the aftermarket business. In terms of their regional distribution, eight of the subsidiaries are headquartered in Europe, six are based in the NAFTA zone and six in Asia. ElringKlinger AG has one subsidiary each in South Africa and South America to serve the local markets. 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.

Growth driven by international Group companies

During the year under review, the global recovery in vehicle markets helped nearly all the companies in the ElringKlinger Group to boost their sales.

Taken as a whole, the subsidiaries and joint ventures managed to increase sales revenue in 2010 by 52.1%. This figure was considerably higher than the corresponding figure for ElringKlinger AG, which came in at 21.3%. The main factor here was ElringKlinger's dynamic performance in Asia, the high-growth markets of the future.

In 2010, the Group's international companies again delivered greater sales growth than its domestic subsidiaries. While EUR 70.6 (57.7) million of the sales revenue generated by subsidiaries and joint ventures was attributable to Germany, sales outside Germany rose by 59.2% to EUR 382.6 (240.4) million.

Overall, the subsidiaries developed well in terms of earnings performance. The substantial rise on the figure for the previous year was largely due to improving capacity utilization and Group-wide cost-reduction and streamlining measures. Earnings before taxes for subsidiaries and joint ventures were 137.7% higher at EUR 63.7 (26.8) million.

Expansion in Asia and North America

In 2010, 55.4% of capital expenditure outflows were directed at the Group's subsidiaries and joint ventures, predominantly with a view to expanding production capacity and for new tools in preparation for impending product start-ups. The main focus of investment was on Asia, North and South America and ElringKlinger Kunststofftechnik GmbH in Bietigheim-Bissingen. Total capital expenditure on subsidiaries and joint ventures in fiscal 2010 stood at EUR 74.4 (49.5) million.

The construction of new factories in Changchun and Suzhou in China has now been completed, almost doubling manufacturing capacity in this region. In total, the Group invested EUR 14.1 million in its Chinese sites over the course of 2010. The new production building at ElringKlinger China Ltd. in Suzhou (near Shanghai) actually commenced full operation in 2010, while at the end of the year Changchun ElringKlinger Ltd. in Changchun (North China) was in the final stages of moving to a new and much bigger production facility with an attached administrative section. The factory is due to open in the spring of 2011, marking the successful conclusion of the Group's largest expansion of manufacturing capacity to date. In the meantime, ElringKlinger has received several new orders in China, primarily from local Chinese customers, thus ensuring further uninterrupted growth in the region.

At ElringKlinger USA, Inc. in Buford, around EUR 6.4 million was invested in new production equipment and tool technology. The main focus here was on new projects in the area of thermal shielding involving US car and engine makers. In order to reduce costs, produce in closer proximity to customers and avoid foreign exchange losses, cylinder-head gasket assembly was relocated from the Group's Canadian subsidiary in Leamington to Buford. Stamping capacity was also increased, as a result of which, metal layers will be stamped directly on site rather than in Dettingen from 2011 onwards.

In the South American market, it became necessary to expand local production capacity in response to high demand for vehicles and new orders. To this end, technical equipment and tools worth EUR 7.4 million were purchased for the Group's Brazilian subsidiary in Piracicaba. This allowed Elring Klinger do Brasil Ltda., Piracicaba, to increase its production of metal-layer gaskets and heat shields and set up a new production line for plastic housing modules.

ElringKlinger acquires further minority shares

In recent years, ElringKlinger has consistently reduced the level of minority holdings in Group companies, and this strategy was given renewed impetus in 2010.

In September 2010, ElringKlinger AG acquired a further 20% of the shares in ElringKlinger Logistic Service GmbH (Germany), taking its holding to 96.0%.

In North America, ElringKlinger AG took over a further 40% of the equity in Elring of North America, Inc., Branchburg, USA, making it the sole remaining shareholder. Elring of North America, Inc. is responsible for marketing spare parts inside the NAFTA zone. This acquisition will allow the Group to restructure its NAFTA aftermarket operations and exploit the considerable sales potential of the independent US aftermarket business much more fully.

With regard to developments in the fast-growing Turkish vehicle market, ElringKlinger TR Otomotiv Şanayi ve Ticaret A.Ş., Bursa (Turkey), whose main function is to produce thermal shielding components, acquired the remaining 30% of Kitek Kalip ve Ileri Teknoloji Makine Şanayi ve Ticaret Limited Sirketi (Kitek Ltd.), Bursa (Turkey), making it the sole shareholder. All the activities of the latter have now been combined into TR Otomotiv Sanayi ve Ticaret A.Ş., Bursa (Turkey), and Kitek Ltd. is now in liquidation.

The above acquisitions of minority shareholdings had no significant impact on consolidated earnings.

Employees

Increase in headcount as a result of international growth and rising capacity utilization within the Group

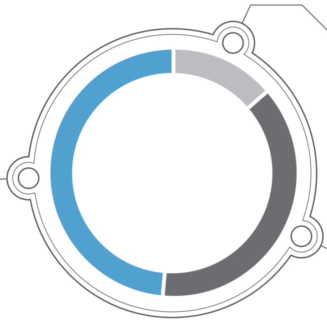
The economic recovery and resulting dynamic rise in demand for vehicles worldwide, alongside numerous new product start-ups in 2010, led to a marked increase in production volumes and, in turn, capacity utilization at virtually all ElringKlinger Group production locations.

As a result, the Group was able to take on new staff both in Germany and at most of its international sites. The number of people employed by the Group increased to 4,676 (4,171) as at December 31, 2010. This means that the ElringKlinger Group's workforce expanded by 12.1% compared with the previous year, which was still severely affected by the crisis.

However, the workforce increased at a lower rate than sales due to increased process efficiency and the further automation of production. As a result, the overall cost structure improved.

The average annual number of employees in the ElringKlinger Group was 4,453 (4,029).

ELRINGKLINGER GROUP EMPLOYEES WORLDWIDE 31.12.2010 (prior year)



DOMESTIC SUBSIDARIES	**644**	(589)
AG	**1,757**	(1,636)
FOREIGN SUBSIDARIES	**2,275**	(1,946)

Expansion of capacity mainly in Asia and South America

Owing to strong growth in the international passenger car markets – particularly in China and Brazil, but also in North America – the number of people employed at foreign subsidiaries and joint venture companies increased at a faster rate than in Germany. In total, the number of people employed at the Group's international sites increased by 16.9% to 2,275 (1,946) as at December 31, 2010.

In regional terms, the greatest increase in employee levels was at the Group's Chinese sites, where sales almost doubled in 2010. Following the expansion of production capacities in China, the workforce had to be expanded by 23.5% to 357 (289). There was also a moderate growth-driven increase in staffing levels in India and Korea.

As a result of growing demand in South American vehicle markets, the Group's Brazilian subsidiary increased its workforce by 54 employees to 360 (306).

The far-reaching recovery in passenger car production in North America and the start-up of new projects at ElringKlinger USA, Inc. also necessitated an increase in the Group's workforce in North America.

At the end of 2010, 48.7% (46.7%) of the ElringKlinger Group's employees were based at its international sites. This increase reflects the growing contribution of the international subsidiaries to Group sales.

Domestic headcount benefits from export-driven sector recovery

In 2010, in spite of the low level of new car registrations in Germany, the ElringKlinger Group's domestic sites also benefited from the dynamic recovery of the international vehicle markets in the wake of the crisis. New product start-ups – together with the marked increase in passenger car production in Germany as a result of the export boom – led to a significant increase in demand for ElringKlinger products.

The Group benefited from the fact that, even during the crisis in 2008/2009, it was able to retain virtually its entire core workforce in Germany. This facilitated this year's rapid growth and enabled the Group's production to match the quantities requested by customers as part of their production scheduling, which increased dynamically at short notice.

With an emphasis on the second half of the year, the ElringKlinger Group further expanded its personnel capacities in Germany, increasing its domestic workforce by 176 employees. Particularly in production-related areas, but also in research and development, ElringKlinger took on additional employees to enable it to cope with the high increase in sales and the many new development projects. In order to be prepared for future market downturns, most of these new employment contracts were for a limited period.

On December 31, 2010, there were 121 more people employed at ElringKlinger AG's sites in Dettingen, Runkel and Langenzenn than in the previous year. Similarly, ElringKlinger Kunststofftechnik GmbH saw its headcount rise by 48 compared to 2009 owing to recovering demand and preparations for several new product start-ups. The total number of employees in Germany increased by 7.9% to 2,401 (2,225).

At the end of 2010, over half of the ElringKlinger Group's **employees*** (Sustainability, page 71 et seqq.) were based in Germany. These accounted for 51.3% (53.3%) of the ElringKlinger Group's total workforce. However, the disproportionate increase in employees at foreign joint venture companies is a clear indication of their growing importance.

* CF. PAGE 71 ET SEQQ.

Procurement

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

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

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

Purchasing volume rises significantly

In 2010, the ElringKlinger Group's purchasing volume rose significantly year on year, in line with the increase in sales. It expanded by 52.6% to EUR 495.7 (324.4) million and encompassed externally sourced raw materials, consumables and supplies as well as merchandise for the company's Aftermarket business, in addition to investments in land, property, plant and equipment and real estate.

Partial raw material shortages

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

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

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

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

Raw material prices rise again

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

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

* CF. GLOSSARY

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

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

Price hike limited by long-running energy contracts

The significant growth in production output led to a 34.2% rise in energy consumption within the Group. Although there was a noticeable increase in the market prices for electricity and gas, the main energy sources, the Group was able to limit the increase in energy costs to 34.7%. The rise in energy costs was only marginally higher than volume growth.

Alongside **process optimization and the deployment of fuel-efficient machines*** (Sustainability, page 66 et seqq.) in production, it was mainly the long-term supply contracts that led to the increase in costs being less severe in relation to the general rise in energy prices.

* CF. PAGE 66 ET SEQQ.

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

Supplier structure expanded in Asia

With capacities being expanded further at ElringKlinger's Asian sites in 2010, the Group made efforts to select and assess new local suppliers, particularly in China and Korea. Within this context, potential suppliers were also audited in accordance with international ISO standards as well as on the basis of the exacting quality and environmental guidelines defined by the Group itself.

By awarding a larger number of procurement contracts to regional suppliers, the ElringKlinger Group managed to scale back its costs and streamline the logistics activities within its international production network. These measures were influenced by the fact that, in some areas, regional buying quantities are set by the state. Additionally, some customers specify that supplies must come from local production. Furthermore, the ElringKlinger Group is able to mitigate currency risk by specifically purchasing the required raw materials in the same currency zone in which the sales revenue will be recognized.

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

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

Sustainability

The ElringKlinger Group places great emphasis on sustainability in its approach to business. Indeed, it is one of the key factors that contribute to the company's long-term success. To think and act sustainably means to assume social responsibility in dealings with staff, customers, suppliers, society and the environment. As a global supplier to the automotive industry, ElringKlinger assumes direct responsibility for an approach to mobility that is founded on environmental awareness. For the protection of the environment and in recognition of the finite supply of fossil fuels, reducing fuel consumption and lowering emission levels have emerged as two key objectives within the industry, both in terms of product development and production processes.

Environmentally friendly production processes

The production processes at all the Group's locations are subject to regular and ongoing analysis, assessment and development with regard to their environmental compatibility and efficient use of resources. This approach is firmly established in the company's mission statement.

Each month, the Environmental Management unit based at the Group's head office calculates a series of key indicators that track the use of resources, energy as well as the production of emissions and waste. To this end, the data provided by the company's production sites throughout the world is examined and evaluated centrally; appropriate measures are initiated as required. In addition to contributing to the overarching aim of minimizing the company's environmental impact, these measures often help to reduce costs.

In 2010, the Group managed to keep the increase in its energy consumption and CO_2 emissions below that of sales and therefore achieved a relative cut. As such, it met its key environmental management targets, especially that of reducing the level of CO_2 emissions.

Energy needs grow at slower pace than sales

In absolute terms, the ElringKlinger Group's energy consumption with regard to electricity, gas and other energy resources was 168,100 (125,300) MWh, up 34.2% on the previous year's figure, but below the percentage increase in Group sales. For every EUR 1 million of sales revenue, the Group consumed 211.3 (216.1) MWh of energy.

Through investment in modern, automated manufacturing equipment that is more energy-efficient and consequently uses less energy resources, ElringKlinger was able to limit the increase in its energy requirements. At the company's Dettingen/Erms plant, the main heating system was converted over from oil to gas. This produced an improvement in energy efficiency, as gas has a higher level of thermal efficiency than oil. In the meanwhile, a modern district heating system was installed at the Changchun site in China, during construction of the new factory.

In 2010, the Group's total electricity consumption rose by 35.4% to 98,700 (72,900) MWh, slightly less than the increase in net sales. For every EUR 1 million of sales revenue, the Group consumed 124.0 (125.7) MWh of electricity.

The company was also able to keep the increase in its energy costs to a moderate level (up 34.7% on the previous year) despite a general rise in the price of electricity and other forms of energy.

With regard to water, in 2010, the Group's consumption was up 48.2% on the previous year at 129,200 (87,200) m^3. This year-on-year increase was predominantly due to the water requirements for new and converted buildings and the construction of a water deposit for fire-extinguishing purposes at the new logistics center in Dettingen/Erms.

ElringKlinger achieves CO_2 reduction target

Total Group emissions of CO_2 equivalents in fiscal 2010 stood at 57,500 (50,400) metric tons, up 14.1% on the level of the previous year. This figure comprises the emissions generated through the supply and consumption of electricity, gas and heating oil. However, in relative terms, compared to the increase in sales and the substantial rise in production output, the Group's total CO_2 emissions were actually 17.0% lower. As such, ElringKlinger easily exceeded its target of cutting its CO_2 emissions by 3% each year. For every EUR 1 million of sales revenue in 2010, CO_2 emissions were 72.3 (86.9) metric tons.

A number of measures were taken to help achieve this positive development. Efforts were made to ensure that the electricity sourced by ElringKlinger was generated by a low-emissions mixture to the extent possible. In addition, the installation of a new heating system at Elring Klinger Motortechnik GmbH in Idstein reduced CO_2 emissions at the site by 65%.

Use of solvents

The volume of solvents required in gasket production rose by 41.7% year on year from around 600 to 850 metric tons on account of increased output. This was due to measures that became necessary in 2010 to build up inventories of finished goods. From 2011 onwards, ElringKlinger anticipates a reduction in the volume of solvents used as it increasingly switches over to partial coating methods instead of full coating.

Production of waste

The total volume of waste produced by the Group's activities was up 48.7% on the previous year at 34,500 (23,200) metric tons. This rise was mainly attributable to a clear-out of existing stocks that began in 2009 and continued into 2010 and to the increasing proportion of plastic housing modules in the product mix.

The overall quantity of metal waste created during stamping operations in production was 51.6% higher in 2010 at 28,500 (18,800) metric tons. This figure was also affected by measures to build up product inventories in 2010 and by a clear-out of older stocks. Any waste produced in this way during the manufacturing process 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.

Reduction in materials volume

Another environmental target for 2010 involved reducing the volume of input materials used in production. In this respect, the innovative MuCell plastic injection molding technique, which is used to make ultra-light but highly durable plastic housing modules and cuts the use of polyamide, is leading the way.

In another measure to make more efficient use of resources, the number of paper catalogs produced within the Aftermarket segment was cut back substantially starting in 2010. The catalogs are now printed and supplied only as required.

ElringKlinger vehicle fleet receives Green Card for CO_2 emissions

In 2010, ElringKlinger AG was the only company in the German automotive and automotive supplies industry to be awarded a Green Card by the environmental organization Deutsche Umwelthilfe in recognition of its consistent transparency and the publication of internal climate protection targets with regard to its company car policy. The average CO_2 emissions generated by ElringKlinger's fleet of company vehicles in 2010 were 159 g/km. In order to gradually reduce consumption by the vehicle fleet over the coming years, cars with a high CO_2 emission level will be replaced by vehicles with lower CO_2 emissions.

Investing in eco-friendly buildings and equipment

Improved energy efficiency is one of the main criteria for any decision to invest in new machines or equipment. By way of example, in 2010 the company purchased new servo presses. These are used in the production of multilayer cylinder-head gaskets. Compared to older equipment, the new presses use a more energy-efficient method of pendulum operation. The energy generated during the braking phase of the pendulum movement is fed back into a storage device and can then be reused.

Environmental considerations are taken into account in all ElringKlinger's construction projects. This includes measures to use energy as efficiently as possible and to draw on renewable sources. New buildings feature insulating glass and waste heat recycling systems, as well as being designed to make maximum use of daylight. Leading the way in terms of eco-friendly construction is ElringKlinger's new, state-of-the-art and fully automated logistics center at the Group's headquarters in Dettingen/Erms, which was largely completed in 2010. With a floor space in excess of 10,000 m², the new building is being erected in close proximity to the production line and will replace existing off-site warehouses. This will reduce the distances between production, storage and dispatch. A modern, networked inventory management system controls centralized storage operations for all components from raw materials to finished products, thereby ensuring best-in-class stock management. Energy efficiency was also built into the movement of components onto and from high bay storage. The energy generated in the downwards movement during the stock withdrawal process is used to produce electricity.

Quality, environment 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. In 2010, follow-up audits were conducted by the German Association for the Certification of Management Systems (DQS GmbH).

Furthermore, all production facilities have an integrated and certified environmental management system in accordance with DIN EN ISO 14001. ElringKlinger's new subsidiary in Turkey and facilities in China were due for certification in fiscal 2010. All production sites were awarded an environmental certificate by DQS GmbH.

In 2010, the Group took further steps to obtain global OHSAS (Occupational Health and Safety Assessment Series) 18001 certification in the area of occupational safety management.

Internal audits are conducted throughout the Group on a continual basis in the areas of quality, environmental management and occupational safety. Specific targets are defined, and the implementation of those targets is reviewed centrally on a monthly basis. Designed to complement the integrated management system, these audits serve to identify whether processes within the company are being managed in a manner that assures the right quality, is environmentally compatible, cost-efficient, responsible and safe. They also highlight potential areas for improvement.

With regard to occupational safety, targeted training and familiarization courses are held on a regular basis in order to limit the potential for injury. Although the number of work-related accidents with subsequent periods of staff incapacitation in excess of three days rose to 196 (147) in 2010, this was primarily due to a much greater number of hours actually worked as a result of increased capacity. To a lesser extent, the increase reflected the inclusion of the Group's new plant in Turkey.

The corporate guideline on 'Quality and Environmental Policy', together with the 'Corporate Code' and the '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.

Achieving customer satisfaction through zero-defect quality

The Group's web-based process architecture facilitates the communication of and access to uniform global standards based on prescribed processes, consistent product quality and the simplified and standardized documentation of those processes. Since 2010, all ElringKlinger's production sites have been linked to the software system, which has been translated into seven languages.

Work also continued in 2010 on the expansion of ElringKlinger's computer-aided quality control system (CAQ), which helps to ensure compliance with international quality standards. In addition, the company began the process of migration to SAP QM. Further improvements were made thanks to both these systems, and the Group was once again able to maintain customer satisfaction at a very high level.

One of the prerequisites for achieving zero-defect quality is the use of high-grade raw materials and input components. Consequently, ElringKlinger sets high standards with regard to the selection of its suppliers. Suppliers are firmly integrated within the Group-wide quality management system by means of audits and defined information processes and are expected to comply with the relevant environmental protection regulations and laws in all their processes. In 2010, all business partners were ISO 9001 certified. As regards the three production facilities of ElringKlinger AG, 42.0% of their suppliers were certified in accordance with TS 16949, while 51.4% operated an environmental management system certified according to ISO 14001.

* WEBLINK

The Group's purchasing terms and conditions are published on ElringKlinger's website **(www.elringklinger.com)*** along with important information for suppliers and interested parties.

Innovative products that help to protect the environment

At ElringKlinger, the key challenge of reducing consumption and emissions was incorporated into product development at an early stage. Besides making ongoing refinements to the conventional products used in modern combustion engines, ElringKlinger develops products for hybrid and electric vehicles. One of the tasks facing the New Business Areas division is to push forward the development of new battery and fuel cell technology. The first of these products to emerge in the area of battery technology entered series production in 2010.

At ElringKlinger, TS 16949 certification begins at the product development stage prior to actual production and places great emphasis on the properties of the product throughout its life cycle and its impact on the environment. Resource analysis is conducted during the development and planning phase in order to minimize the volume of material used and ensure a high recycling rate.

Workforce plays key role in Group's success
Well-qualified and committed employees all over the world are a key driving force behind the success of ElringKlinger, and the Group's growth was reflected in the increased size of the workforce in fiscal 2010. The average number of employees during the year under review was 4,453 (4,029).

Contributing ideas and showing initiative
Within the ElringKlinger Group, employees continuously work on developing innovative products and optimizing production processes. Worldwide, 823 (1,077) proposals were received in 2010 under the Group's scheme that invites employees to submit ideas for improvement. Of these, 308 were subsequently implemented.

Skilled employees provide foundation for long-term business success
Besides ensuring that ElringKlinger is able to recruit and foster talented young people to form the next generation of managerial staff, one priority of the Group's personnel strategy is to enhance the skills and qualifications of the existing workforce.

At ElringKlinger, the Personnel Development team makes every effort to ensure that all staff are given professional development opportunities and individual career support. In 2010, meetings were held with 2,259 (2,365) bargained-for employees to identify and subsequently follow up their individual training requirements. In addition to training in specific technical areas, the Group offered general skills courses involving project management and team seminars, software training and foreign languages. During the year under review, ElringKlinger spent around EUR 0.5 million on training and professional development.

With the specific goal of identifying future managers, ElringKlinger has developed its own potential leaders program. Over a period of two years, talented young individuals are taken through a series of courses designed to equip them with personal and professional skills. By 2010, two years after its launch, fifteen potential leaders had completed the program. Half of these immediately took up managerial roles within the Group.

Satisfied employees are well-motivated employees
ElringKlinger seeks to retain its staff over the long term. In 2010, the Group's staff turnover rate was 3.3% (1.0%). The figure rose slightly in the year under review on account of a major increase in employee numbers in countries where staff turnover rates are generally relatively high. This was particularly the case at the Group's factories in China, Brazil and Mexico. After adjusting for staff retirement, the turnover rate at ElringKlinger AG in Germany was 0.8%.

At 8.2 (8.2), the average number of sick days per employee remained at the same level as the previous year, despite an increase in overall working hours as a result of increased capacity.

Last, but not least, staff motivation at ElringKlinger is boosted by attractive salaries. In 2010, employees at ElringKlinger AG and ElringKlinger Kunststofftechnik GmbH received a profit-share bonus of EUR 1,000 each for the financial years 2008 and 2009.

Exercising corporate responsibility through training

In order to have well-qualified and skilled employees, a company has to provide first-class training. For decades, ElringKlinger has offered careers to young people in a wide range of commercial and technical areas as well as courses of study at centers of higher education that offer combined on-the-job/vocational training. In 2010, ElringKlinger provided training for 122 (139) school leavers and graduates around the world, who thus accounted for 2.7% (3.3%) of the entire workforce.

Once again, ElringKlinger supported a large number of students preparing diploma, bachelor's and master's theses and offered internships for both school pupils and students. During the year under review, 84 diploma students and interns were involved in a range of work-related projects. Every year, the company attracts many well-educated staff from this pool of talent.

Diversity and equality

At ElringKlinger, all employees are afforded equal respect. This principle is firmly rooted in the company's guidelines and is a key feature of its corporate culture. Wherever the organization is represented across the world, it strives to achieve equality independent of gender, race, ethnic origin, religion, philosophy, disability, age or sexual identity. Managing diversity involves fostering the potential of heterogeneous groups and avoiding conflict. ElringKlinger views this holistic concept as part of its social responsibility rather than mere compliance with the law.

In 2010, the workforce as a whole was made up of the following age groups: 26.6% were under 30, 55.0% were between 30 and 50, and 18.4% were over 50. As at December 31, 2010, there were 32 women around the world occupying management positions in the top three levels of seniority. At over 40%, the ratio of women in second-level management positions is particularly high at the Group's locations in China. The proportion of female employees was slightly up on the previous year at 31.3% (30.0%). At present, the Supervisory Board consists of only one female as part of the group of employee representatives. ElringKlinger has set itself a clear target of increasing the proportion of women on the Supervisory Board in the near future in response to the German government's appeal for companies to make progress in this area on the basis of a voluntary commitment.

Career, family and the work-life balance

As an additional incentive to motivate the workforce and encourage a sense of loyalty, the ElringKlinger Group makes every effort to help its employees find a healthy balance between their work and their family and private life. Employees can opt for a variety of part-time and, wherever feasible given the requirements of specific positions, flexi-time arrangements. In addition, fathers are given a leave of absence for a period on the birth of a child. In 2010, 4.7% of the Group's entire workforce worked under part-time employment contracts.

Social commitment does not rule out profitability

For ten years, ElringKlinger has worked with the Bruderhaus Diakonie foundation and the associated disabled persons' workshops in Dettingen/Erms (Germany). The workshops independently handle complete processes for ElringKlinger's Aftermarket division and in 2010 increased their output and range of services. As regards the company's new turbocharger installation kits, for example, they fill special syringes with the engine oil required during actual installation. Due to the improved situation in terms of orders and the extended product range, the number of disabled people employed by the charitable workshops for the purpose of working on ElringKlinger projects rose by around one-fifth in 2010.

One of the indirect channels through which ElringKlinger AG 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.

Capital markets show considerable interest in sustainability issues

Sustainable investment concepts are increasingly gaining ground on the capital markets. In addition to institutional investors, a growing number of pension funds, family offices, private investors, insurers, foundations and churches are choosing to manage their portfolios with due regard for social, ecological and ethical issues. This trend is reflected in the growing number of 'eco-friendly' funds.

ElringKlinger is the only automotive supplier listed in the 'DAXglobal® Sarasin Sustainability Germany Index'. Set up in 2007, the index is made up of German and Swiss companies that meet the criteria of the Sarasin Sustainability Matrix®. As a response to increasing concern about corporate responsibility, the index also benefits from the long-term outperformance delivered by sustainable businesses such as ElringKlinger.

Demand grows for non-financial indicators

Alongside interest in the issue of corporate responsibility, there is a growing demand for facts and figures as evidence that this responsibility is being exercised. Accordingly, there is now a greater focus on the sustainability ratings 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.

ElringKlinger is one of only a small number of automotive industry suppliers to have been actively involved in the key sustainability ratings for several years. In 2010, this again included the Carbon Disclosure Project (CDP), which is sponsored by around 540 institutional investors with total assets under management of USD 64 trillion. The project assesses the environmental performance of companies listed on the stock market and rates certain aspects of their products against sustainability criteria. Investors can analyze the information compiled by the CDP via an online database.

Towards the end of 2010, ElringKlinger was given a scheduled rating by the Oekom research agency in the category of Corporate Responsibility, which includes the core areas of 'Society and the Environment'. The company obtained 'Prime' investment status.

During the year under review, the ElringKlinger Group was visited by several institutional investors with a special interest in sustainability issues. This is a measure of the growing importance of energy efficiency, climate protection and social responsibility within the international financial markets.

Sustainability lies at the heart of the Group's ongoing corporate strategy. This commitment to protecting the environment is immediately obvious from the nature of ElringKlinger's product range, which is dominated by components that reduce consumption of fossil fuels and emissions of CO_2. The development of new products in the field of e-mobility takes ElringKlinger one more step towards a portfolio focused on sustainable products. Looking ahead and acting as a whole, the ElringKlinger Group will continue to tread a sustainable path into the future.

Research and Development

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

In 2010, the ElringKlinger Group assumed a promising position in its core business areas for the coming years with numerous new developments and applications in established product groups. At the same time, many product concepts were being developed in its New Business Areas division, some scheduled to be launched in the very near future. Once new products have been introduced, ElringKlinger sees them as standard and immediately begins further optimizing the concepts and exploring other application possibilities. In 2010, as before, this philosophy provided the Group with a foundation from which to further improve its competitive position.

Challenging market conditions

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

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

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

Increase in research and development capacities

In 2010, ElringKlinger expanded its R&D activities, both in established product areas and in its New Business Areas division, chiefly at its site in Dettingen/Erms, in Germany. As at December 31, 2010, the total number of R&D employees in the Group was 316 (281).

In fiscal year 2010, the ElringKlinger Group increased its research and development expenditure by 22.4% to EUR 43.7 (35.7) million. It should be noted that the Group had invested to the same degree in developing new products and technologies in spite of the difficult market environment that prevailed in 2009. In 2010, research and development expenditure accounted for 5.5% (6.2%) of Group sales revenue calculated on the basis of IFRS – slightly less than in the previous year. However, the year-on-year reduction in the R&D ratio can be attributed entirely to the substantial increase in sales revenue inside the Group, i.e. a higher denominator in the R&D expense-to-sales calculation.

Protection of know-how: a competitive factor

The ElringKlinger Group has a special patents department that protects technology, know-how and intellectual property. In 2010 alone, it filed 32 patent applications and registered industrial rights. For the same reason, the Group's research and development activities are concentrated at ElringKlinger AG's locations in Germany and at ElringKlinger Abschirmtechnik (Schweiz) AG in Switzerland. The Technology Centers of Excellence located there provide most of the R&D services required by the ElringKlinger Group as a whole.

Combustion engines: focus on downsizing

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

As far as engine construction is concerned, the priority for passenger car manufacturers is to reduce fuel consumption and minimize hydrocarbon and nitrogen oxide emissions. The increasingly strict CO_2 requirements, together with the Euro 6 standard that is due to come into force as of 2014, are making noticeably higher demands on engine technology in general and on the engine and exhaust components supplied by ElringKlinger, in particular.

In the area of combustion engines, ElringKlinger has been benefiting from the growing trend towards more efficient turbo- or supercharged engines, having established an extensive product portfolio tailored to this market. The increase in efficiency brought about in capacity-reduced downsized engines is usually accompanied by higher peak temperatures and ignition pressure in the combustion chamber. This means that even higher requirements were made of new cylinder-head and specialty gasket concepts developed in 2010.

Metal gaskets: new designs and turbocharging applications

In the Cylinder-head Gaskets division, the focus was on developing even more effective gasket concepts in response to the growing number of downsizing concepts. ElringKlinger came up with many new cylinder-head gasket designs for the new generation of highly efficient turbocharged direct-injection petrol engines that make considerable demands on the sealing system. In order to counter the high peak pressures and elevated temperatures associated with these engines, ElringKlinger developed additional support elements with embossed stoppers used on the rear area of the gasket. Thanks to new, extremely stable elastomer coating materials, it was possible to further improve the performance and durability of the sealing system under these extreme conditions.

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

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

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

Shielding technology: demand for thermal management

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

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

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

With regard to e-mobility – and, in this case, battery technology in particular – the Shielding Technology division worked on a number of very promising new product concepts. In addition to EMC shielding (electromagnetic compatibility), the division is currently developing battery housings.

Much attention was generated by the shielding technology package for thermal and acoustic protection designed by ElringKlinger for the Fisker Karma hybrid electric sports car.

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

In the area of plastic housing modules, a number of new lightweight modules made from thermoplastics have been developed for engine and transmission applications, including cam covers, engine and gearbox oil pans, clutch pistons and end-shield housings. Particularly among Asian manufacturers, there was a clear trend towards reducing weight by replacing heavy metal components with lightweight plastic housing modules, thereby also making noticeable progress in the reduction of CO_2 levels.

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

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

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

Another key focus of development work in 2010 was the design of a whole series of plastic housing modules for trucks. Given the significant mechanical stress to which these products are subjected, durability and tooling technology requirements are particularly high. In addition to plastic cam covers with integrated lead frames for electrics, high-volume oilpan modules were also launched on the market. These modules already contain key functional elements such as an oil suction pipe, filter sieve, release module and sealing system. In 2010, ElringKlinger was presented with a Key Supplier Award by one of the world's leading truck manufacturers for its innovative plastic housing modules, which helped to render vehicles considerably lighter and, in turn, reduce fuel consumption and emission levels.

New fields of business: New division E-Mobility installed

2010 saw ElringKlinger expand the development capacity in its New Business Areas division substantially. In response to the growing long-term importance of electromobility, the Group set up its own independent E-Mobility division which bundles battery and fuel cell technology activities. This move is designed to make more effective use of the many material and process synergies that exist between these two areas in particular. In the area of battery technology alone, ElringKlinger added over 20 people to the team of developers at its site in Dettingen/Erms. Particularly with regard to battery storage technology, there are many opportunities for ElringKlinger to use its existing expertise and development processes to make a significant technological contribution and launch new products on the market.

A large proportion of the costs incurred by the E-Mobility division were covered by government grants. In 2010, the ElringKlinger Group received funding of EUR 3.3 million for the current development projects in the field of battery and fuel cell technology. With research partnerships, it was possible to minimize the upfront costs for this development work and speed up the marketability of comprehensive system solutions.

Cell connectors for lithium-ion batteries ready for series production

* CF. GLOSSARY

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

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

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

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

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

Further battery components, such as pressure equalization and ventilation systems, were developed in cooperation with ElringKlinger Kunststofftechnik GmbH, which contributed its PTFE material expertise and know-how in producing membranes. In addition, Battery Technology worked on sealing concepts and solutions for draining moisture in batteries. ElringKlinger is also involved in a number of interesting development projects of its own related to the thermal management of high-energy batteries. In 2010, ElringKlinger Battery Technology thus built a solid foundation in terms of securing its competitiveness within the market and contributing to Group sales and earnings in the coming years with the help of additional components for lithium-ion batteries and other high-performance energy storage concepts.

Fuel cell technology for mobile and stationary applications

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

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

* CF. GLOSSARY

* CF. GLOSSARY

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

This is destined for the US market, where it will be used for supplying electrical power and stationary air conditioning in the drivers' cabs of heavy trucks. Since the introduction of an environmental anti-idling law in 35 US states has made it illegal to leave engines in stationary trucks running in order to keep the cab interior air-conditioned, ElringKlinger's concept has met with very positive feedback from North American truck manufacturers. The aim of this development project is to offer a series-ready product for this extremely interesting market by 2015. Many prototypes have already been produced and are currently being put through their paces by ElringKlinger's Fuel Cell Technology division in a series of extensive durability tests. The electrical power of the stack modules has since been increased and now ranges from 1.5 kW to a maximum of 3.0 kW.

* CF. GLOSSARY

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

ElringKlinger is developing bipolar plates for PEM low-temperature fuel cells (Proton Exchange Membrane), which are to replace engines as the drive unit in the cars of the future. In this connection, the company has already been working together with international vehicle manufacturers for several years. The high volume of bipolar plates required for these stacks make this product a commercially interesting proposition for ElringKlinger, even when used in small vehicle series. In fiscal 2010, the company enhanced the design of the bipolar plates and their functional elements and optimized the relevant cost structures. With respect to process engineering, ElringKlinger has made important progress in the introduction of manufacturing processes that are suitable for series production, in the assembly of fuel cell stacks, and in sealing technology. Here, stamping and punching procedures are performed using progressive tooling and state-of-the-art laser-welding techniques.

A further project that began in 2010 is geared towards the broad market for forklifts and similar vehicles. In this connection, ElringKlinger integrated a start-up team of specialists working in this area in its Fuel Cell Technology division in order to significantly increase know-how in this area. Bipolar plates and compact PEM stacks with an output of around 3 kW are developed as part of this project, which is also supported by government grants.

Pioneering coating material for reducing soot in diesel particulate filters

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

ElringKlinger exclusively licensed an innovative material based on an alkali silicate substance from a partner company that specializes in coating technology. Over the past two years, this has been further developed and optimized as a coating material in **diesel particulate filter*** units. Internal laboratory and durability tests have shown that this environmentally compatible material, which is free of precious metals, is very catalytically reactive and suitable for lowering the temperature level and reaction times required to regenerate the filter. This in turn reduces the necessary post-injection of fuel, resulting in lower CO_2 emissions. In addition, there is potential for reducing coating costs significantly compared with the precious metal-based systems that are currently standard.

* CF. GLOSSARY

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

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

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

All in all, the Group's significant technological expertise in combustion engines and the specific areas of e-mobility outlined above mean that whatever direction future drivetrain technology ultimately takes, ElringKlinger is ideally positioned to play an important role in developing suitable technical solutions and products. It is also well positioned to generate the level of sales necessary to meet its goal of 5 to 7% long-term organic revenue growth per year.

Compensation Report

Compensation structure for members of the Management Board

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

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

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

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

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

Members of the Management Board have a right to a pension, provided that their contract has expired, or they have reached 65 years of age and started to receive a statutory pension, or in the event of occupational disability. This pension entitlement amounts to 2% of the last monthly fixed salary prior to leaving the company for each full 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 joint venture companies.

Compensation structure for members of the Supervisory Board

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

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

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

* CF. GLOSSARY

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

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

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

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

Walter H. Lechler, Stuttgart	Total of 21.836% (of which 9.74% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG)

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

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

* CF. PAGE 164/165

Details relating to authorized capital and the utilization of authorized capital are included in the **Notes*** on page 164/165.

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

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

Report on Opportunities and Risks

Risk management system

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

The risk management system is made up of various tools and control systems. Among the key components are strategic corporate planning and internal reporting. Planning enables potential risks to be identified and taken into account when making critical and far-reaching decisions. All key areas within the company are involved in Group strategic planning. Within this context, information is retrieved, collated and evaluated in a standardized process. The Management Board bears full responsibility. Internal reporting is used to monitor and control business performance. A key component of the risk management system is regular reporting by the respective management teams at the Group's domestic and non-domestic companies as well as by the various divisions, which is performed on a quarterly basis. It covers developments in all fields relevant to the company that can affect business activity and, in particular, the continuation of the ElringKlinger Group as a going concern. The focus is primarily on changes to the economic or political situation, new regulatory requirements, technological developments, the commodities markets and internal risks. This reporting system involves identifying all risks and subsequently drafting recommendations on how to prepare for and protect against them. The head of the Group's legal department oversees coordination.

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

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and service divisions of the parent company as well as at the Group companies. These audits are conducted by two accountancy firms. The rationale behind the appointment of external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed and potential for improvement is recognized. The findings of such audits are compiled in reports. They are evaluated by the Management Board, whereupon necessary measures are approved and realized. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weakness. In fiscal 2010, audits were performed, inter alia, at ElringKlinger Marusan Corporation in Japan, ElringKlinger S.A.U., Spain, ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş, Turkey, which was acquired in 2009, and ElringKlinger Kunststofftechnik GmbH. As in financial years 2008 and 2009, specialist audit firms were appointed to carry out a precautionary analysis of processes and workflows in the Finance and Controlling areas in order to identify any potential risk of fraud. All internal audits showed that both statutory regulations and internal requirements had been met. The recommendations submitted with regard to potential areas for optimization have been put in place or are currently being implemented.

In order to reduce the liability risk from potential damage cases and any associated losses, the company has taken out appropriate insurance policies. The suitability of these policies, 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 and Supervisory Board. In accordance with the distribution of responsibilities, Finance and Corporate Investment Management, which are in charge of accounting, come under the remit of the Chairman of the Management Board. These departments control accounting within 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. The Group companies report to the head of Corporate Investment Management, who in turn reports to the Chairman of the Management Board.

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

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

All Group companies are expected to comply with a pre-defined schedule for preparation of the Group financial statements. With the exception of the German Group companies, whose financial statements are prepared by the Accounts department at ElringKlinger AG, each Group company is responsible for drawing up its separate 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 and the Group management report. The data and information are checked prior to release and consolidation in the respective centralized departments.

SAP is used by the German as well as some of the foreign companies within the ElringKlinger Group. As for the other companies, various IT systems are currently in use. Other key companies within the Group plan to introduce SAP in the future. All implemented systems feature hierarchical access systems; all clearances are documented in the system. For companies that use SAP, access rights are managed according to established rules. Within the German companies, access decisions are taken made by the heads of Finance; at the international subsidiaries, access is granted by the heads of Corporate Investment Management. Local management teams make decisions on access in those companies that use other systems.

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

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

As is the case with the other areas and functions of the company, accounting is also subject to the investigations conducted as part of internal auditing, which are conducted by two accountancy firms. Accounting processes and procedures at ElringKlinger AG and its Group companies are reviewed in thecourse 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.

Risiks

Market and sales risks

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

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

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

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

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

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

Customer risks

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

In recent years, risks linked to reliance on a number of major customers have declined. Compared to other sectors, the ElringKlinger Group has an exceptionally broad international client structure. In 2010, the Group's three largest customers accounted for less than 35% of Group sales revenue. Virtually all global manufacturers of vehicles and engines were part of the customer base last year, along with a growing number of vehicle suppliers. The Group managed to attract a number of new customers in Asia, particularly companies based in China.

Price risks

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

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

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

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

Currency risks

Within the ElringKlinger Group, currency risks generally arise in connection with loans issued to the subsidiaries by ElringKlinger AG and receivables from affiliated companies.

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

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

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

Overall, the currency risks affecting the ElringKlinger Group are well contained, as costs and revenues attributable to the majority of its sales markets are incurred and generated in the same currency.

Financing risks

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

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

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

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

ElringKlinger is not aware of any significant financing risks or financing risks that may jeopardize its business. The company's financing capability improved once again with the successful seasoned equity offering of October 2010. With a sound equity ratio of 52.2%, strong net cash from operating activities and available credit lines in excess of EUR 100 million from commercial banks, the Group has a solid financing profile and thus, correspondingly, a competitive advantage.

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

Wage costs risks

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

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

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

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

The ElringKlinger Group has recorded significant growth in its international business, which has generally had a positive effect on the Group's overall wage cost structure. Sales revenues and staffing levels in countries with wage costs below the Group average, such as Asia and South America, have been rising at a more pronounced rate. Having said that, it should be noted that the intervals between successive demands for wage increases have become shorter in some markets, China being a prime example. In conjunction with higher fluctuation rates, this may adversely affect business development.

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

Supplier risks

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

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

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

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

In overall terms, risks to the Group's value chain deriving from the supplier structure are manageable.

Risks from derivatives

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

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

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

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

* CF. PAGE 173

Legal risks/warranty risks

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

Opportunities

Market opportunities: expanding business in Asia

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

If these positive forecasts on the part of vehicle manufacturers are borne out, experience shows that the ElringKlinger Group stands to benefit disproportionately from growth in the market.

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

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

Market consolidation and acquisitions

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

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

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

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

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

Financing

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

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

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

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

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

Technology and climate change

CO_2-reduction

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

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

With a **product portfolio*** (Research and Development, page 74 et seqq.) based on reducing consumption and emissions, ElringKlinger is well positioned to expand its current market share and grow more strongly than the market on the basis of new products and applications. Despite the growth projections, all-electric vehicles are at present set to remain first and foremost a niche application for the major urban areas. For this reason, the combustion engine will remain the dominant drive unit for the foreseeable future, optimized for fuel economy through downsizing. This technological trend will present ElringKlinger with new opportunities to benefit from a higher take-up rate for ElringKlinger components as well as additional new products (for example, in the field of turbocharger gaskets).

* CF. PAGE 74 ET SEQQ.

Hybridization and electric vehicles

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

* CF. GLOSSARY

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

Assessment of aggregate risk

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

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

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

Despite this, the overall level of risk to the sector and the company has clearly diminished since 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.

Thanks to a combination of product developments, new technologies and financial robustness, the Group has the potential to outperform the market in the future calculated on the basis of vehicle production. The ElringKlinger Group will also be in a position to actively benefit from the opportunities that arise as the sector continues to consolidate.

Report on Expected Developments

Market and Sector Outlook – Economic Recovery Continues

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

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

Meanwhile in the eurozone, the strong and weak economies are continuing to drift apart. Southern Europe, in particular, has been impacted by significant budget deficits and national debt, a situation that is likely to have an adverse effect on growth. In total, the gross domestic product within the eurozone is forecast to rise by 1.4%. By contrast, the majority of the Eastern European countries are expected to achieve growth of 4% on average in 2011. Against the backdrop of rising oil and gas prices, GDP growth in Eastern Europe's largest market, Russia, is expected to be 4.3%. Turkey, which has advanced to become the sixth largest economy in Europe, is likely to see its gross domestic product grow by 4.2%.

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

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

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

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

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

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

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

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

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

The North American vehicle market will continue to recover in 2011, albeit at a much slower rate compared to 2010. Following the significant upturn in vehicle production in 2010, ElringKlinger currently anticipates that any gains made over the course of 2011 will be more moderate, particularly against the backdrop of persistently high unemployment figures and the financial pressures felt by many consumers in the US. On this basis, both registration and production figures in North America are likely to remain well below their pre-crisis levels of around 17 million vehicles sold and 15 million units produced. In the medium term, however, the high average age of vehicles, together with scrappage rates that have been in excess of new vehicle purchases for many years now, should act as a stimulus for market growth.

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

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

With projected growth of 19.9% in terms of production output and 17.0% with regard to new registrations, the Indian vehicle market will remain buoyant in 2011. New registrations within the Japanese market, however, are expected to decline by around 2% in 2011 as a result of discontinued government incentive packages for new vehicles and uncertainties regarding Japan's economic performance.

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

Upward trend in commercial vehicle sector continues

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

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

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

As ElringKlinger generates approx. 12% of its revenue through sales of truck components, the upturn within the commercial vehicle sector is also expected to have a positive impact on the Group's business performance. Furthermore, a new plant for plastic housing modules means that the Group will be able to extend its product portfolio and manufacturing capacities in this area.

Outlook – Company

Competition and price situation

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

Investment in E-Mobility and lightweight design

Having spent a total of EUR 127.3 million in 2010, the ElringKlinger Group plans to invest around EUR 95 million in buildings and property, plant and equipment in 2011. This capital expenditure is the result of various product start-ups, including several associated with the New Business Areas division. Additional funds may be channeled into the purchase of coating machinery for diesel particulate filters if the project continues to progress well in 2011.

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

In 2011, the Dettingen/Erms site will also see the construction of a new plant for the production of lightweight plastic housing modules, with an investment volume of more than EUR 20 million.

Using fully automated production processes, the facility will manufacture cam cover modules, oil pan systems and other components, primarily for the European commercial vehicle industry.

A total of approx. EUR 15 million has been earmarked for streamlining and automation projects at the acquired sites of the Freundenberg Group in France, Italy and Germany.

The Group's high-growth sites in Asia will remain a strong focus in terms of capital expenditure. The plant in Suzhou, in the south of China, is to be further expanded and will also produce lightweight plastic housing modules as well as PTFE components. Investments for the purpose of expansion are also planned in Korea and Japan.

Order intake remains solid

Order intake rose significantly in 2010, also edging up beyond EUR 200 million in the fourth quarter. Compared to the same quarter a year ago, which had already been very solid, order intake for the fourth quarter expanded by 31.5% to EUR 227.3 (172.8) million.

In the annual period as a whole, orders placed by customers were up 44.7% on last year's figure at EUR 886.6 (612.9) million.

As at December 31, 2010, order backlog for the ElringKlinger Group as a whole was equivalent to EUR 333.1 (242.2) million, 37.5% higher than a year earlier.

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

Forecast: Sales and Earnings Position 2011 and 2012

Earnings situation remains solid

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

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

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

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

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

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

Further growth planned for sales and earnings

Based on the general economic trend outlined above and gains expected to be achieved by the vehicle markets, ElringKlinger currently anticipates organic growth in sales revenue of between 5 and 7% for 2011. In this context, the largest proportion of growth will be attributable to the subsidiaries and joint venture companies of ElringKlinger AG.

This will be complemented by a revenue contribution of an estimated EUR 49 million from the consolidation of the Metal Flat Gaskets division acquired from the Freudenberg Group.

As a result of the inclusion of the Metal Flat Gaskets division of the Freudenberg Group in the scope of consolidation of the ElringKlinger Group, the Group's operating margin for fiscal 2011 as a whole will be temporarily diluted, due to the fact that the divisional operating margin is currently much lower than the average figure for the Group. The dilutive effect on the Group's operating margin is expected to be equivalent to around 0.6 to 0.8 percentage points. The objective is to gradually lift the operating margin of the newly acquired business towards 10% by the end of 2011 with the help of integration measures currently being implemented as well as extensive automation and process alignment. The aim is to guide the former Freudenberg sites towards the level of the ElringKlinger Group in 2012, similar to the timeline applied to the integration of the Swiss SEVEX Group in 2008.

Despite the aforementioned dilutive effects and the fact that various products are still within the start-up pipeline, and regardless of the upward trend in commodity prices, Group earnings before interest and taxes are expected to grow at a more pronounced rate than revenue, rising by 15 to 25%.

Based on the scale of orders likely to be placed by customers and the projections with regard to the future economic environment, as discussed above, and working on the assumption that car production will expand at a moderate pace in 2011, ElringKlinger anticipates that sales and earnings in its Original Equipment segment will continue to expand. At the same time, the largest share of organic sales and earnings growth planned by the Group for 2011 will be attributable to this segment. The additional contribution to revenue as a result of the inclusion of the Metal Flat Gaskets division of the Freudenberg Group will be made almost entirely by Original Equipment.

Given the advanced age of vehicles in some of the Group's key markets and in view of the continued expansion of its product range, the Aftermarket segment is also expected to achieve growth in sales and earnings.

Benefiting from several new projects and the expansion of business in China, ElringKlinger anticipates that the Engineered Plastics segment will see its sales revenue rise in 2011. Within this context, the newly established sales office ElringKlinger Automotive Components (India) Pvt. Ltd., Ranjangaon, India, is expected to provide additional momentum, as it will be marketing the full product portfolio of the Engineered Plastics segment. The objective is for the segment result to develop in line with revenue growth, at the very least, although this will depend on the future direction taken by PTFE commodity prices.

As regards the 2012 financial year and the medium-term future, the ElringKlinger Group is well positioned for annual organic revenue growth of 5 to 7%, given the host of product launches within its well-established portfolio and its new components marketed within the area of battery technology. Earnings are expected to develop at a rate that is proportional to revenue, at the very least. By 2012, the Group plans to return to its pre-crisis EBIT margin of 16 to 18%.

Financing requirements covered

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

The Group's projected net cash from operating activities is expected to exceed, the payments currently anticipated in connection with investments in property, plant and equipment both in 2011 and 2012. On this basis, the Group will be in a position to cover its estimated financing requirements by means self-financing.

Furthermore, the ElringKlinger Group has additional room to maneuver in the form of borrowing facilities negotiated with various banks.

Reduction in net debt

After a marked reduction in net financial debt by EUR 98.1 million as a result of the seasoned equity offering in the fourth quarter of 2010, net financial debt will increase in the first half of 2011 due to payments made in connection with the acquisition of the Metal Flat Gaskets division from the Freudenberg Group and the investments outlined above, as well as the company's dividend payment. The ElringKlinger Group anticipates a reduction in net financial debt as from the second half of the year, as well as for 2012.

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

Events after the Reporting Date

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

Dettingen/Erms, March 16, 2011
The Management Board

Dr. Stefan Wolf Theo Becker Karl Schmauder

COMBUSTION ENGINE ›› DOWNSIZING

Turbos on the rise

In response to stricter limits on emissions, we are now seeing a trend towards compact, turbocharged engines that deliver a comparable level of performance but consume significantly less fuel and therefore produce lower emissions. That demands new, high-performing product solutions in the field of sealing technology.

Highly heat-resistant turbocharger V-ring gaskets made of special steel

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 in 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.

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 May 26, 2010, 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. The Declaration of Conformity passed on December 4, 2010, in respect of the German Corporate Governance Code is included in a subsequent section of this report and has also been published on the company's website.

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, analyst meetings and events for private investors as well as by means of financial reports and ad hoc and press releases published on a regular basis.

Corporate bodies, management and supervisory structure

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, the Articles of Association and the by-laws and terms of reference for the Management Board and the Supervisory Board.

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 twelve 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 2014. Of the twelve members, six were elected by the employees of the German-based operating sites and six by the company's shareholders, as specified by the German Codetermination Act. 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 meets in regular intervals, at least once a quarter. The Management Board reports on business performance, planning, strategy and implementation of the latter. It also provides a risk report at each Supervisory Board meeting. The Supervisory Board monitors compliance with statutory provisions and company-specific guidelines. Significant decisions made at Management Board level, such as acquisitions or the purchase and sale of property, are subject to the prior approval of the Supervisory Board. In between Supervisory Board meetings 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, a Personnel Committee and – pursuant to the provisions set out in the German Codetermination Act – a Mediation Committee. The tasks, responsibilities and internal organization of the committees are in accordance with the authoritative statutory provisions and the requirements of the German Corporate Governance Code. The Audit Committee comprises four 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 five members, including the Chairperson 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. The Mediation Committee consists of the Chairperson of the Supervisory Board, his Deputy as well as one member each elected by the Supervisory Board members representing the company's employees and the Supervisory Board members representing the company's shareholders. The sole duty of the Mediation Committee is to submit to the Supervisory Board recommendations for the appointment of Management Board members if the plenum of the Supervisory Board is unable to pass a resolution on such matters with the requisite majority.

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. Among the standard resolutions to be passed by the General Meeting of Shareholders are those relating to the appropriation of profit, the ratification of the acts of the Management Board as well as the appointment of the independent auditor. Beyond this, capital measures and other amendments to the Articles of Association require the approval of the General Meeting of Shareholders. Shareholders may submit counter-motions and questions relating to the individual items on the agenda, as well as having the right to request the court appointment of a special auditor to review specific matters insofar as certain conditions have been met.

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 May 26, 2010, with the following exceptions. As regards the period since issuance of the last Declaration of Conformity from December 4, 2009, to May 26, 2010, the explanations given relate to the recommendations of the Code in the version of June 18, 2009.

SECTION 2.3.2

As in the past, in 2011 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 4.1.5

When filling managerial positions in the enterprise, suitability and qualification of the candidates were taken into consideration by the management board primarily.
When filling managerial positions the management board orients itself by requirements of the corresponding position and looks for the best possible individual, fulfilling these requirements. If there are more candidates with similar qualifications, the management board takes diversity into consideration and aims for an appropriate consideration of women without making these criteria a principal of priority. From the point of view of the company such regulation would be counterproductive, especially in view of the comparatively small number of managerial positions to be filled.

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 the compensation report.

SECTION 5.1.2

When appointing the Management Board, the Supervisory Board orients itself by suitability and qualification. No age limit has been set for members of the Management Board.
The members shall be selected prior to their suitability and qualification. In the company's view, the special weighting of further criteria given by the Code would limit the selection of potential candidates for the Management Board. Thereby, it has to be considered that the Management Board temporarily exists of only 3 members.

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

Regarding the composition of the Supervisory Board, concrete objectives will not be predefined and according to this not published in the Corporate Governance Report. No age limit has been set for members of the Supervisory Board.
Relevant selection criteria for the appointment of the Supervisory Board are also suitability, experience and qualification. A commitment to specifications concerning prospective appointments constricts flexibility without ulterior advantage for the company. This applies all the more as the representatives of the shareholders can temporarily only elect six members of the Supervisory Board with codetermination. Within this context, the specifications mentioned in the Code's recommendation are per se further important criteria for the constitution of the Supervisory Board. So because of the mentioned reasons there is no need of a predefinition of concrete objectives.

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

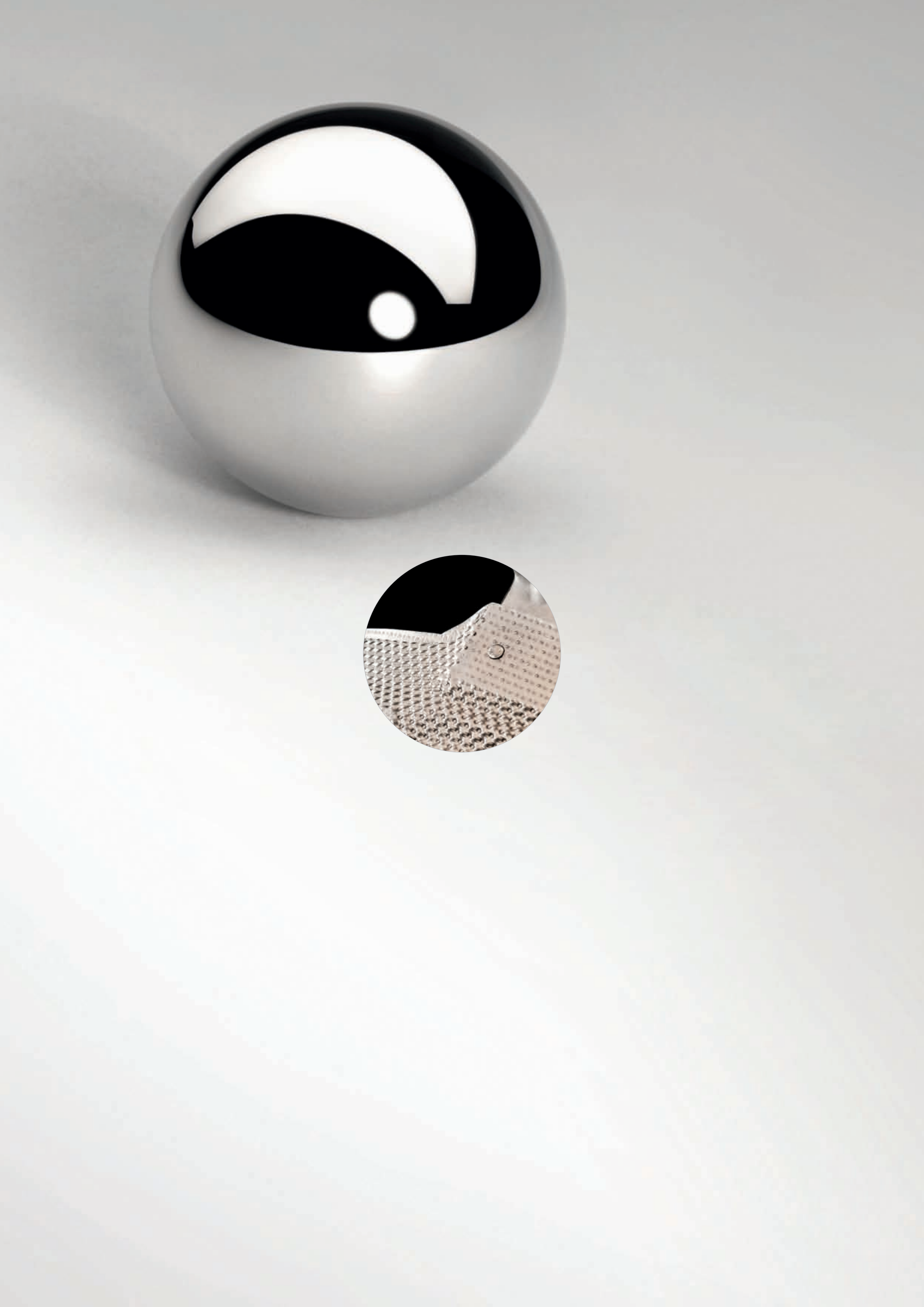
No reports of the kind specified in Section 6.6 of the Code are made beyond the statutory disclosure requirements.
The company is of the opinion that transparent corporate communication is essential, particularly in order to maintain shareholder confidence. All relevant information is disclosed by the 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.

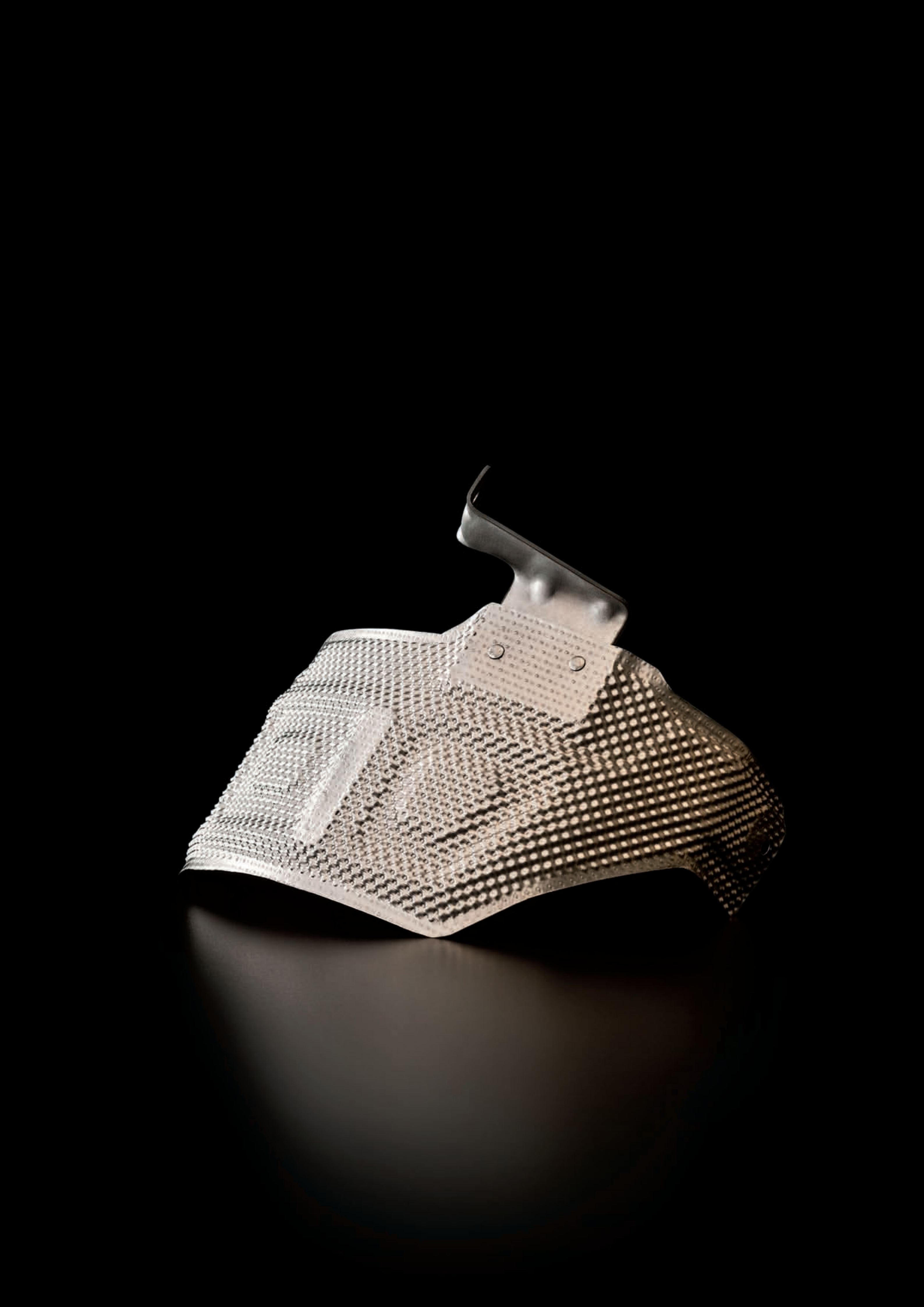
COMBUSTION ENGINE ›› DOWNSIZING

Well shielded



There has been a steady increase in the number of heat-sensitive components fitted in modern, compact and highly efficient engines. At the same time, temperatures in and around the engine, the exhaust system, the underbody, tank and transmission are rising. ElringKlinger's Elrotherm® shielding system has made it one of the leading providers of thermal and acoustic shielding components.

Thermal-acoustic shielding component with beading for turbochargers



Consolidated Financial Statements

Contents

Group Income Statement

of ElringKlinger AG, January 1 to December 31, 2010

	Note	2010 EUR k	2009 EUR k
Sales revenue	**(1)**	**795,657**	**579,329**
Cost of sales	(2)	-556,126	-426,320
Gross profit		**239,531**	**153,009**
Selling expenses	(3)	-54,292	-46,480
General and administrative expenses	(4)	-31,442	-23,861
Research and development costs	(5)	-43,706	-35,684
Other operating income	(6)	11,578	28,245
Other operating expenses	(7)	-5,635	-11,941
Operating result		**116,034**	**63,288**
Financial income		14,716	9,800
Financial expenses		-36,780	-23,697
Financial result	**(8)**	**-22,064**	**-13,897**
Earnings before taxes		**93,970**	**49,391**
Income tax expense	(9)	-25,359	-14,556
Net profit or loss for the period		**68,611**	**34,835**
of which: attributable to minority interests	(20)	2,994	1,613
of which: attributable to shareholders of ElringKlinger AG	**(20)**	**65,617**	**33,222**
Basic and diluted earnings per share in EUR	**(10)**	**1.11**	**0.58**

Group Statement of Comprehensive Income

of ElringKlinger AG, January 1 to December 31, 2010

	Note	2010 EUR k	2009 EUR k
Net profit or loss for the period		**68,611**	**34,835**
Currency translation difference		23,123	6,560
Actuarial losses from pension commitments, net after tax		-2,902	-4,375*
Changes recognized directly in equity		**20,221**	**2,185**
Total comprehensive income		**88,832**	**37,020**
of which: attributable to minority interests		3,533	1,594
of which: attributable to shareholders of ElringKlinger AG		**85,299**	**35,426**

* Prior-period figures adjusted; see disclosure in the consolidated notes.

Group Statement of Financial Position

of ElringKlinger AG, as at December 31, 2010

	Note	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k	Jan. 1, 2009 EUR k
ASSETS				
Intangible assets	(11)	91,460	89,184	86,542
Property, plant and equipment	(12)	449,494	386,178	360,426
Investment property	(13)	26,094	27,400	28,588
Financial assets	(14)	1,547	1,610	1,592
Non-current income tax assets	(15)	3,409	4,323	4,764
Other non-current assets	(15)	1,758	782	703
Deferred tax assets	(9)	18,749	15,164	15,248*
Non-current assets		**592,511**	**524,641**	**497,863**
Inventories	(16)	138,649	101,468	129,784
Trade receivables	(17)	138,195	106,761	98,032
Current income tax assets	(17)	1,658	2,387	8,728
Other current assets	(17)	9,175	9,264	9,799
Cash	(18)	101,190	25,580	19,741
Current assets		**388,867**	**245,460**	**266,084**
		981,378	770,101	763,947

* Prior-period figures adjusted; see disclosure in the consolidated notes.

	Note	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k	Jan. 1, 2009 EUR k
LIABILITIES AND EQUITY				
Share capital		63,360	57,600	57,600
Capital reserves		118,238	2,747	2,747
Revenue reserves		304,148	250,051	225,469
Other reserves		11,247	-7,489	-9,693*
Equity attributable to the shareholders of ElringKlinger AG	**(19)**	**496,993**	**302,909**	**276,123**
Minority interest	(20)	15,340	13,166	14,942*
Equity		**512,333**	**316,075**	**291,065**
Provisions for pensions	(21)	66,645	61,837	55,014*
Non-current provisions	(22)	10,378	6,015	5,461
Non-current financial liabilities	(23)	122,359	164,269	150,148
Deferred tax liabilities	(9)	34,686	31,633	30,936
Other non-current liabilities	(24)	34,313	37,356	27,369
Non-current liabilities		**268,381**	**301,110**	**268,928**
Current provisions	(22)	10,721	10,651	22,915
Trade payables	(24)	46,405	35,712	33,269
Current financial liabilities	(23)	76,876	56,234	108,029
Tax payable	(9)	10,440	9,051	5,867
Other current liabilities	(24)	56,222	41,268	33,874
Current liabilities		**200,664**	**152,916**	**203,954**
		981,378	770,101	763,947

* Prior-period figures adjusted; see disclosure in the consolidated notes.

Group Statement of Changes in Equity

of ElringKlinger AG, January 1 to December 31, 2010

	Share Capital EUR k	Capital-reserve EUR k	Revenue reserves EUR k
Note	(19)	(30)	(30)
Balance as of Dec. 31, 2008	**57,600**	**2,747**	**225,469**
Change in accounting Pensions			
Balance as of Jan. 1, 2009	**57,600**	**2,747**	**225,469**
Capital increase			
Dividend distribution			-8,640
Changes in scope of consolidated financial statements			
Total comprehensive income			33,222
Net profit or loss for the period			33,222
Changes recognized directly in equity			
Other comprehensive income			
Balance as of Dec. 31, 2009/Balance as of Jan. 1, 2010	**57,600**	**2,747**	**250,051**
Capital increase	5,760	115,491	
Dividend distribution			-11,520
Purchase of shares in controlled entities			
Total comprehensive income			65,617
Net profit or loss for the period			65,617
Changes recognized directly in equity			
Balance as of Dec. 31, 2010	**63,360**	**118,238**	**304,148**

Other reserves					
Revenue reserves from SoRIE/OCI EUR k	Equity impact of controlling interests EUR k	Currency translation differences EUR k	Equity attributable to the shareholders of ElringKlinger AG EUR k	Minority interests EUR k	Group equity EUR k
		(19)		(20)	
0	**0**	**-12,557**	**273,259**	**14,888**	**288,147**
2,864			2,864	54	2,918
2,864	**0**	**-12,557**	**276,123**	**14,942**	**291,065**
			0		0
			-8,640	-1,726	-10,366
			0	-1,644	-1,644
-4,274		6,478	35,426	1,594	37,020
			33,222	1,613	34,835
-4,274		6,478	2,204	-19	2,185
			0		0
-1,410	**0**	**-6,079**	**302,909**	**13,166**	**316,075**
			121,251	27	121,278
			-11,520	-719	-12,239
	-946		-946	-667	-1,613
-2,845		22,527	85,299	3,533	88,832
			65,617	2,994	68,611
-2,845		22,527	19,682	539	20,221
-4,255	**-946**	**16,448**	**496,993**	**15,340**	**512,333**

Group Statement of Cash Flows

of ElringKlinger AG, January 1 to December 31, 2010

	Note	2010 EUR k	2009 EUR k
Earnings before taxes		93,970	49,391
Depreciation/Amortization (less write-ups) of non-current assets	(11)-(14)	82,213	71,219
Net interest	(8)	12,746	13,901
Change in provisions		2,059	-13,869
Losses on disposal of non-current assets		1,576	1,046
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		-69,940	21,374
Change in trade payables and other liabilities not resulting from financing and investing activities		23,616	17,160
Income taxes paid	(9)	-22,751	-1,911
Interest paid		-9,482	-11,347
Interest received		259	206
Other non-cash expenses		1,889	0
Currency effects on items relating to operating activities		0	1,633
Net cash from operating activities		**116,155**	**148,803**
Proceeds from disposals of intangible assets and of property, plant and equipment		6,088	4,424
Proceeds from disposals of financial assets		565	834
Payments for investments in intangible assets	(11)	-6,987	-5,343
Payments for investments in property, plant and equipment and investment properties	(12), (13)	-127,339	-89,676
Payments for investments in financial assets	(14)	-470	-845
Payments for the acquisition of consolidated entities		0	-2,998
Net cash from investing activities		**-128,143**	**-93,604**
Proceeds from the issue of shares		121,278	0
Payments to minorities for the purchase of shares		-1,613	0
Dividends paid to shareholders and minorities		-12,239	-10,366
Change in current financial liabilities	(23)	-1,682	-52,416
Additions to non-current financial liabilities	(23)	2,188	41,000
Repayment of non-current financial liabilities	(23)	-23,950	-26,972
Currency effects on items relating to financing activities		0	-496
Net cash from financing activities		**83,982**	**-49,250**
Changes in cash		71,994	5,949
Effects of currency exchange rates on cash		3,616	-136
Cash inflow from the acquisition of consolidated entities		0	26
Cash at beginning of period	(18)	25,580	19,741
Cash at end of period	**(18)**	**101,190**	**25,580**

COMBUSTION ENGINE ›› WEIGHT REDUCTION

Losing weight

With the aid of cutting-edge plastics technology, ElringKlinger has designed highly versatile cam cover modules for the engine compartment to help reduce weight and cut CO_2. The ready-to-install modules combine a plastic housing, sealing system and attachments with additional functions that include an integrated oil separator and a pressure regulating valve. They help to reduce fuel consumption and also noise emissions.

Lightweight cam cover module for passenger cars produced by means of MuCell® technology

Notes to the Consolidated Financial Statements for the 2010 Financial Year

Contents

General information

As parent company of the Group, ElringKlinger AG is filed in the commercial register at the local court of Stuttgart (Amtsgericht) under the number HRB 361242. The company is domiciled in Dettingen/Erms (Germany). The address is ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms. The articles of incorporation are dated October 6, 2010. The registered company name is ElringKlinger AG. The financial year is the calendar year.

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

Accounting principles

* CF. GLOSSARY

The consolidated financial statements of ElringKlinger AG as of December 31, 2010, have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the supplementary commercial law regulations pursuant to § 315 a (1) **HGB***. All IFRSs and IFRICs mandatory for the financial year 2010 have been observed.

The consolidated financial statements have been prepared in euros. Unless otherwise stated, all amounts are in thousand EUR (EUR k).

The Group Income Statement was prepared in accordance with the cost of sales method. In order to enhance the clarity of presentation, various items in the balance sheet and in the Group Income Statement have been combined.

The following regulations and amendments to existing regulations became mandatory for the 2010 financial year for the first time:

IFRS 2 – IFRIC 11 Share-based payment transactions with cash settlement within the Group Revisions of IFRS 2 clarify that a company receiving goods or services within the scope of a share-based payment arrangement are required to account for this no matter which entity in the group settles the corresponding obligation. Accounting for share-based payment arrangements granted by ElringKlinger does not change due to this amendment.

IAS 27 Consolidated and separate financial statements (2008)

The amended IAS 27 requires accounting for changes in ownership interests in already fully consolidated subsidiaries to be recognized as equity transactions if there is no change in control. This results in a change in accounting policy for the Group, as acquisitions of minority interests have been so far accounted for in accordance with the acquisition method. In addition, the amended IAS 27 states that in accounting for transactions resulting in a loss of control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized through profit or loss.

IFRS 3 Business combinations (2008)

The revised IFRS 3 incorporates the following changes that are likely to be relevant to ElringKlinger consolidated financial statements in the event of future business combinations:

- The definition of a business combination 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 must be measured at fair value with the gain or loss recognized through profit or loss.
- Contingent consideration must be measured at fair value with subsequent changes therein recognized through profit or loss in later periods.
- Any minority interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree. This option can be exercised on a transaction by transaction basis.

The remaining standards and interpretations that have been amended or approved had no impact on the Group's assets, liabilities, financial position and profit or loss in 2010. These include:

IFRS 1 First-time adoption of IFRS (revised Nov. 2008)

Amendment to IFRS 1: Additional exemptions for first-time adopters

IAS 39 Financial instruments – recognition and measurement – amended: hedged items allowable within the scope of hedging relationships

IFRIC 12 Service concession arrangements

IFRIC 15 Agreements for the construction of real estate

IFRIC 16 Hedges of a net investment in a foreign operation

IFRIC 17 Distributions of non-cash assets to owners

IFRIC 18 Transfers of assets from customers

Improvements to IFRS (April 2009)

The following standards which have been approved but are not yet mandatory for the 2010 financial year, have not yet been applied by ElringKlinger:

IAS 24 Related party disclosures

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

IFRS 9 Financial instruments

On November 12, 2009, the publication of IFRS 9 represented completion of the first part of a three-phase project to replace IAS 39. IFRS 9 introduces new standards for the classification and measurement of financial assets. The standard will be effective for reporting periods beginning on or after January 1, 2013.

To date, IFRS 9 has not been adopted by the EU. The effects of this will be reviewed once the standard has been adopted and entered into force.

The following standards which have been approved but are not yet mandatory for the 2010 financial year, are not expected to have an impact on ElringKlinger:

IFRS 1 First-time adoption of IFRS

Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters

Applicable for financial years beginning on or after July 1, 2010

IFRS 7 Financial instruments: Disclosures

Applicable for financial years beginning on or after July 1, 2011

IAS 12 Deferred Taxes: Recovery of underlying assets

Applicable for financial years beginning on or after January 1, 2012

IAS 32 Financial instruments: Presentation – Classification of rights issues

Applicable for financial years beginning on or after February 1, 2011

IFRIC 14 Prepayments of minimum funding requirements

Applicable for financial years beginning on or after January 1, 2011

IFRIC 19 Extinguishing financial liabilities with equity instruments

Applicable for financial years beginning on or after July 1, 2010

Improvements to IFRS (May 2010) Minor amendments to a majority of Standards (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 21, IAS 28, IAS 31, IAS 34 und IFRIC 13)

Applicable for financial years beginning on or after January 1, 2011

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as at December 31, 2010, include the annual financial statements of four (2009: 4) domestic and 20 (2009: 20) foreign subsidiaries. Subsidiaries are entities in which the parent owns more than half of the voting rights or is able to control the entity’s financial and business policy for other reasons (control relationship). Inclusion begins at the time the control relationship exists and ends when control is deemed to no longer exist.

The consolidated financial statements include two joint ventures, ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, and their two subsidiaries, were proportionately consolidated in accordance with IAS 31. Under proportionate consolidation, all assets and liabilities, expenses and income of the joint venture are included in the consolidated financial statements in proportion to the shares held in the venture (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 Corporation is engaged in the production and distribution of cam covers and cylinder head gaskets.

On the basis of the proportion held in joint ventures, the following amounts are attributable to the Group:

	2010 EUR k	2009 EUR k
Non-current assets	12,412	10,721
Current assets	23,954	17,495
Non-current liabilities	1,681	1,451
Current liabilities	8,599	6,416
Income	30,765	19,163
Expenses	29,257	19,747

An overview of the 24 entities included and the four joint ventures is provided on the following page.

Schedule of Shareholdings and Scope of Consolidation

as at December 31, 2010

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	96.00
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)	90.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger North America, Inc.	Plymouth/Michigan (USA)	100.00
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brasil)	100.00
Elring of North America, Inc.	Branchburg/New Jersey (USA)	100.00
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)	23.45

Acquisition of minority interests

In the fourth quarter of 2010, ElringKlinger AG acquired a 20% interest in ElringKlinger Logistic Service GmbH, Rottenburg/Neckar, Germany (EKLS), previously held by minority shareholders, increasing ElringKlinger's interest to 96%. The price of acquisition was EUR 321 k, of which EUR 1 k was related to incidental costs of the acquisition. The remaining amount of EUR 320 k was recognized directly in equity.

In the fourth quarter of 2010, ElringKlinger AG also acquired an additional 40% interest in the subsidiary Elring of North America, Inc., Branchburg, New Jersey, USA (ELNA), increasing the interest to 100%. The price of acquisition was EUR 1,298 k, of which EUR 5 k was related to incidental costs of the acquisition. The remaining amount of EUR 1,293 k was recognized directly in equity.

Adjustment of accounting policies and changes in estimates

In preparing the 2010 consolidated financial statements, adjustments were made to the accounting policies addressing accounting procedures for pension liabilities, inventory measurement, write-downs, as well as the recognition of warranty provisions and determining provisions for expected losses.

Write-downs for obsolescence were reduced for the 2010 financial statements based on extensive analysis of inventory levels and measurement in previous years. As a result of this, inventory value was higher. The effect of reducing this write-off amounts to EUR 3,279 k for the ElringKlinger Group.

The procedure for determining allowances was modified as the result of an analysis of the loss of receivables in previous years, reducing allowances. The effect of this adjustment amounts to EUR 100 k for the ElringKlinger Group.

The initial recognition of a warranty provision for expected warranties increased warranty provisions by EUR 1,507 k.

In past years, the order backlog was used as the basis for determining provisions for onerous contracts. Beginning with the 2010 financial year, the onerous contracts are determined on the basis of the three year plan, driving the need for greater provisions. The effect of this adjustment amounts to EUR 2,348 k for the ElringKlinger Group.

Actuarial gains and losses arising from the measurement of pension liabilities – to the extent that they exceed the range of 10% of the higher amount from the liability of the defined benefit plan or the fair value of plan assets – were previously recorded in income over the average remaining service time of the employees not longer than 10 years.

At the end of 2010, the accounting treatment of pension provisions was revised so that actuarial gains and losses during the current year are reported in full under other comprehensive income. Accounting policy was changed with regard to a better representation of the assets, liabilities and financial position of the consolidated financial statements as at the balance sheet date, so that items reflected in the balance sheet are recognized in the year of their economic origin. The accounting change was made retroactively. The following overview shows the effects on comparative information reported in equity in the prior year:

Consolidated balance sheet ElringKlinger AG	Amount reported Jan. 01, 2009 EUR k	Change EUR k	Amount adjusted Jan. 01, 2009 EUR k
Balance sheet assets			
Deferred taxes	15,835	-587	15,248
Total assets	**15,835**	**-587**	**15,248**
Balance sheet liabilities			
Equity			
Other reserves	-12,557	2,864	-9,693
Minority interest	14,888	54	14,942
Provisions for pensions	58,519	-3,505	55,014
Total liabilities	**60,850**	**-587**	**60,263**

Consolidated balance sheet ElringKlinger AG	Amount reported Dec. 31, 2009 EUR k	Change EUR k	Amount adjusted Dec. 31, 2009 EUR k
Balance sheet assets			
Deferred taxes	14,143	1,021	15,164
Total assets	**14,143**	**1,021**	**15,164**
Balance sheet liabilities			
Equity			
Other reserves	-6,079	-1,410	-7,489
Minority interest	13,213	-47	13,166
Provisions for pensions	59,359	2,478	61,837
Total liabilities	**66,493**	**1,021**	**67,514**

Summary of the principal accounting and measurement methods

The consolidated financial statements were prepared on the basis of historical acquisition and manufacturing costs with the exception of assets and liabilities for which measurement at fair value is mandatory in accordance with IFRS.

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

Consolidation methods

Assets and liabilities of the domestic and foreign companies included in the consolidated financial statements are recognized and measured according to the accounting policies that apply uniformly across the ElringKlinger Group.

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

Under the subsequent consolidation in accordance with the corresponding assets and liabilities, realized hidden reserves and built-in losses are adjusted, written off or released. Capitalized goodwill is not amortized, but is subject to annual impairment testing in accordance with IFRS 3.

If additional shares of an already fully consolidated subsidiary are acquired, the difference between the purchase price and minority interests is recognized in equity.

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

Results for subsidiaries acquired or sold in the course of the year are included in the consolidated Group Income Statement from the effective time of acquisition or until the effective time of divestment.

The financial year of all companies included, except for the Indian subsidiary, corresponds 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 intragroup 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 current as of the transaction date. As of the balance sheet date, assets and liabilities in foreign currency are measured at the closing rate. Differences arising on translation are recorded in income.

The financial statements of the foreign companies are translated into euros since this is the functional currency of the parent company. Since subsidiaries and joint ventures operate their businesses independently in financial, economic and organizational respects, the functional currency is identical to the relevant national currency of the company. For reasons of simplification, the expenses and income from financial statements of entities included in the consolidated financial statements which were originally prepared in foreign currencies are translated at the average rate for the year. The average rate for the year is calculated on the basis of daily rates. Assets and liabilities are translated at the closing rate. Currency differences are reported as a separate item in equity with no effect on net income. 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:

Curency	Abbr.	Closing rate Dec. 31, 2010	Closing rate Dec. 31, 2009	Average rate 2010	Average rate 2009
US dollar (USA)	USD	1.33800	1.44050	1.32091	1.39660
Pound (United Kingdom)	GBP	0.86250	0.89000	0.85601	0.89005
Franc (Switzerland)	CHF	1.25250	1.48360	1.36998	1.50885
Canadian dollar (Canada)	CAD	1.33700	1.51000	1.36522	1.58070
Real (Brazil)	BRL	2.22110	2.50970	2.32703	2.76663
Peso (Mexico)	MXN	16.59260	18.82600	16.69878	18.87628
RMB (China)	CNY	8.82050	9.82990	8.92888	9.53857
WON (South Korea)	KRW	1,500.89000	1,678.97000	1,528.50083	1,764.09167
Rand (South Africa)	ZAR	8.88490	10.67500	9.65535	11.50169
Yen (Japan)	JPY	108.80000	133.06000	115.29333	130.64000
Forint (Hungary)	HUF	277.84000	270.15000	276.38500	281.24500
Turkish lira	TRY	2.06610	2.15260	1.99815	2.16571
Indian rupee	INR	59.82760	67.00340	60.23459	67.40177

Accounting policies

Goodwill

The goodwill is attributable to cash-generating units (segments) as follows:

	2010 EUR k	2009 EUR k
Original equipment	68,554	68,229
Engineered plastics	4,816	4,816
Spare aftermarket	1,604	1,604
Total	**74,974**	**74,649**

Goodwill is capitalized and subjected to impairment testing on an annual basis. If the value is no longer recoverable, impairment is recorded. Otherwise, the valuation of the 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. Regular annual impairment testing of goodwill is performed as of the closing date on December 31. During impairment tests, the recoverable amount of the cash-generating unit is compared to its carrying amount. The value in use that is applied is the recoverable amount.

The values in use of the cash generating units are determined by discounting future cash flows. This calculation is based on the following key assumptions:

A detailed plan of the cash flows for the cash generating units is established over the forecast period of five years. Subsequent periods are accounted for by a perpetual annuity determined on the basis of the last period of the detailed forecast.

The discount factor applied as at December 31, 2010 was a uniform capital cost rate of 6.8% (2009: 8.74%). The capital cost rate is determined on the basis of the basic interest rate for risk-free bonds, the market risk premium and the beta factor. The beta factor represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group.

The impairment test performed as of December 31, 2010 did not lead to the impairment of goodwill. If a capital cost rate is assumed to be 1% higher or lower, this does not result in a goodwill impairment.

Goodwill from business combinations prior to April 1, 2004 is mainly capitalized and otherwise offset against reserves. Upon divestment of a consolidated company, any goodwill related to it is included in calculating the deconsolidation result. The goodwill that was offset against reserves, however, is not considered in determining the profit or loss made on the divestment.

Intangible assets

Purchased intangible assets, mainly patents, licenses and software, are recognized at cost.

Internally generated intangible assets, with the exception of goodwill, are capitalized if it is sufficiently probable that use of the asset is associated with a future economic benefit, the costs of the asset can be determined reliably, and the technical and economic feasibility along with the ability and intent to market it are ensured. The manufacturing costs of internally generated intangible assets are determined on the basis of directly attributable individual costs as well as their proportion of directly attributable overheads.

With the exception of goodwill, all intangible assets in the Group have determinable useful lives and are amortized over these useful lives using the straight-line method. Patents, licenses and software generally have useful lives of 10 years. Capitalized development costs and basic standard software have useful lives of 5 years. If the actual useful life is materially longer or shorter than 10 or 5 years, this actual useful life is recognized.

Property, plant and equipment

Tangible assets used in business operations for a period longer than one year are measured as property, plant and equipment at cost less scheduled straight-line depreciation in accordance with their use as well as any necessary impairment. The manufacturing cost of self-constructed property, plant and equipment is determined on the basis of directly attributable individual costs and their proportion of overhead cost. The allowable alternative of revaluation is not applied.

Depreciation is calculated throughout the Group based on the following useful lives:

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

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

Investment property

Investment property is measured at cost less use-related depreciation based on the straight-line method or the lower fair value. Investment property is reported individually under non-current assets.

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

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

Pursuant to IAS 36, property, plant and equipment and intangible assets are subjected to impairment testing at each balance sheet date if evidence of impairment exists. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized against the recoverable amount. The recoverable amount is the higher of the following two amounts: Net realizable value less anticipated costs to sell or the value in use. If the recoverable amount for an individual asset cannot be determined, an estimate of the recoverable amount is made at the next higher level cash generating unit.

In the event that the recoverable amount exceeds the carrying amount in subsequent periods, a reversal is recognized up to, at most, depreciated cost.

Impairments and reversals are recorded in income.

Financial instruments

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

Original financial instruments

Financial instruments held within the Group are divided into the following categories:

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

At their acquisition date, financial instruments are categorized on the basis of their intended use.

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

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

Financial assets

All usual purchases and sales of financial assets are recorded in the balance sheet on the exercise date, 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 through profit or loss”, transaction costs directly attributable to the purchase are included.

Financial assets that are not classified as “fair value through profit or loss” are reviewed for impairment at each balance sheet date. If the fair value of the financial asset is lower than its carrying amount, the carrying amount is written down to its fair value. This reduction represents an impairment loss and is recognized as an expense. Any impairment previously recognized as an expense is reversed and credited to the Group Income Statement if warranted by events occurring after the original recognition of the impairment.

Changes to the fair value of financial assets classified as available for sale are recognized in equity after taking deferred taxes into account.

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 calculated using recognized measurement models and with recourse to current market parameters. The measurement methods include using the most recent transactions between knowledgeable, willing and independent business partners (i.e., at arm's length), comparison with a current fair value of another, substantially identical, financial instrument and the analysis of discounted cash flows.

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

Financial assets acquired for the purpose of sale in the near future (financial instruments held for trading) are **recognized at their fair value through profit or loss.** Within the ElringKlinger Group, these are derivatives which do not meet the prerequisites for hedge accounting.

Financial assets resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as **loans and receivables**. Current assets and liabilities classified in this category are measured at acquisition cost, whereas the non-current financial assets and liabilities are measured at amortized cost in accordance with the effective interest method. Cash includes cash in hand, bank deposits and short-term deposits with an original term of less than three months. This item is measured at amortized cost.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables based on the creditworthiness of the customer concerned. Within the ElringKlinger Group, an allowance for trade receivables is recognized for individual risks identified. Impairments of trade receivables are initially recognized in an adjustments account. The impaired receivable is retired when it is considered unrecoverable.

Financial instruments are recorded in the category **"financial investments held to maturity"** when the Group has the intent and the legal ability to hold them until maturity.

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

Financial liabilities

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

Upon initial recognition, financial liabilities are measured according to fair value less any transaction costs directly attributable to borrowing.

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

At ElringKlinger, **financial liabilities measured at amortized cost** include trade payables and interest-bearing loans. They are measured at amortized cost using the effective interest method. Gains or losses are recognized in the Group Income Statement when the liability is retired or has been redeemed.

Financial liabilities measured at fair value through profit or loss comprise the financial liabilities held for trading purposes, in this case, derivatives, including any embedded derivatives that have been separated from the host contract, if applicable, since these do not qualify for hedge accounting as a hedging instrument. Gains or losses are recognized in the Group Income Statement.

Derivative financial instruments and treatment of hedges

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

Derivative financial instruments used in the ElringKlinger Group are forward exchange, interest and price hedge transactions. The purpose of derivative financial instruments is to reduce the negative effects of currency, interest and price risks on the assets, liabilities, financial position and profit or loss of the Group. There were no price hedge transactions as of the balance sheet date.

Inventories

Inventories are recognized at cost or the lower net realizable value. Raw materials, supplies and consumables as well as merchandise are measured at the average adjusted cost. Manufacturing cost of work in progress and finished goods are determined on the basis of directly attributable individual costs and their proportion of production overheads. The proportion of overhead cost attributable to these products is determined on the basis of normal staffing levels. Manufacturing cost does not include distribution cost and borrowing cost. General administrative overheads are included in manufacturing cost if related to production. Net realizable value represents the estimated sales price less all estimated costs through completion as well as the cost of marketing, sale and distribution. Markdowns are made for detectable impairment due to lack of marketability and quality defects, and to account for declining sales prices.

Cash

Cash includes cash in hand, checks and bank deposits available on demand. No cash equivalents are held. Cash is recognized at amortized cost.

Provisions for pensions

Provisions for pensions are calculated on the basis of the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested benefits known at the end of the reporting period, expected future increases in pensions and salaries are taken into account with a prudent estimate of the relevant variables. The calculation is based on actuarial reports that apply biometrical bases.

Actuarial gains and losses resulting from the difference between the expected and actual accounting changes in headcount, as well as differences arising changes to accounting assumptions, are recognized in full in the period in which they occur. Recognition of these actuarial gains and losses is not on the Group Income Statement but rather under comprehensive income or loss on the Group Statement of Changes in Equity.

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

Current and non-current provisions

Provisions are recorded when a past event gives rise to a present obligation to a third party, utilization of the obligation is probable and the anticipated amount of the obligation can be estimated reliably.

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

Leases

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

If economic ownership under a lease rests with the lessor (operating leases), the lessor recognizes the leased object on its balance sheet. The lease expenditures incurred are then recorded as expenses over the term of the lease using the straight-line method.

Recognition of income and expense

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

Sales revenues are recorded when the performances due have been rendered and the principal risks and rewards have passed to the purchaser and receipt of the payment can be reliably expected. Interest income is recognized on an accrual basis, taking into account the outstanding loan amount 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 amount.

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

Other income is recognized on an accrual basis in accordance with the substance of the underlying contract.

Operating expenses are recorded in the Group Income Statement on the basis of a direct relationship between costs incurred and the corresponding income at the time the of performance or at the time of origination.

Research and development costs

Research costs are expensed at the time they are incurred. Development costs are also recognized at the time they are incurred unless they meet the criteria for capitalization as internally generated intangible assets under IAS 38.57.

- It must be possible to reliably determine development costs.
- Technical and economical feasibility have been achieved, as well as commercial viability.
- There must be sufficient probability that development activities will provide a future economic benefit to the company.

Capitalized costs are included under intangible fixed assets. Other development costs are recognized as an expense when incurred.

Government grants

The Group receives government grants primarily for development projects. These are recorded in income in the period when they are received and reported as other operating income, since the expenses have already been incurred.

Borrowing Costs

Borrowing costs are expensed in the period 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 cost of that asset.

Income taxes and deferred taxes

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

Current tax expense is determined on the basis of the taxable income for the relevant year. Taxable income differs from net income for the year as shown in the Group Income Statement, since it excludes expenses and income which will be tax deductible in earlier or later years or those which will never become taxable or tax deductible. The liability of the Group for current tax expense is calculated on the basis of applicable tax rates or tax rates established by law as at the balance sheet date.

Deferred taxes are the expected tax charges and benefits from the differences in the carrying amounts of assets and debts in the tax base of the individual companies compared with the valuations in the consolidated financial statements under IFRS. The balance sheet liability method is applied. Such assets and liabilities are not recognized if the temporary difference is the result of (i) goodwill arising from a purchase of interests (a share deal) or (ii) from the first-time recognition of other assets and 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 the deductible temporary differences can be offset. Otherwise, deferred tax assets are recognized on loss carryforwards to the extent that their future use may be anticipated.

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

Deferred taxes are measured at the future tax rates, i.e. those that are expected to apply at the time of realization.

Changes in deferred tax assets are recognized in the Group Income Statement as tax income or expense unless they relate directly to items recognized under equity with no effect on income; in that case, deferred taxes are also reported under equity with no effect on income.

Contingent liabilities and contingent assets

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

Use of estimates

Financial statements are prepared in accordance with the pronouncements of the IASB using estimates which influence balance sheet valuations, the nature and the scope of contingent debts and contingent receivables as at the balance sheet date and the amounts of income and expenses in the reporting period. At ElringKlinger, the assumptions and estimates relate mainly to the specification of useful lives, the recoverability of receivables, the recoverability of inventories, the recognition and measurement or provisions, the measurement of goodwill and the realization of future tax benefits. Actual results may deviate from these estimates. Changes are recognized through profit or loss at the time better insights are available.

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

The use of estimates for other items in the consolidated balance sheet and the consolidated Group Income Statement are described in the accounting principles for the respective items. This affects in particular the following matters: Impairments of goodwill, impairments of property, plant and equipment, impairment of receivables and the valuation of pension provisions.

Risks and uncertainties

In the wake of the economic and financial market crises and their spillover to the real economy, the international automotive markets recovered strongly in 2010, returning in some areas to levels experienced prior to the crisis. Growth is expected to be weaker, yet sustainable, for 2011 and the years to come.

The strong recovery in the international vehicles business further reduced default risk.

The price development for materials and the availability of materials could negatively affect the Group’s earnings in 2011. This general risk could not be accounted for in the consolidated financial statements as it is neither quantifiable nor appreciable at the moment.

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

Individual disclosures on the Group Income Statement

1 Sales revenues

Sales revenues increased by EUR 216,328 k in comparison with 2009 to reach EUR 795,657 k. Sales revenues of the Group are made up as follows:

	2010 EUR k	2009 EUR k
Sale of goods	783,527	567,452
Proceeds from the rendering of services	4,324	4,070
Income from rental and leasehold	7,806	7,807
Total	795,657	579,329

Breakdown by geographical markets:

	2010 EUR k	2009 EUR k
Domestic	245,620	191,612
Foreign	550,037	387,717
Total	795,657	579,329

2 Cost of sales

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

	2010 EUR k	2009 EUR k
Cost of materials	307,078	247,519
Personnel expenses	132,767	93,817
Amortization and depreciation	63,401	56,202
Other expenses	52,880	28,782
Total	556,126	426,320

Selling expenses

3

Selling expenses increased by EUR 7,812 k compared to 2009 to reach EUR 54,292 k. Selling expenses mainly include personnel expenses, material and marketing costs, as well as amortization and depreciation related to sales activities.

General and administrative expenses

4

General and administrative expenses include personnel expenses and material costs as well as the amortization and depreciation related to the administrative area. General and administrative expenses rose by EUR 7,581 k compared to 2009 to EUR 31,442 k.

Research and development expenses

5

Research and development expenses include the personnel expenses, depreciation and amortization attributable to these activities, as well as the cost of experimental materials and tools, unless these development costs are required to be capitalized under the conditions set forth in IAS 38.57. Development costs in the amount of EUR 6,098 k were capitalized in the 2010 financial year. Amortization of capitalized development costs included in this line item of the Group Income Statement amounted to EUR 3,957 k in 2010.

Other operating income

6

	2010 EUR k	2009 EUR k
Government grants	3,288	3,584
Reimbursements from third parties	2,423	3,850
Insurance reimbursements	1,921	84
Release of provisions/deferred income	1,786	6,301
Income from disposals of non-current assets	700	1,178
Fair value changes of derivative instruments	669	9,494
Other	791	3,754
Total	**11,578**	**28,245**

Income from release of provisions include EUR 141 k related to the release of the provision for raw material related derivatives.

Other operating income includes out-of-period income from the release of provisions and deferred income (EUR 1,786 k, 2009: EUR 6,301 k).

7 Other operating expenses

	2010 EUR k	2009 EUR k
Losses on disposal of fixed assets	2,272	2,224
Allowances for receivables	582	1,345
Other taxes	202	220
Expenses in connection with provisions for expected losses	0	3,647
Warranties	0	1,401
Other	2,579	3,104
Total	5,635	11,941

Expenses in connection with provisions for expected losses and guarantees were recorded as cost of sales beginning in 2010.

8 Financial result

	2010 EUR k	2009 EUR k
Financial income		
Income from currency differences	13,874	9,342
Interest income	842	449
Earnings from affiliated entities	0	1
Other	0	8
Financial income, total	**14,716**	**9,800**
Financial expenses		
Expenses from currency differences	-23,190	-9,347
Interest expense	-13,588	-14,350
– thereof from derivative financial instruments	-285	-185
Other	-2	0
Financial expenses, total	**-36,780**	**-23,697**
Financial result	-22,064	-13,897

Of the interest expenses, EUR 3,353 k (2009: EUR 2,945 k) are related to interest portions of pension plans and the remainder to bank interest.

Expenses for taxes on income

9

The income tax expense is composed as follows:

	2010 EUR k	2009 EUR k
Current tax expense	25,074	12,315
Deferred taxes	285	2,241
Tax expense reported	**25,359**	**14,556**

The taxes on income are corporation and municipal trade taxes including the solidarity surcharge of the domestic Group companies as well as comparable income taxes of the foreign Group companies.

The income tax rate calculated for the companies in Germany is 27.5% (2009: 27.5%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 16.9% and 42.0% (2009: between 16.9% and 42.0%). The average foreign tax rate is 23.9% (2009: 32.6%).

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

The following table shows a reconciliation between the income tax expense that might theoretically be expected to arise for the Group under application of the current domestic rate of 27.5% (2009: 27.5%) and the income tax expense actually reported.

	2010 EUR k	2009 EUR k
Earnings before taxes	93,970	49,391
Expected tax rate	**27.5%**	**27.5%**
Expected tax expense	**25,842**	**13,582**
Change in the expected tax expense due to:		
- Lump-sum tax on dividend	346	79
- Tax-free income and non-deductible expenses	366	409
- Use of non-capitalized tax loss carryforwards	10	0
- Out-of-period taxes	122	-183
- Deviations due to changes in tax rate	-1,685	1,087
- Other effects	358	-418
Actual tax expense	**25,359**	**14,556**
Actual tax rate	**27.0%**	**29.5%**

Retained earnings of EUR 21,692 k at German and non-German subsidiaries will be distributed to ElringKlinger AG in the coming years. The tax expense in relation to distributions in Germany amounted to EUR 295 k (2009: EUR 98 k) and was recorded as a deferred tax liability. Further retained earnings of German and non-German subsidiaries are intended to be permanently reinvested in those operations.

Deferred tax assets on tax loss carryforwards have been recognized for ElringKlinger Marusan in Japan. Deferred tax assets on tax loss carryforwards of Group companies in the US and India amounting to EUR 2,443 k have not been recognized as the criteria for capitalization are not met. The tax loss carryforwards of the two group companies amounted to EUR 8,204 k, of which EUR 2,619 k will be realized within the next five years. Additional adjustments on deferred tax assets are not necessary.

Tax deferrals relate to the following line items:

	Deferred tax assets		Deferred tax liabilities	
Balance sheet items	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
Intangible assets	88	236	3,568	2,951
Property, plant and equipment	61	207	26,869	25,240
Investment property	0	0	1,772	1,810
Financial assets	6	3	132	5
Other non-current assets	62	157	0	0
Inventories	1,732	1,562	890	372
Trade receivables	322	296	193	699
Other current assets	0	0	118	47
Cash and cash equivalents	0	0	692	0
Provisions for pensions	6,414	5,505	0	0
Non-current provisions	1,658	281	0	0
Non-current financial liabilities	67	52	8	33
Other non-current liabilities	2,631	2,656	0	0
Current provisions	1,644	1,487	18	0
Trade payables	0	45	33	45
Current financial liabilities	700	24	93	333
Other current liabilities	3,135	2,101	5	0
Deferred taxes associated with investments in subsidiaries	0	0	295	98
Tax loss carryforwards	229	552	0	0
Shown in the balance sheet	18,749	15,164	34,686	31,633

The change in the method for measuring pension obligations resulted in a EUR 1,905 k increase in deferred tax assets and a EUR 5 k increase in deferred tax liabilities being recognized in equity.

Basic and diluted earnings per share

10

To obtain the basic earnings per share, the period profit attributable to the shareholders of the parent company is divided by the number of individual shares. The number of individual shares increased from 57,600,000 to 63,359,990 due to the capital increase on October 6, 2010.

Diluted earnings per share correspond to basic earnings per share and are calculated as follows:

	2010	2009
Profit attributable to shareholders of ElringKlinger AG in EUR k	65,617	33,222
Average number of shares	58,945,053	57,600,000
Earnings per share in EUR	**1.11**	**0.58**

Individual disclosures on the Group Statement of Financial Position

11 Intangible assets

	Development costs (internally generated) EUR k	Goodwill (purchased) EUR k	Patents, licenses, software (purchased) EUR k	Intangible assets under construction EUR k	Total EUR k
Acquisition/manufacturing costs					
Balance as of Jan. 1, 2010	**17,298**	**87,817**	**29,749**	**34**	**134,898**
Currency changes	686	592	291	0	1,569
Change consolidated group	0	0	0	0	0
Additions	6,098	0	684	205	6,987
Reclassifications	0	0	29	-34	-5
Disposals	999	225	6,115	0	7,339
Balance as of Dec. 31, 2010	**23,083**	**88,184**	**24,638**	**205**	**136,110**
Amortization and depreciation					
Balance as of Jan. 1, 2010	**8,996**	**13,168**	**23,550**	**0**	**45,714**
Currency changes	475	42	202	0	719
Change consolidated group	0	0	0	0	0
Additions	3,957	0	1,345	0	5,302
Disposals	999	0	6,086	0	7,085
Balance as of Dec. 31, 2010	**12,429**	**13,210**	**19,011**	**0**	**44,650**
Net carrying amount as of Dec. 31, 2010	**10,654**	**74,974**	**5,627**	**205**	**91,460**
Acquisition/manufacturing costs					
Balance as of 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 of Dec. 31, 2009	**17,298**	**87,817**	**29,749**	**34**	**134,898**
Amortization and depreciation					
Balance as of 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 of Dec. 31, 2009	**8,996**	**13,168**	**23,550**	**0**	**45,714**
Net carrying amount as of Dec. 31, 2009	**8,302**	**74,649**	**6,199**	**34**	**89,184**

The 2010 disposals of goodwill included EUR 225 k from the disposal of an added value of ElringKlinger, S.A.U., Reus (Spain).

All amortization of intangible assets is contained under the following line items in the Group Income Statement:

	2010 EUR k	2009 EUR k
Cost of sales	503	350
Selling expenses	98	476
General and administrative expenses	589	512
Research and development costs	4,054	3,392
Total	**5,244**	**4,730**

12 Property, plant and equipment

	Land and buildings EUR k	Technical plant and machinery EUR k	Other plant, office equipment EUR k	PPE under construction EUR k	Total
Acquisition/manufacturing cost					
Balance as of Jan. 1, 2010	**160,010**	**507,274**	**118,358**	**35,139**	**820,781**
Currency changes	8,192	23,779	1,254	1,597	34,822
Additions	17,173	44,989	5,336	59,658	127,156
Reclassifications	11,039	19,233	1	-30,268	5
Disposals	33	19,157	11,457	3,615	34,262
Balance as of Dec. 31, 2010	**196,381**	**576,118**	**113,492**	**62,511**	**948,502**
Amortization and depreciation					
Balance as of Jan. 1, 2010	**45,144**	**290,674**	**98,785**	**0**	**434,603**
Currency changes	2,658	12,128	750	0	15,536
Additions	4,355	67,389	3,985	0	75,729
Reclassifications	0	161	-161	0	0
Disposals	-143	15,834	11,169	0	26,860
Balance as of Dec. 31, 2010	**52,300**	**354,518**	**92,190**	**0**	**499,008**
Net carrying amount as of Dec. 31, 2010	**144,081**	**221,600**	**21,302**	**62,511**	**449,494**
Acquisition/manufacturing cost					
Balance as of 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 as of Dec. 31, 2009	**160,010**	**507,274**	**118,358**	**35,139**	**820,781**
Amortization and depreciation					
Balance as of 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
Reclassifications	-4	0	4	0	0
Disposals	1,428	7,038	2,488	0	10,954
Balance as of Dec. 31, 2009	**45,144**	**290,674**	**98,785**	**0**	**434,603**
Net carrying amount as of Dec. 31, 2009	**114,866**	**216,600**	**19,573**	**35,139**	**386,178**

Property, plant and equipment contain technical equipment capitalized by the Group as beneficial owner under finance lease arrangements in the amount of EUR 434 k (2009: EUR 432 k). In 2010, depreciation expense on assets under finance lease arrangements amounted to EUR 52 k (2009: EUR 71 k).

As in 2009, there were no impairment charges on property, plant and equipment in 2010.

Investment property

13

	Investment propety EUR k	Investment property under construction EUR k	Total EUR k
Acquisition/manufacturing cost Balance as of Jan. 1, 2010	**52,325**	**89**	**52,414**
Currency changes	-395	-2	-397
Additions	169	14	183
Disposals	141	8	149
Balance as of Dec. 31, 2010	**51,958**	**93**	**52,051**
Amortization and depreciation Balance as of Jan. 1, 2010	**25,014**	**0**	**25,014**
Currency changes	-96	0	-96
Additions	1,180	0	1,180
Disposals	141	0	141
Balance as of Dec. 31, 2010	**25,957**	**0**	**25,957**
Net carrying amount as of Dec. 31, 2010	**26,001**	**93**	**26,094**
Acquisition/manufacturing cost Balance as of Jan. 1, 2009	**52,394**	**88**	**52,482**
Currency changes	-316	-2	-318
Additions	230	20	250
Reclassifications	17	-17	0
Balance as of Dec. 31, 2009	**52,325**	**89**	**52,414**
Amortization and depreciation Balance as of Jan. 1, 2009	**23,894**	**0**	**23,894**
Currency changes	-69	0	-69
Additions	1,189	0	1,189
Balance as of Dec. 31, 2009	**25,014**	**0**	**25,014**
Net carrying amount as of Dec. 31, 2009	**27,311**	**89**	**27,400**

Investment property includes industrial parks in Ludwigsburg, Idstein, Kecskemét-Kádafalva (Hungary). The fair value determined using the discounted cash flow method is EUR 33,785 k (2009: EUR 77,795 k). 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 an interest rate of 10.00% (2009: 4.97%). Measurement of the fair values was not carried out by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR 7,806 k (2009: EUR 7,807 k). Expenses directly connected with this financial investment amounted to EUR 5,216 k (2009: EUR 5,283 k).

14 Financial assets

	Long-term equity investments EUR k	Non-current securities EUR k	Other financial assets EUR k	Total EUR k
Acquisition cost Balance as of Jan. 1, 2010	**0**	**1,569**	**41**	**1,610**
Currency changes	0	34	0	34
Additions	0	470	0	470
Disposals	0	562	3	565
Balance as of Dec. 31, 2010	**0**	**1,511**	**38**	**1,549**
Amortization and depreciation Balance as of Jan. 1, 2010	**0**	**0**	**0**	**0**
Additions	0	2	0	2
Revaluations	0	0	0	0
Balance as of Dec. 31, 2010	**0**	**2**	**0**	**2**
Net carrying amount as of Dec. 31, 2010	**0**	**1,509**	**38**	**1,547**
Fair value Dec. 31, 2010		1,547	38	

	Long-term equity investments EUR k	Non-current securities EUR k	Other financial assets EUR k	Total EUR k
Acquisition cost Balance as of Jan. 1, 2009	**8**	**1,545**	**40**	**1,593**
Currency changes	0	-2	0	-2
Additions	0	845	0	845
Reclassifications	-8	0	8	0
Disposals	0	819	7	826
Balance as of Dec. 31, 2009	**0**	**1,569**	**41**	**1,610**
Amortization and depreciation Balance as of Jan. 1, 2009	**0**	**1**	**0**	**1**
Currency changes	0	-1	0	-1
Balance as of Dec. 31, 2009	**0**	**0**	**0**	**0**
Net carrying amount as of Dec. 31, 2009	**0**	**1,569**	**41**	**1,610**
Fair value Dec. 31, 2009		1,610	41	

Of the long-term securities, EUR 1,376 k (2009: EUR 1,375 k) is pledged in full to secure pension claims.

Non-current income tax benefits and other non-current assets

15

Non-current income tax benefits contain mainly the corporate tax credit of ElringKlinger AG capitalized at present value in the amount of EUR 3,409 k (2009: EUR 4,323 k). The corporation tax credit will be disbursed to ElringKlinger AG in ten equal annual installments from 2008 until 2017.

Other non-current assets include an advance payment on future licensing expenses amounting to EUR 632 k (2009: EUR 650 k) and a long-term right to use a parcel of land in India amounting to EUR 717 k.

Inventories

16

	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
Raw materials, consumables and supplies	48,642	37,476
Work in progress	15,589	10,671
Finished goods and merchandise	71,978	52,535
Prepayments made	2,440	786
Total	138,649	101,468

Under inventories, markdowns of EUR 9,961 k (2009: EUR 14,898 k) have been made to account for marketability risks.

Trade receivables and other current assets as well as current income tax assets

17

For trade receivables and other current assets, impairments of EUR 2,858 k (2009: EUR 3,749 k) were recognized for specific identifiable risks and likely use of discounts.

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

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

The adjustment account for trade receivables has developed as follows:

	2010 EUR k	2009 EUR k
Balance as of Jan. 1	**3,749**	**4,045**
Addition	1,107	1,264
Reversal/utilization	-2,206	-1,686
Exchange rate effects	208	126
Balance as of Dec. 31	2,858	3,749

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

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

	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
Neither overdue nor impaired:	**102,746**	**79,195**
Overdue, not impaired:		
– less than 30	22,319	13,930
– from 30 to 60	5,127	6,059
– from 60 to 90	3,061	3,856
– from 90 to 180	434	306
– more than 180	131	99
Total:	31,072	24,250
Impaired	**4,377**	**3,316**
Carrying amount	**138,195**	**106,761**

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

The other current assets mainly include tax receivables (value added tax and other taxes EUR 4,994 k, 2009: EUR 4,387 k).

18 Cash

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 amount of these assets corresponds to their fair value.

19 Equity

* CF. PAGE 124/125

The changes in individual items of equity in the Group are shown separately in the “**Group Statement of Changes in Equity**”*

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

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company’s nominal capital by issuing new shares for cash contributions on one or more occasions up to a total of EUR 23,040,010.00 (before the EUR 28,800,000.00 capital increase carried out in 2010) by May 25, 2015. As a rule, the shareholders are entitled to subscription rights.

However, the Management Board is authorized, subject to approval by the Supervisory Board, to exclude shareholder subscription rights order to remove fractional amounts from the subscription right; if new shares are issued at a price not significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to § 186 (3) sentence 4 AktG, do not represent more than 10% of the nominal capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of nominal capital includes any shares issued or sold during the term of this authorization in exclusion of shareholders' subscription rights in direct or indirect application of § 186 (3) AktG. The conditions of the capital increase are determined by the Management Board with the approval of the Supervisory Board (§ 4 no. 3 of the Articles of Association).

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

* CF. GLOSSARY

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 2010, ElringKlinger AG distributed to its shareholders a dividend of EUR 11,520 k (EUR 0.20 per share) from the retained earnings for 2009. In the financial year 2009, the distribution was EUR 8,640 k (EUR 0.15 per share) from the retained earnings for 2007. The amount for dividend per share for the 2009 financial year relates to the number of shares outstanding prior to the capital increase in 2010.

The Management Board and Supervisory Board of the parent company ElringKlinger AG will propose to the shareholders' meeting to be held on May 31, 2011, a distribution of a dividend of EUR 0.35 per share with dividend entitlement, representing a total distribution of EUR 22,176 k.

Minority interests in equity and net profit or loss for the period 20

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 interests are reported under equity in the consolidated balance sheet, separately from the equity attributable to the shareholders of the parent company. Similarly, minority interests in the net profit and in total comprehensive income are reported separately in the consolidated Group Income Statement and in the Group Statement of Comprehensive Income.

The minority interests in equity as reported in the consolidated financial statements relate to non-group shareholders in subsidiaries. EUR 5,542 k (2009: EUR 5,327 k) relate to equity interests, EUR 1,385 k (2009: EUR 1,376 k) relate to interest in revenue reserves from the first-time adoption of IFRS and EUR 8,413 k (2009: EUR 6,510 k) relate to interest in the net profit.

The acquisition of minority interests in ELNA and EKLS resulted in a decrease in minority interest in equity by a total of EUR 667 k.

21 Provisions for pensions

The pension obligations of the Group's foreign companies mainly take the form of defined contribution plans while in the case of domestic companies, pension obligations take the form of defined benefit and defined contribution plans.

Under the **defined contribution plans** the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Subsequent to payment of the contributions, the company does not have any further obligations. Contribution payments for the current year are reported under personnel expenses in the relevant year; in 2010, the Group's contribution payments totaled EUR 818 k (2009: EUR 434 k) and are allocated to the relevant function costs.

The **defined benefit plans** are accounted for in the group through the recognition of provisions for pensions that are determined by the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested benefits known at the end of the reporting period, expected future increases in pensions and salaries are taken into account with a prudent estimate of the relevant variables. In the case of the domestic companies, the computation is based on actuarial reports using biometric calculations (2005 G mortality tables of Prof. Dr. Klaus Heubeck).

Under the defined benefit plans, upon reaching the retirement age of 63 years, employees have a claim to benefits that depend on their length of service with the company. Employees covered by the collective bargaining agreement receive a pension benefit of approximately 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 executives is a maximum of 35% of the final monthly salary.

The key assumptions made are:

Measurement as of	Dec. 31, 2010	Dec. 31, 2009
Discount rate (weighted)	1.60–7.00%	1.75–5.07%
Expected salary increases (in %)	2.00%	2.00%
Future pension increases	2.00%	2.00%

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

	2010 EUR k	2009 EUR k
Current service cost	1,741	2,343
Interest expense	3,398	3,394
Expected return on plan assets	-397	-365
Past service costs	0	-16
Total pension expense	**4,742**	**5,356**

The plan assets available to finance the pension obligations of two companies changed as follows:

	2010 EUR k	2009 EUR k
Market value as of Jan. 1	10,697	10,750
Expected return on plan assets	434	371
Employer contributions	1,054	676
Plan participant contributions	1,685	1,307
Service cost	-3,226	-2,287
Actuarial gains/losses	-185	-155
Other	-1,138	0
Currency effects	1,969	35
Market value as of Dec. 31	**11,290**	**10,697**

The expected return on plan assets is based on interest of 3.5% and 4.6%.

The actual return on plan assets amounted to EUR 248 k (2009: EUR 219 k).

The current service cost is reported as part of the personnel expenses of the functional areas. The full amount of actuarial gains and losses during the current year is reported under other comprehensive income.

The changes in the present value of defined benefit obligations of the current financial year can be broken down as follows:

	2010 EUR k	2009 EUR k
Present value of pension benefits as of Jan. 1	**72,534**	**65,764**
Current service cost	1,741	2,343
Interest expense	3,398	3,394
Disbursements/utilization	-4,608	-4,748
Actuarial gains/losses	3,815	5,984
Other changes/currency differences	1,055	-203
Present value of pension benefits as of Dec. 31,	**77,935**	**72,534**

The amount of the Group's obligation as reported on the balance sheet is derived as follows:

	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k	Dec. 31, 2008 EUR k	Dec. 31, 2007 EUR k
Present value of funded and unfunded obligations	**77,935**	**72,534**	**65,764**	**52,239**
Fair value of plan assets	-11,290	-10,697	-10,750	-175
Present value of net obligations	66,645	61,837	55,014	52,064
Net liability reported on the balance sheet	**66,645**	**61,837**	**55,014**	**52,064**

22 Current and non-current provisions

Current and non-current provisions can be broken down as follows:

	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
Current provisions	10,721	10,651
Non-current provisions	10,378	6,015
Total	**21,099**	**16,666**

The provisions relate to:

	Personnel obligations EUR k	Warranty obligations EUR k	Potential losses from pending tansactions EUR k	Litigation costs EUR k	Other risks EUR k	Total EUR k
Balance as of Jan. 1, 2010	**7,485**	**2,384**	**4,311**	**833**	**1,653**	**16,666**
Exchange rate difference	93	13	121	4	18	249
Utilization	1,805	2,091	3,646	74	1,068	8,684
Reversal	646	872	786	133	217	2,654
Unwinding of discount	257	9	0	0	0	266
Addition	5,630	2,240	6,534	255	597	15,256
Balance as of Dec. 31, 2010	**11,014**	**1,683**	**6,534**	**885**	**983**	**21,099**

Personnel provisions are recognized for the pre-retirement part-time scheme, long-service anniversary benefits and similar obligations.

The provision for warranties represents the best estimate of the management and was recognized on the basis of past experience and the industry average for defective products with regard to the Group's liability for a warranty of twelve months.

The other risks relate to a variety of identifiable individual risks and uncertain obligations, which have been included based on the likelihood of their occurrence.

23 Current and non-current financial liabilities

	Domestic EUR k	Foreign EUR k	Total Dec. 31, 2010 EUR k	Domestic EUR k	Foreign EUR k	Total Dec. 31, 2009 EUR k
Overdrafts	231	13,200	13,431	27,706	3,307	31,013
Financial liabilities with residual terms of less than one year	42,503	20,943	63,446	22,513	2,708	25,221
Current financial liabilities	**42,734**	**34,143**	**76,877**	**50,219**	**6,015**	**56,234**
Financial liabilities with residual terms of more than one year	120,027	2,331	122,358	153,425	10,844	164,269
Total	**162,761**	**36,474**	**199,235**	**203,644**	**16,859**	**220,503**

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

	Domestic EUR k	Foreign EUR k	Total Dec. 31, 2010 EUR k	Domestic EUR k	Foreign EUR k	Total Dec. 31, 2009 EUR k
Payable on demand or less than one year	42,503	20,943	63,446	22,513	2,708	25,221
Between one and five years	100,019	2,331	102,350	101,938	10,844	112,782
More than five years	20,008	0	20,008	51,487	0	51,487
Total	162,530	23,274	185,804	175,938	13,552	189,490

The average interest rates were:

	Dec. 31, 2010 %	Dec. 31, 2009 %
Overdrafts:		
Domestic	2.50	3.67
Foreign	9.76	1.90
Financial liabilities:		
Domestic: less than one year	4.24	4.34
Domestic: between one and five years	4.06	4.18
Domestic: more than five years	4.45	4.42
Foreign: less than one year	2.09	3.25
Foreign: between one and five years	4.23	7.36
Foreign: more than five years	-	-

Fixed interest rates have been agreed for financial liabilities amounting to EUR 154,530 k (2009: EUR 166,938 k). In addition, interest swaps are in place for EUR 9,200 k in loans. Under these swaps, variable interest payments are exchanged for fixed amounts.

Land charges on company land with a carrying amount of EUR 85,601 k (2009: EUR 70,100 k), collateral on inventory with a carrying amount of EUR 3,454 k (2009: EUR 3,397 k) and receivables with a carrying amount of EUR 6,716 k (2008: EUR 6,490 k) have been pledged as collateral. The secured liabilities amounted to EUR 32,324 k (2009: EUR 28,809 k) as of December 31, 2010.

As of December 31, 2010, the Group had unused lines of credit amounting to EUR 155,230 k (2009: EUR 109,686 k).

Trade payables and other current and non-current liabilities 24

Trade payables and other current and non-current liabilities consist of outstanding obligations from trade and current expenses.

The carrying amounts of trade payables approximate their fair value.

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

Current and non-current liabilities include accrued liabilities relating to tooling revenue.

25 Hedging policy and financial instruments

Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger Group, changes in exchange rates, interest rates and prices of raw materials impact the assets, liabilities, financial position and profit or loss of the Group. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. Additionally, there are liquidity risks which relate to credit and market risks or accompany a deterioration of business operations and financial market turmoil.

By concluding hedges, the Management Board of ElringKlinger aims to manage the risk factors that may adversely affect the assets, liabilities, financial position and profit or loss and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. ElringKlinger processes a significant volume of high-grade steel. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. During the first half of 2010, ElringKlinger used derivative financial instruments to hedge portions of alloy surcharges assessed in internal part price calculations. A price corridor surrounding the average cost was hedged. If the stock exchange quotation of nickel exceeded the upper range of the corridor, ElringKlinger received a compensatory payment. If the stock exchange quotation of nickel fell below the lower range of the corridor, ElringKlinger had to make a compensatory payment. Existing nickel hedges had a remaining term expiring in April 2010.

Hedge accounting in accordance with IAS 39 was not applied.

Currency risk

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

Exchange rate risk arises for the Group in relation to its operating business principally when sales revenues are earned in a different currency than that in which the related costs are incurred. Sales revenues are generally generated 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 activities are generally accounted for in the functional currency of the group entity. The group also endeavors to minimize its foreign currency risk by manufacturing its products in the relevant local sales markets.

In order to limit currency risk, current receivables, liabilities and debts denominated in foreign currencies are hedged with forward currency transactions.

Subsidiaries are not permitted to take up financing in foreign currency or to invest it for speculative reasons. Intragroup financing and investment is usually denominated in the relevant functional currency.

Several ElringKlinger AG subsidiaries are domiciled outside the eurozone. Since the euro is the reporting currency of the ElringKlinger Group, the income and expenses of these subsidiaries are translated into euros upon consolidation. Changes in the average exchange rates as compared to prior periods can therefore result in currency translation effects that are reflected in the net profit or loss of the Group.

The group also recognizes assets and liabilities relating to these subsidiaries outside of the eurozone that are denominated in national currencies. When these assets are translated into euros, exchange rate fluctuations can lead to changes in value. The changes in these net assets are reflected in group equity.

ElringKlinger has significant financial liabilities in the form of CHF-denominated loans (CHF 71,500 k). Depending on cash flows generated in CHF, exchange rate fluctuations can have a significant impact on net profit or loss for the period.

A sensitivity analysis has been conducted in order to quantify the potential effects of exchange rate changes on consolidated net profit or loss and group equity. This analysis illustrates the negative change in consolidated net profit or loss and group equity in the event that the euro appreciates by 10% as compared to the other Group currencies:

	USD Dec. 31, 2010 EUR k	CHF Dec. 31, 2010 EUR k	CAD Dec. 31, 2010 EUR k	Other Dec. 31, 2010 EUR k	Total Dec. 31, 2010 EUR k
Consolidated net profit/loss	-59	-987	-739	-1,840	-3,625
Group equity	-477	-3,688	-2,221	-12,525	-18,911

	USD Dec. 31, 2009 EUR k	CHF Dec. 31, 2009 EUR k	CAD Dec. 31, 2009 EUR k	Other Dec. 31, 2009 EUR k	Total Dec. 31, 2009 EUR k
Consolidated net profit/loss	94	-675	-34	-670	-1,285
Group equity	-471	-2,872	-2,021	-9,237	-14,601

Interest rate risk

Interest rate risk arises primarily from financial liabilities. The Group manages interest rate risk with the objective of optimizing its interest income and expense.

Fixed interest rates have been agreed mainly for the financing liabilities of the ElringKlinger Group. In individual instances, additional swap transactions have been entered into in order to transform variable interest rates into fixed interest rates. As a result, the risk arising from interest rate fluctuations is only slight.

Had market interest rates been 1% higher on December 31, 2010, earnings would have been EUR 633 k greater. A 1% reduction in the market interest rate would have resulted in EUR 642 k less in earnings.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials it uses in production. In order to lessen fluctuations in the purchase prices for raw materials, ElringKlinger had entered into nickel hedges until April 2010.

Where necessary, it is possible to hedge acceptable procurement prices by means of derivatives

Credit risk

Credit risk is the risk of economic loss arising from counterparty's failure to satisfy contractual payment obligations. Credit risk encompasses both the direct risk of default, the risk of a ratings downgrade, and concentration risks. The maximum risk exposures of financial assets generally subject to credit risk correspond to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds primarily comprise bank deposits available on demand. The ElringKlinger Group is exposed to losses from credit risks in connection with the investment of liquid funds if financial institutions fail to meet their obligations (counterparty risk). In order to minimize this risk, care is taken in selecting the financial institutions used for investment. The maximum risk exposure corresponds to the carrying amount of the liquid funds at the end of the reporting period.

Trade receivables

Trade receivables relate primarily to the global sales of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. Credit risk resides in the possibility of counterparty default, and is characterized by the Group's customer base, which includes a number of major accounts.

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

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

Allowances are also recognized in respect of identifiable individual risks and the likelihood that discounts will be utilized. The maximum risk exposure from trade receivables corresponds to the carrying amount of these receivables at the end of the reporting period. The carrying amounts of trade receivables, together with a separate breakdown of overdue receivables and receivables for which allowances have been recognized, can be found in **note 17**.*

* CF. PAGE 163/164

In 2010, the three largest customers accounted for 35% of sales. The strong recovery in the international vehicle business has led to a considerable improvement in the earnings situation of nearly all of the ElringKlinger Group's customers. Default risk has thus declined further.

Derivative financial instruments

Derivative financial instruments comprise derivatives that are not included in hedge accounting. ElringKlinger does not enter into derivative transactions for speculative reasons. Derivatives are generally used only for purposes of limiting interest rate risks, currency risks and raw materials price risks.

ElringKlinger processes a significant volume of high-grade steel. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. During the first half of 2010, ElringKlinger used derivative financial instruments to hedge portions of alloy surcharges assessed in internal part price calculations. A price corridor surrounding the average cost was hedged. If the stock exchange quotation of nickel exceeded the upper range of the corridor, ElringKlinger received a compensatory payment. If the stock exchange quotation of nickel fell below the lower range of the corridor, ElringKlinger had to make a compensatory payment. The Group manages the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks of impeccable creditworthiness in accordance with uniform guidelines.

Liquidity risk

Liquidity risk is the risk that ElringKlinger will fail to sufficiently satisfy its payment obligations.

ElringKlinger generates liquid funds primarily through its operating business, as well as by securing external financing. These funds are used primarily to finance the Group's working capital and capital expenditures.

Apart from cash flows from operating activities, ElringKlinger ensures its ongoing liquidity by maintaining sufficient liquid funds and credit facilities with banks. At the end of the reporting period, the Group had available lines of credit in the amount of EUR 155,230 k (2009: EUR 109,686 k).

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

	Trade liabilities EUR k	Financial liabilities EUR k	Finance lease EUR k	Derivatives EUR k	Total EUR k
Balance as of Dec. 31, 2010					
Carrying amount	**46,405**	**199,011**	**224**	**370**	**246,010**
Outflows					
Expected outflows:	**46,405**	**217,308**	**236**	**403**	**264,352**
– less than one month	27,791	689	5	23	28,508
– between one and three months	17,573	20,972	13	36	38,594
– between three months and one year	1,038	61,973	59	130	63,200
– between one and five years	3	117,248	159	214	117,624
– more than five years	0	16,426	0	0	16,426

	Trade liabilities EUR k	Financial liabilities EUR k	Finance lease EUR k	Derivatives EUR k	Total EUR k
Balance as of Dec. 31, 2009					
Carrying amount	**35,712**	**220,166**	**337**	**1,180**	**257,395**
Outflows					
Expected outflows:	**35,712**	**251,407**	**416**	**1,112**	**288,647**
– less than one month	24,768	5,752	22	223	30,765
– between one and three months	10,654	20,930	40	334	31,958
– between three months and one year	312	34,443	165	298	35,218
– between one and five years	-22	136,754	189	257	137,178
– more than five years	0	53,528	0	0	53,528

* CF. PAGE 168/169

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

Additional information on financial instruments

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This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the balance sheet containing financial instruments.

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

	Trade receivables/Cash		Derivatives		Other financial instruments		Total
	CA EUR k	FV EUR k	CA EUR k	FV EUR k	CA EUR k	FV EUR k	CA EUR k
Balance as of Dec. 31, 2010							
Cash	101,176	101,176	0	0	0	0	101,176
Loans and receivables	138,195	138,195	0	0	30	30	138,225
held to maturity	0	0	0	0	1,376	1,421	1,376
held for trading	0	0	0	0	0	0	0
available for sale	0	0	0	0	175	175	175
Total	**239,371**	**239,371**	**0**	**0**	**1,581**	**1,626**	**240,952**
Balance as of Dec, 31, 2009							
Cash	25,580	25,580	0	0	0	0	25,580
Loans and receivables	106,761	106,761	0	0	33	33	106,794
held to maturity	0	0	0	0	1,375	1,416	1,375
held for trading	0	0	0	0	0	0	0
available for sale	0	0	0	0	232	232	232
Total	**132,341**	**132,341**	**0**	**0**	**1,640**	**1,681**	**133,981**

The fair value of cash and loans and receivables corresponds to the carrying amount. The reason for this is the short maturity of such instruments. ElringKlinger measures the fair value of held-to-maturity investments at the market rate observed in an active market. Available-for-sale assets are marked to market.

In financial assets, the Group has time deposits amounting to EUR 17 k.

The following table shows the carrying amounts (CA) and fair values (FV) of financial liabilities:

	Trade payables		Liabilities from finance leases		Other financial liabilities		Total
	CA EUR k	FV EUR k	CA EUR k	FV EUR k	CA EUR k	FV EUR k	CA EUR k
Balance as of Dec. 31, 2010							
Trade payables	46,405	46,405					46,405
Financial liabilities			224	224	199,011	201,814	199,235
Financial liabilities measured at cost	**46,405**	**46,405**	**224**	**224**	**199,011**	**201,814**	**245,640**
held for trading*)	0	0	0	0	370	370	370
Financial liabilities measured at fair value through profit or loss	**0**	**0**	**0**	**0**	**370**	**370**	**370**
Balance as of Dec. 31, 2009							
Trade payables	35,712	35,712	0	0	0	0	35,712
Financial liabilities	0	0	337	337	220,166	220,166	220,503
Financial liabilities measured at cost	**35,712**	**35,712**	**337**	**337**	**220,166**	**220,166**	**256,215**
held for trading*)	0	0	0	0	1,180	1,180	1,180
Financial liabilities measured at fair value through profit or loss	**0**	**0**	**0**	**0**	**1,180**	**1,180**	**1,180**

*) These are derivatives which do not qualify for hedge accounting.

The fair value of trade payables and other current financial liabilities corresponds to the carrying amount. ElringKlinger determines the market value of non-current fixed-interest liabilities to banks, finance lease liabilities and derivatives by discounting expected future cash flows with the current prevailing interest rates for similar financial liabilities with comparable residual terms and the company-specific risk rate

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

	Level 1 EUR k	Level 2 EUR k	Level 3 EUR k
Financial assets			
available for sale	175	0	0
held for trading	0	0	0
Total	**175**	**0**	**0**
Financial liabilities			
available for sale	0	0	0
held for trading*)	0	370	0
Total	**0**	**370**	**0**

*) These are derivatives which do not qualify for 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. As of December 31, 2010, future minimum lease payments under finance leases amounted to EUR 236 k (2009: EUR 417 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2010 is as follows:

	Minimum lease payments Dec. 31, 2010 EUR k	Interest included in minimum lease payments Dec. 31, 2010 EUR k	Liabilities from finance leases Dec. 31, 2010 EUR k
Term			
Less than one year	77	6	71
Between one and five years	159	6	153
More than five years	0	0	0
Total	**236**	**12**	**224**

Net gains and losses on financial instruments:

	2010 EUR k	2009 EUR k
Held-for-trading financial instruments*)	523	3.293
Available-for-sale assets	0	1
Held-to-maturity financial investments	-2	8
Loans and receivables	1,497	-112
Financial liabilities measured at acquisition cost	-9,068	319

*) These are derivatives which do not qualify for hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values, which were recorded in full in profit or loss for the period.

Net gains from the disposal of available for sale assets include income from long-term equity investments.

Net gains and losses on held-to-maturity financial instruments include impairments and revaluations.

Net gains and losses on loans and receivables primarily consist of impairments and revaluations.

Net losses from financial liabilities measured at cost include amortization of discounts and foreign exchange losses.

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

	2010 EUR k	2009 EUR k
Total interest income	805	177
Total interest expense	-10,439	-11,218

As in the previous year, total interest income did not result in interest income from impaired financial assets.

Derivative financial instruments

As of the end of the reporting period on December 31, 2010, the following financial derivatives were in place which served exclusively to hedge interest rate risks:

	Fair value EUR k	Carrying amount EUR k	Provision EUR k
Interest rate derivatives			
Interest rate swap	-370	-370	-370
Total	**-370**	**-370**	**-370**

The negative fair values are reported under current provisions and have correspondingly increased other operating expenses.

The bank-confirmed market values of the financial derivatives are computed using recognized mathematical methods and the market data available as of the end of the reporting period (mark-to-market method).

Capital management

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ElringKlinger believes that the Group's sound financial base is a prerequisite for further growth. The Group's solid capital resources render it possible to invest in future organic growth, as well as in accretive growth.

The Management Board of the parent company has set a target minimum equity ratio of 40% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements. ElringKlinger is not authorized to acquire own shares. There are no share option programs that impact the capital structure.

For two loans, financial covenants have been agreed upon, and if these covenants are breached, the loans become immediately callable. These can be broken down as follows:

Covenant	Max./ Min. limit	Balance as of Dec. 31, 2010
Group equity ratio	25%	44.8%
Net debt to EBITDA	3.0	0.50
Financial liabilities to EBITDA	2.8:1	0.99
EBIT to interest expense	3.5:1	11.62

The calculation was carried out according to calculation scheme of the loan agreements.

The following table shows equity and balance sheet total (total assets) as at December 31, 2010 in comparison with December 31, 2009.

	2010 EUR million	2009 EUR million
Equity	**512.3**	**316.1**
as % of total capital	52.2%	41.0%
Non-current liabilities	268.4	301.1
Current liabilities	200.7	152.9
External finance	**469.1**	**454.0**
as % of total capital	47.8%	59.0%
Total capital	981.4	770.1

The increase in equity from December 31, 2009 to December 31, 2010 was primarily due to an increase in revenue reserves and capital reserves. In addition, the capital increase increased subscribed capital by EUR 5,760 k to EUR 63,360 k. Borrowed capital increased by 3.3 percent year on year.

The equity ratios of the AG (56.5%) and the Group (52.2%), exceeded the 40% target equity ratio set by the Supervisory Board and Management Board.

All external minimum capital covenants were satisfied during the period under review.

28 Notes to the Group Statement of Cash Flows

* CF. GLOSSARY

The consolidated Group **Statement of Cash Flows*** shows how the liquidity of the ElringKlinger Group has changed as a result of inflows and outflows in the course of the financial year. In accordance with IAS 7, cash flows are categorized as from operating activities, investing activities or financing activities.

The cash reported on the Group Statement of Cash Flows comprises liquid funds reported on the balance sheet, i.e., cash in hand, checks and bank deposits.

Cash flows from investing and financing activities are determined by reference to payments. By contrast, cash flows from operating activities are derived indirectly from earnings before taxes for the year. For the indirect computation, effects from currency translation and changes to the scope of consolidated financial statements are eliminated from the changes to the balance sheet items arising from operating activities. 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 to minorities for the acquisition of shares contains the full purchase price paid in cash for the acquisitions of a 40% interest in ELNA and a 20% interest in EKLS.

29 Segment reporting

The organizational and internal reporting structure of the ElringKlinger Group is centered around its five business divisions: “Original Equipment”, “Aftermarket”, “Engineered Plastics”, “Services” and “Industrial Parks”.

The activities in the “Original Equipment” and “Aftermarket” reporting segments relate to the manufacturing and distribution of parts and components for the engine, transmission and exhaust system in motor vehicles (powertrain). These segments also render services in connection with these activities.

The “Engineered Plastics” segment manufactures and distributes technical products made of high-performance PTFE plastics for the vehicle and industrial sector.

The “Services” reporting segment primarily operates engine test benches and contributes to the development of engines.

The “Industrial Parks” segment is responsible for the administration and leasing of land and buildings.

The “Consolidation and other” column in the “Segment reporting” table below provides an overview of consolidations between the segments as well as 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 the performance of its segments based on earnings before taxes in accordance with IFRS. With the exception of the Original Equipment segment’s provision of supplies to the Aftermarket segment, the extent of trade between the individual segments is insignificant. The exchange of goods and/or services between the segments takes place at arm’s-length prices.

The earnings of the “Original Equipment” segment included no impairment charge.

The Original Equipment segment generated more than 10% of the Group’s consolidated revenues from two customers (EUR 98,403 k and EUR 98,247 k).

Segment reporting

Segment	Original Equipment 2010 EUR k	Original Equipment 2009 EUR k	Aftermarket 2010 EUR k	Aftermarket 2009 EUR k	Engineered Plastics 2010 EUR k	Engineered Plastics 2009 EUR k
Segment sales	**625,658**	**433,439**	**107,057**	**93,258**	**71,476**	**56,377**
- Intersegment sales	-18,774	-15,237	0	0	0	0
Sales revenue	**606,884**	**418,202**	**107,057**	**93,258**	**71,476**	**56,377**
EBIT[2]	**68,256**	**34,371**	**22,181**	**19,312**	**11,533**	**5,440**
+ Interest income	616	123	176	155	320	231
- Interest expense	-11,355	-11,915	-896	-1,048	-751	-652
Earnings before taxes	**57,517**	**22,579**	**21,461**	**18,419**	**11,102**	**5,019**
Depreciation and amortization	76,511	65,448	795	839	2,673	2,710
Investments[3]	123,488	83,104	4,123	3,240	5,951	7,438
Segment assets	816,104	628,646	58,191	51,611	72,177	60,833
Segment liabilities	244,078	210,267	20,974	21,107	25,834	20,937

Segment	Industrial parks 2010 EUR k	Industrial parks 2009 EUR k	Services 2010 EUR k	Services 2009 EUR k	Consolidation and other[1] 2010 EUR k	Consolidation and other[1] 2009 EUR k	Group 2010 EUR k	Group 2009 EUR k
Segment sales	**8,060**	**8,102**	**8,446**	**7,475**	**-6,266**	**-4,085**	**814,431**	**594,566**
- Intersegment sales	0	0	0	0	0	0	-18,774	-15,237
Sales revenue	**8,060**	**8,102**	**8,446**	**7,475**	**-6,266**	**-4,085**	**795,657**	**579,329**
EBIT[2]	**3,660**	**3,592**	**1,086**	**577**			**106,716**	**63,292**
+ Interest income	57	164	16	6	-343	-230	842	449
- Interest expense	-873	-937	-56	-28	343	230	-13,588	-14,350
Earnings before taxes	**2,844**	**2,819**	**1,046**	**555**			**93,970**	**49,391**
Depreciation and amortization	1,097	1,109	1,137	1,113			82,213	71,219
Investments[3]	327	260	437	1,555			134,326	95,597
Segment assets	28,689	28,920	10,131	10,013	-3,914	-10,943	981,378	769,080
Segment liabilities	5,121	6,733	3,957	3,581	164,561	188,923	464,525	451,548

[1] See discussion on (29) segment reporting
[2] Earnings before interest and taxes
[3] Investments in intangible assets and property, plant and equipment

Segment reporting by region

Region		Sales revenue EUR k	Non-current Assets EUR k	Investments EUR k
Germany	2010	245,620	309,083	66,224
	2009	191,612	285,167	55,111
Rest of Europe	2010	238,739	137,258	31,149
	2009	186,181	120,998	18,708
NAFTA	2010	141,977	51,253	12,749
	2009	84,734	47,795	11,423
Asia and Australia	2010	118,106	49,501	16,848
	2009	79,862	35,207	8,020
South America and other	2010	51,215	21,500	7,356
	2009	36,940	15,205	2,334
Group	2010	795,657	568,595	134,326
	2009	579,329	504,372	95,596

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Consolidated Group Statement of Changes in Equity

* CF. PAGE 164/165

In addition to the components discussed in **notes (19) and (20)***, the consolidated Group Statement of Changes in Equity includes capital reserves, revenue reserves from the first-time adoption of IFRS and retained earnings. Capital reserves correspond to the capital reserve reported in the balance sheet of the parent company ElringKlinger AG.

Revenue reserves from the first-time adoption of IFRS were taken from the opening IFRS balance sheet as of January 1, 2004 and later acquisitions.

Retained earnings includes earnings generated but not yet distributed.

Other disclosures

Contingent liabilities

The ElringKlinger Group is currently not subject to contingent liabilities from guarantees, performance bonds or bills of exchange issued (2009: EUR 227 k).

Operating leases

The expense includes payments from operating leases of EUR 4,703 k (2009: EUR 4,676 k).

At the end of the reporting period, the Group had outstanding obligations arising from binding operating leases that fall due as follows:

	Dec. 31, 2010 EUR k	Dec. 31, 2009 EUR k
less than one year	2,569	2,430
between one and five years	4,920	5,248
More than five years	1,075	1,317
Total	8,564	8,995

In addition, there were financial liabilities from energy procurement obligations amounting to EUR 14,840 k (terms: EUR 6,744 k up to one year, EUR 8,096 k between one and five years) and payment obligations relating to the acquisition of a licensed PTFE processing method amounting to EUR 800 k.

Number of employees

On average, the ElringKlinger Group employed the following number of people in the past two years (excluding Management Board members):

	2010	2009
Hourly	3,099	2,687
Salaried	1,232	1,233
	4,331	3,920
Trainees	122	109
	4,453	4,029

In 2010, an average of 56 hourly employees and 56 salaried employees were employed at proportionately consolidated joint ventures.

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 198,870 k (2008: EUR 159,811 k). Of that amount, 7.2% (2008: 8.2%) related to contributions to the statutory pension scheme.

Events after the balance sheet date

With effect from January 1, 2011, ElringKlinger AG completed its acquisition of the static flat seals business line from Freudenberg & Co.KG, Weinheim. ElringKlinger AG used this acquisition to strengthen its international position in cylinder head gaskets and high-temperature special seals for engines and exhaust systems. The acquisition included 100% of shares in Burgmann Automotive GmbH, Euras urg, Germany and Oigra Meillor s.r.l., Turin, Italy and the unit of static flat seals of Freudenberg-Meillor S.A.S. Nantiat, France, which were consolidated under the newly formed ElringKlinger Meillor S.A.S. Due to the acquisition, Burgmann Automotive GmbH now operates under the name ElringKlinger Spezialdichtungen GmbH with effect from January 1, 2011. The final purchase price is determined based on the corresponding balance sheets as of January 1, 2011. The final price has not yet been determined. **Purchase price allocation*** will take place subsequently. As a result, no further disclosures can be made.

* CF. GLOSSARY

The Management Board of ElringKlinger released the consolidated financial statements on March 16, 2011 for approval to the Supervisory Board which will meet on March 25, 2011.

Related party disclosures

Transactions between the parent company and its subsidiaries and long-term equity interests are eliminated in the course of consolidation and are therefore not discussed in this note. In addition, the following business relationships exist between companies of the ElringKlinger Group and related parties and companies controlled by related persons:

1. Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships and an agreement regarding the supply of cafeteria food. Mr Walter Herwarth Lechler is a shareholder in ElringKlinger AG and holds a significant interest in Lechler GmbH. ElringKlinger earned EUR 164 k during the reporting year (2009: EUR 225 k). The outstanding balance at the end of the reporting period was EUR 0 k (2009: EUR 4 k).
2. Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kádafalva, Hungary. TPH earned EUR 197 k in rental income based on this lease during the reporting year (2009: EUR 157 k). There was no outstanding balance at the end of the reporting period (2009: 0).
3. Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 354 k in sales revenues during the reporting year (2009: EUR 335 k). As of the end of the reporting period, December 31, 2010, there was one outstanding receivable of EUR 38 k (2009: EUR 18 k).

4. Master supply agreement between Rich. Klinger Dichtungstechnik GmbH & Co. KG, Gumpoldskirchen, Austria, and companies of the ElringKlinger Group regarding the procurement of materials. Mr. Klinger-Lohr is a shareholder in ElringKlinger AG and has a significant interest in Rich. Klinger Dichtungstechnik GmbH & Co. KG. ElringKlinger AG procured EUR 2,088 k worth of materials under this agreement in 2010 (2009: EUR 1.014 k). The outstanding balance as of the end of the reporting period amounted to EUR 191 k (2009: EUR 250 k).
5. Master supply agreement between ElringKlinger AG and Klinger AG Egliswil, Switzerland, regarding the procurement of materials. Mr. Klinger-Lohr is a shareholder in ElringKlinger AG and member of the administrative board of Klinger AG Egliswil. ElringKlinger AG procured EUR 106 k worth of materials under this agreement in 2010 (2009: EUR 58 k). This agreement gave rise to EUR 15 k in liabilities as of the end of the reporting period (2009: EUR 0 k).
6. 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 491 k (2009: EUR 310 k) from ElringKlinger's joint venture partner Jeil E&S Co., Ltd. in the year under review. As of the end of the reporting period, EKKO still had liabilities in the amount of EUR 28 k (2009: EUR 103 k).

Corporate bodies

Supervisory board

Dr. Helmut Lerchner, Aichtal, Chairman	Corporate advisor **Governance roles:** Member of the supervisory board of Deutz AG, Cologne, Member of the south-west regional advisory board of Commerzbank AG
Markus Siegers, Altbach, Deputy chairman and Employee Representative	Chairman of the Works Council of ElringKlinger AG
Gert Bauer, Reutlingen, Employee Representative	First General Representative and collector of IG Metall Reutlingen/Tübingen **Governance roles:** Member of the supervisory board of Hugo Boss AG, Metzingen, Member of the advisory board of BIKOM GmbH, Reutlingen
Armin Diez, Lenningen, Employee representative (from May 21, 2010)	Divisional Director of Cylinder-head Gaskets of ElringKlinger AG
Pasquale Formisano, Vaihingen an der Enz, Employee representative (from May 21, 2010)	Set-up engineer, employee representative of ElringKlinger Kunststofftechnik GmbH
Dr. Rainer Hahn, Stuttgart	Former member of the management board of Robert Bosch GmbH, Stuttgart **Governance roles:** Member of the supervisory board of Robert Bosch GmbH, Stuttgart Member of the supervisory board of Bosch Rexroth AG, Stuttgart Member of TÜV SÜD Gesellschafterausschuss GbR, Munich Member of the administrative board of TÜV SÜD e.V., Mannheim
Karl Uwe van Husen, Waiblingen	Managing director **Governance roles:** Member of the supervisory board of Schaltbau Holding AG, Munich

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

Remuneration of the supervisory board

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

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

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

Variable remuneration shown reflects the expense for which provisions have been recognized, based on the provisional consolidated income before taxes prepared in accordance with IFRS for 2010.

The difference between the provision for variable remuneration for the financial year 2009 and the actual amounts paid out was EUR 2,522. This amount was paid out to the members of the Supervisory Board on a pro rata basis and is included under variable remuneration.

Management board

Dr. Stefan Wolf, Leinfelden-Echterdingen, Chairman	responsible for all affiliated entities and the corporate functions of Finance, Controlling, Legal Affairs, Personnel, Investor Relations, IT and Public Relations, as well as the Aftermarket and Industrial Parks divisions
Theo Becker, Metzingen	responsible for the Cylinder-head Gaskets, Corporate Research and Development, Special Gaskets, Casings/Modules/Elastomer Technology, Shielding Technology divisions and the corporate functions of Quality and Environment, Materials Management and the Runkel plant

Karl Schmauder, Hülben	responsible for Original Equipment Sales and New Business Areas
Governance roles in supervisory boards and other supervisory bodies	Dr. Stefan Wolf is a member of the board of directors of Micronas Semiconductor Holding AG, Zürich and member of the supervisory board of Fielman AG (from July 8, 2010) Karl Schmauder is chairman of the advisory board of e-mobil BW GmbH, Stuttgart (from October 6, 2010)

Remuneration of the management board

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

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

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

Short-term variable remuneration reflects expenses for which provisions have been recognized, calculated as a percentage of the average consolidated income before taxes over the last three years. In addition, the differences between provisions recognized as of December 31, 2009 and the amounts actually paid in 2010 are included. For the stock appreciation rights, the fair value as of the grant date is used.

Stock appreciation rights refer to a right to a cash settlement, not, however, for shares of ElringKlinger AG. The currently outstanding stock appreciation rights are granted in five annual tranches, beginning on February 1, 2008 and January 1, 2009, respectively. Beginning in 2010, the maturity of the tranches extends from 3 to 4 years. The strike price is the average stock price of the last

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

Provisions are recognized in order to cover the estimated future obligation. The fair value of the obligation is determined based on the Cox-Ross-Rubinstein model using current market parameters. The risk-free interest rate used was 3.0%. The volatility of the share price (55.9%), the MDAX index (33.1%) and a correlation of 71.6% were determined over a three-year period. The expected dividend was EUR 0.35 per share.

The provision is accrued pro rata temporis over the vesting period and is assessed on every balance sheet date and again on the exercise date. Changes in the fair value are recognized in net income.

For financial year 2010, the following data arose:

Tranches	Tranche 2008	Tranche 2009	Tranche 2010
Date of issue	2008	2009	2010
Number of outstanding stock appreciation rights (not yet exercisable)	20,341	108,754	49,090
Average strike price (EUR)	24,63	6,95	15,68
Average remaining time to maturity in years	0,09	1,05	3,04
Value of stock appreciation rights held by members of the Management Board			
December 31, 2010 (EUR k)	32	412	75
December 31, 2009 (EUR k)	28	74	0
December 31, 2008 (EUR k)	1	0	0

Additions to pension provisions for members of the Management Board amounted to EUR 317 k (2009: EUR 169 k) and are related to Dr. Stefan Wolf in the amount of EUR 111 k (2009: EUR 64 k), Theo Becker in the amount of EUR 112 k (2009: EUR 48 k) and Karl Schmauder in the amount of EUR 94 k (2009: EUR 57 k).

Provisions for pensions and remuneration for former members of the Management Board

Provisions of EUR 11,638 k (2009: EUR 11,674 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies and their surviving dependents. The total remuneration of former members of the Management Board - including remuneration of former members of corporate bodies of merged companies - came to EUR 868 k (2009: EUR 856 k) during the 2010 financial year.

The auditor fees amounted to:

	2010 EUR k	2009 EUR k
Audit of the annual financial statements	380	450
Other auditing services	0	0
Tax advisory	0	56
Other services	55	4
Total	**435**	**510**

Information pursuant to § 160 (1) no. 8 AktG

As of the balance sheet date 2009, the following long-term equity investments existed and were announced pursuant to § 21 (1) German Securities Trading Act **(WpHG)***.

* CF. GLOSSARY

1. Voting rights notification

ElringKlinger received the following notification on February 4, 2011:
Notification pursuant to § 21 (1) WpHG
On 31 January 2011 BlackRock, Inc. exceeded the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, BlackRock, Inc. held 3.12% of the voting rights in ElringKlinger AG arising from 1,978,212 voting rights.
3.12% of the voting rights (1,978,212 voting rights) are attributable in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.
On 31 January 2011 BlackRock Financial Management, Inc. exceeded the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, BlackRock Financial Management, Inc. held 3.12% of the voting rights in ElringKlinger AG arising from 1,978,212 voting rights.
3.12% of the voting rights (1,978,212 voting rights) are attributable in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.
On 31 January 2011 BlackRock Holdco 2, Inc. exceeded the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, BlackRock Holdco 2, Inc. held 3.12% of the voting rights in ElringKlinger AG arising from 1,978,212 voting rights.
3.12% of the voting rights (1,978,212 voting rights) are attributable in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.

2. Voting rights notification

ElringKlinger received the following notification on November 2, 2010:
In the name of and on behalf of FIL Investments International, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21 (1) WpHG of the following:
On 25 October 2010 FIL Investments International fell below the threshold of 3% of the voting rights

in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Investments International held 2.98% of the voting rights in ElringKlinger AG arising from 1,887,166 voting rights.
All voting rights in ElringKlinger AG were attributed to FIL Investments International pursuant to section 22 (1) sent. 1 no. 6 WpHG.

3. Voting rights notification

ElringKlinger received the following notification on November 2, 2010:
In the name of and on behalf of FIL Limited, Hamilton HMCX, Bermuda we hereby notify you pursuant to section 21 (1) WpHG of the following:
On 25 October 2010 FIL Limited fell below the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Limited held 2.98% of the voting rights in ElringKlinger AG arising from 1,887,166 voting rights.
All voting rights in ElringKlinger AG were attributed to FIL Limited pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG.

4. Voting rights notification

ElringKlinger received the following notification on November 2, 2010:
In the name of and on behalf of FIL Investment Management Limited, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21 (1) WpHG of the following:
On 25 October 2010 FIL Investment Management Limited fell below the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Investment Management Limited held 2.98% of the voting rights in ElringKlinger AG arising from 1,887,166 voting rights.
All voting rights in ElringKlinger AG were attributed to FIL Investment Management Limited pursuant to section 22 (1) sent. 1 no. 6 in connection with sent. 2 WpHG.

5. Voting rights notification

ElringKlinger received the following notification on October 28, 2010:
In the name of and on behalf of FIL Holdings Limited, Hildenborough, Kent, England, UK, we hereby notify you pursuant to section 21 (1) WpHG of the following:
On 25 October 2010 FIL Holdings Limited fell below the threshold of 3% of the voting rights in ElringKlinger AG, Max Eyth Strasse 2, 72581 Dettingen/Erms, Germany. On that date, FIL Holdings Limited held 2.98% of the voting rights in ElringKlinger AG arising from 1,887,166 voting rights.
All voting rights in ElringKlinger AG were attributed to FIL Holdings Limited pursuant to sec. 22 para. 1 sent. 1 no. 6 WpHG in connection with sent. 2 WpHG.

6. Voting rights notification

Correction of our announcement on October 12, 2010
ElringKlinger received the following notification from Lechler GmbH on October 13, 2010:
Notification pursuant to § 21 WpHG – correction
We hereby notify you pursuant to § 21 (1) WpHG that the percentage of voting rights in ElringKlinger AG, Dettingen/Erms fell below the threshold of 10% on October 7, 2010 and amounted to 9.449% (5,987,000 voting rights) on this day.
Of these voting rights, 0.358% (227,000 voting rights) are attributed to us in accordance with § 22 (1) sentence 1 No. 1 WpHG.

7. Voting rights notification

ElringKlinger received the following notification from Klaus Lechler Beteiligungs-GmbH on October 13, 2010:
Voting rights notifications pursuant to § 21 (1) WpHG
Notifying parties:
Eroca AG, Basel, Switzerland
Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany
KWL Beteiligungs-GmbH, Ludwigsburg, Germany
PAUL LECHLER STIFTUNG gGmbH, Ludwigsburg, Germany
Elrena GmbH, Basel, Switzerland
Stiftung Klaus Lechler, Basel, Switzerland
We, Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG in our own name and in the name and on behalf of the following companies as follows:

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

2. Klaus Lechler Beteiligungs-GmbH
   The percentage of voting rights of Klaus Lechler Beteiligungs-GmbH in ElringKlinger AG fell below the threshold of 10% on October 7, 2010 and amounted to 9.22% (5,838,736 voting rights) on this day.
   Of these voting rights, 9.20% (5,832,136 voting rights) are attributed to Klaus Lechler Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 No. 1 of the WpHG.
   The voting rights attributable to Klaus Lechler Beteiligungs-GmbH are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG.
   - Eroca AG.

3. KWL Beteiligungs-GmbH
   The percentage of voting rights of KWL Beteiligungs-GmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day.
   Of these voting rights, 9.22% (5,838,736 voting rights) are attributed to KWL Beteiligungs-GmbH in accordance with § 22 (1) sentence 1 No. 1 WpHG and an additional 9.18% (5,815,944 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.
   The voting rights attributable to KWL Beteiligungs-GmbH are held by the following companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG.
   - Eroca AG,
   - Klaus Lechler Beteiligungs-GmbH.
   The voting rights attributable to KWL Beteiligungs-GmbH are held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
   - Elrena GmbH.

4. PAUL LECHLER STIFTUNG gGmbH

a. The percentage of voting rights of PAUL LECHLER STIFTUNG gGmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 19.58% (12,406,060 voting rights) on this day.
   Of these voting rights, 9.22% (5,838,736 voting rights) were attributed to PAUL LECHLER STIFTUNG gGmbH in accordance with § 22 (1) sentence 1 No. 1 WpHG and an additional 9.18% (5,815,944 voting rights) were attributed in accordance with § 22 (2) sentence 1 WpHG.
   The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH were held by the following companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG.
   - Eroca AG,
   - Klaus Lechler Beteiligungs-GmbH,
   - KWL Beteilungs-GmbH.
   The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH were held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
   - Elrena GmbH.
b. The percentage of voting rights of PAUL LECHLER STIFTUNG gGmbH in ElringKlinger AG exceeded the threshold of 20% on October 7, 2010 and amounted to 20.72% (13,126,990 voting rights) on this day.
   Of these voting rights, 9.77% (6,187,573 voting rights) are attributed to PAUL LECHLER STIFTUNG gGmbH in accordance with § 22 (1) sentence 1 WpHG and an additional 9.77% (6,188,037 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.
   The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH are held by the following companies that are controlled by it and each hold at least 3% or more of voting rights in ElringKlinger AG:
   - Eroca AG,
   - Klaus Lechler Beteiligungs-GmbH,
   - KWL Beteiligungs-GmbH.
   The voting rights attributable to PAUL LECHLER STIFTUNG gGmbH are held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
   - Elrena GmbH.

5. Elrena GmbH

The percentage of voting rights of Elrena GmbH in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day.
Of these voting rights, 0.02% (14,000 voting rights) are attributed to Elrena GmbH in accordance with § 22 (1) sentence 1 No. 1 WpHG and an additional 9.22% (5,838,736 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.
The voting rights attributable to Elrena GmbH are held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
- Eroca AG.

6. Stiftung Klaus Lechler
   The percentage of voting rights of Stiftung Klaus Lechler in ElringKlinger AG fell below the threshold of 20% on October 7, 2010 and amounted to 18.39% (11,654,680 voting rights) on this day.
   Of these voting rights, 9.18% (5,815,944 voting rights) are attributed to Stiftung Klaus Lechler in accordance with § 22 (1) sentence 1 WpHG and an additional 9.22% (5,838,736 voting rights) are attributed in accordance with § 22 (2) sentence 1 WpHG.
   The voting rights attributable to Stiftung Klaus Lechler are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG.
   - Elrena GmbH.
   The voting rights attributable to Elrena GmbH are held by the following shareholder that holds 3% or more of the voting rights in ElringKlinger AG:
   - Eroca AG.

8. Voting rights notification

ElringKlinger received the following notification from Lechler Beteiligungs-GmbH on October 13, 2010:
Voting rights notifications pursuant to § 21 (1) WpHG
Notifying parties:
- Lechler Beteiligungs-GmbH, Stuttgart, Germany
- INLOVO GmbH, Ludwigsburg, Germany

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

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

2. INLOVO GmbH
   The percentage of voting rights of INLOVO GmbH in ElringKlinger AG fell below the threshold of 10% on October 7, 2010 and amounted to 9.23% (5,848,644 voting rights) on this day.
   Of these voting rights, 9.23 percent (5,848,644 voting rights) are attributable to INLOVO GmbH in accordance with § 22 (1) sentence 1 No. 1 WpHG.
   The voting rights attributable to INLOVO GmbH are held by the following company that is controlled by it and holds at least 3% or more of voting rights in ElringKlinger AG.
   - Lechler Beteiligungs-GmbH.

9. Voting rights notification

ElringKlinger received the following notification from Deutsche Bank AG on October 12, 2010:
Voting rights notification pursuant to § 21 (1) WpHG
Dear Sir or Madam:
We hereby notify you pursuant to § 21 (1) WpHG that the percentage of voting rights in ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms exceeded the thresholds of 3%, 5% and 10% on October 7, 2010 and amounted to 11.11% on this day. This corresponds to 7,037,037 no-par value registered shares (bearer shares).

The notification requirement pursuant to § 21 (1) WpHG is attributed to our joint lead management within the scope of the ElringKlinger AG capital increase entered in the commercial register on October 7, 2010.
We hereby also notify you pursuant to § 21 (1) WpHG that our share of voting rights in ElringKlinger AG fell below the thresholds of 10%, 5% and 3% on October 11, 2010 and now represents a percentage of voting rights of 0.12%. This corresponds to 74,118 no-par value registered shares (bearer shares).

10. Voting rights notification

Voting rights notification pursuant to § 21 (1) WpHG
ElringKlinger received the following notification from Walter Herwarth Lechler on May 14, 2010:
"I hereby notify you pursuant to § 21 (1) WpHG that my percentage of voting rights in ElringKlinger AG fell below the threshold of 25% on May 11, 2010 and amounted to 23.697% (13,649,420 voting rights) on this day.
10.394% (5,987,000 voting rights) are attributed to me in accordance with § 22 (1) sentence 1 No. 1 WpHG.
The voting rights attributable to me are held by the following companies that are controlled by me and each hold at least 3% or more of voting rights in ElringKlinger AG: Lechler GmbH, Metzingen."

11. Voting rights notification

In the name of and on behalf of Fidelity Funds SICAV, Luxembourg, we hereby notify you pursuant to § 21 (1) WpHG of the following:
On 06 November 2009 Fidelity Funds SICAV fell below the threshold of 3% of voting rights in ElringKlinger AG, Max-Eyth-Strasse 2, 72581 Dettingen/Erms, Germany. On that date, Fidelity Funds SICAV held 2.96% of the voting rights in ElringKlinger AG arising from 1,704,729 voting rights.

12. Voting rights notification

On December 16, 2008, ElringKlinger AG received the following notification
"Notification of voting rights pursuant to sec. 21 para 1 WpHG
Pursuant to section 21 (1), 24 WpHG ("German Securities Trading Act) in conjunction with section 32 (2) InvG ("German Investment Act"), we hereby notify that the percentage of voting rights of our subsidiary DWS Investment GmbH, Frankfurt, Germany, in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, fell below the threshold of 3% on 12 December 2008 and amounts to 2.63% (1,516,262 voting rights) as per this date."

13. Voting rights notification

ElringKlinger AG has received the following notification:
"Notification of Voting Rights pursuant to sec. 21, 22 WpHG
1 October 2008
On behalf of Columbia Wanger Asset Management, L.P., 227 W. Monroe Street, Suite 3000, Chicago, IL, USA, we hereby give notice, pursuant to sec. 21 para. 1 WpHG, that on 29 September 2008 the voting interest of Columbia Wanger Asset Management, L.P., in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, fell below the threshold of 3% and amounted to 2.99% of the voting rights [i.e., 1,727,000 shares with voting rights, out of 57,600,000 shares with voting rights out-

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

14. Voting rights notification

We received the following notification on March 27, 2008:
Voting rights notification pursuant to § 21 (1) WpHG
We, Klaus Lechler Beteiligungs-GmbH, hereby notify you pursuant to § 21 (1) WpHG on behalf of Ms Lieselotte Lechler as follows:
The percentage of voting rights of Ms Lieselotte Lechler in ElringKlinger AG fell below the thresholds of 10%, 5% and 3% on March 20, 2008 and amounted to 0% (0 voting rights) on this day.

15. Voting rights notification

We received the following notification from New Star Asset Management, Great Britain, on February 19, 2008:
Notification pursuant to se. 21 para. 1 WpHG
We hereby give notice, pursuant to sec. 21 para 1 of the WpHG, that on 18th February 2008 our voting interest in ElringKlinger AG fell below the threshold of 3% and amounts to 2.97% (569,624 voting rights) on this day.
2.97% of the voting rights (569,624 voting rights) are attributable to us in accordance with sec. 22 para. 1 sent. 1 no. 6 of the WpHG.

16. Voting rights notification

As executor of the estate of Mr Klaus Lechler, Mr Gottfried Wunsch notified us pursuant to § 21 (1) WpHG on behalf of Mrs. Lieselotte Lechler as follows:
Mr Klaus Lechler died on April 1, 2007. As of this date, the voting interest of Mr Klaus Lechler in ElringKlinger AG therefore fell below the thresholds of 20%, 15%, 10%, 5% and 3% and amounts to 0% on this day (0 voting rights).

17. Voting rights notification

ElringKlinger has received the following notification:
"Notification pursuant to § 21 para. 1 WpHG
The following notification is made in the names of Threadneedle Asset Management Limited and Threadneedle Asset Management Holdings Limited, both with registered seat in London, United Kingdom and in the name of Ameriprise Financial, Inc., USA.
Ameriprise Financial Inc. is the parent company of Threadneedle Asset Management Holdings Limited, which is the parent company of Threadneedle Asset Management Limited.
Please be advised that on 08 October 2007 the share of voting stocks of the above mentioned companies in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, went below the threshold of 3% of the total voting stocks of the company.
The percentage of voting rights of Threadneedle Asset Management Limited in ElringKlinger AG at

08 October 2007 amounted to 2.603% (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Limited pursuant to § 22 para. 1 sent. 1 no. 6 WpHG.
The percentage of voting rights of Threadneedle Asset Management Holdings Limited in ElringKlinger AG at 08 October 2007 amounted to 2.603% (499,795 shares). These voting rights are in their entirety attributable to Threadneedle Asset Management Holdings Limited pursuant to § 22 para. 1 sent. 1 no. 6, sent. 2 and sent. 3 WpHG.
The percentage of voting rights of Ameriprise Financial, Inc. in ElringKlinger AG at 08 October 2007 amounted to 2,718% (521,799 shares). These voting rights are in their entirety attributable to Ameriprise Financial, Inc. pursuant to § 22 para. 1 sent. 1 no. 6, sent. 2 and sent. 3 WpHG."

18. Voting rights notification

"Notification pursuant to § 21 para. 1 WpHG
The following notification is made in the name of Threadneedle Investment Services Limited, registered in London, United Kingdom.
Please be advised that on 02 October 2007 the share of voting stocks of the Threadneedle Investment Services Limited in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, went below the threshold of 3% of the total voting stocks of the company.
The percentage of voting rights of Threadneedle Investment Services Limited in ElringKlinger AG at 02 October 2007 amounted to 2,992% (574,392 shares). These voting rights are in their entirety attributable to Threadneedle Investment Services Limited pursuant to § 22 para. 1 sent. 1 no. 6 WpHG.
The following notification is made in the name of Threadneedle Investment Funds ICVC, registered in London, United Kingdom.
Please be advised that on 02 October 2007 the share of the voting stocks of the Threadneedle Investment Funds ICVC in ElringKlinger AG went below the threshold of 3% of the total voting stocks of the company.
The percentage of voting rights of Threadneedle Investment Funds ICVC in ElringKlinger AG at 02 October 2007 amounted to 2.992% (574,392 shares). These voting rights are held by subfunds of Threadneedle Investment Funds ICVC.

19. Voting rights notification

ElringKlinger received the following voting rights notification:
Notification of voting rights (Stimmrechtsmitteilungen) pursuant to § 21, 22 WpHG
We, Prudential plc., London, United Kingdom, would like to make the following notification regarding the holding of voting rights held in ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany according to § 21, 22 WpHG.
Notification of voting rights in our own name
Prudential plc. has fallen below the 3% threshold of § 21 para. 1 WpHG on 04 September 2007 and now holds 2.94% (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG.
It was attributed these 2.94% (564,824 shares held with voting rights) of the voting rights in ElringKlinger AG pursuant to § 22 para. 1 sent. 1 no. 6 in connection with § 22 para. 1 sent. 2 WpHG.

20. Voting rights notification

ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, received the following notification pursuant to § 41 (2) and § 21 (1) WpHG from Elrena GmbH, Basel, Switzerland:
We, Elrena GmbH, Basel, Switzerland, notify you pursuant to § 41 (2) and § 21 (1) WpHG (as amended) in our own name and in the name of and on the behalf of Mr Karl Uwe van Husen for the purpose of correction and supplement to notifications made in the past by the notifying parties as follows:

Karl Uwe van Husen, Germany:

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

21. Voting rights notification

ElringKlinger AG, Dettingen/Erms, WKN 785602
Sale of shares
Reaching the 5% threshold
Dear Sir or Madam:
We hereby inform you that we sold a total of 224,410 ElringKlinger shares in the period between February 11, 2004 through January 14, 2005, thereby falling below the 5% threshold. Betal Netherland Holding B.V. now holds 479,990 ElringKlinger shares.
This notification is made pursuant to § 21 WpHG

22. Voting rights notification

ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms, Germany, received the following notification pursuant to § 41 (2) and § 21 (1) WpHG from Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany:
"We, Klaus Lechler Beteiligungs-GmbH, Ludwigsburg, Germany, notify you pursuant to § 41 (2) and § 21 (1) WpHG (as amended) in our own name and in the name of and on behalf of the following companies and Mrs Lieselotte Lechler for the purpose of correction and supplement to notifications made in the past by the parties on which notification is incumbent as follows:

Paul Lechler Gesellschaft bürgerlichen Rechts, Ludwigsburg, Germany:

a. The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG exceeded the thresholds of 5% and 10% on November 30, 2001 and amounts to 12.13% (582.012 voting rights) on this day. Of these voting rights, 12.13% (582,012 voting rights) were attributed to Paul Lechler Gesellschaft bürgerlichen Rechts in accordance with § 22 (1) sentence 1 No. 1 WpHG (essentially corresponding with § 22 (1) No. 2 WpHG as amended on November 30, 2001).
   The voting rights attributable to Paul Lechler Gesellschaft bürgerlichen Rechts were held by the following company that was controlled by it and holds 3% or more of the voting rights in ElringKlinger AG:
   - Lechler Beteiligungs-GmbH.

b. The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG amounted to 12.13% (582,012 voting rights) on April 1, 2002. Of these voting rights, 12.13% (582,012 voting rights) were attributable to Paul Lechler Gesellschaft bürgerlichen Rechts pursuant to § 22 (1) sentence 1 No. 1 WpHG.
   The voting rights attributable to Paul Lechler Gesellschaft bürgerlichen Rechts were held by the following company that was controlled by it and holds at least 3% of voting rights in ElringKlinger AG:
   - Lechler Beteiligungs-GmbH.
c. The percentage of voting rights of Paul Lechler Gesellschaft bürgerlichen Rechts in ElringKlinger AG fell below the thresholds of 10% and 5% on December 4, 2003 and has amounted to 0.00% (0 voting rights) since then.

Declaration of compliance with the German Corporate Governance Code

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

Dettingen/Erms, March 16, 2011
Management Board

Dr. Stefan Wolf | Theo Becker | Karl Schmauder

Auditor's Report

We have audited the consolidated financial statements prepared by ElringKlinger AG, Dettingen/Erms, comprising the Group Income Statement and Group Statement of Comprehensive Income, Group Statement of Financial Position, Group Statement of Changes in Equity, Group Statement of Cash Flows and the notes to the consolidated financial statements, together with the group management report for the business year from January 1 to December 31, 2010. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) is the responsibility of parent Company's Board of Managing Directors. 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 the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, 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 the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, March 16, 2011
PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft

Marcus Nickel	ppa. Renate Berghoff
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)

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 16, 2011

Dr. Stefan Wolf   Theo Becker   Karl Schmauder

Glossary

Financials

A

Authorized capital
Capital up to the level of which the management board of a German stock corporation has been authorized, on the basis of a 3/4-majority resolution by the General Meeting of Shareholders, to increase the company's capital up to a given date (which shall be no more than five years in the future) with the prior approval of the supervisory board. It may be exercised in part and, correspondingly, on several occasions (Sections 202-206 AktG).

B

Bookbuilding
Process to determine the price of newly issued shares, with a consortium on banks recording the demand of potential investors for such shares. Subsequently, the consortium and the issuing stock corporation agree on a price band and, once the subscription period has ended, an issue price for the new shares. In the case of accelerated bookbuilding the subscription period is much shorter than that associated with standard bookbuilt offerings.

C

Capital increase
A capital increase (i.e. seasoned equity offering) is used for corporate financing purposes. It raises the share capital of a company. In the case of German stock corporations, this is conducted mainly by issuing new shares (known as primary shares) – alongside the option of a capital increase out of reserves and/or retained earnings. Seasoned equity offerings are governed by the German Stock Corporation Act and require a resolution by the General Meeting of Shareholders. By opting for a seasoned equity offering in combination with the exclusion of subscription rights, a company can cover its limited capital requirements quickly and cost-effectively. Under German law governing stock transactions, the issue price must not be significantly lower than the market price and the volume of capital must not exceed 10% of the entity's share capital. See also Bookbuilding.

Cash flow
Cash flow is a figure used to determine a company's financial strength. It describes the cash surplus generated over a certain period of time. For the purpose of determining cash flow, an entity's profit for the annual period is adjusted for items that do not produce an inflow or outflow of cash, such as depreciation or changes in provisions. Net cash from operating activities is the surplus of cash generated by operating activities.

Corporate governance
Stands for corporate management and supervision that should be as responsible as possible and focused on sustainability and value generation over the long term.

E

Earnings per share
Earnings per share is used for the purpose of analyzing profitability and – at a cross-sector level – evaluating a company. This figure is calculated by dividing profit attributable to shareholders by the number of shares outstanding.

EBIT/Operating profit
EBIT stands for earnings before interest and taxes. It corresponds to the operating result before net finance costs and income from affiliated companies. At international level, this figure is commonly used to compare companies' earnings power. As regards ElringKlinger, EBIT differs from the operating result in that EBIT includes factors relating to foreign exchange movements.

EBIT-margin
The percentage figure of EBIT divided by sales revenue. The EBIT margin shows a company's profitability over a specific period of time.

F

Free cash flow
Free cash flow (also operating free cash flow) represents the funds freely available to the company for distribution. It is calculated by subtracting investments (before acquisitions) from net cash from operating activities.

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 parent company, 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. The transition to IFRS as regards ElringKlinger's consolidated financial reporting was made in 2004.

M MDAX

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

N Net debt

Net debt is calculated on the basis of interest-bearing liabilities (primarily bank borrowings) less cash and cash equivalents (interest-bearing liabilities less cash less securities held as current assets = net debt). Alternatively, it can be calculated on the basis of the entire liabilities recognized less cash and cash equivalents less pension provisions.

Net finance income/cost

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. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

S Statement of cash flows

The statement of cash flows 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 statement of cash flows helps determine the company's ability to generate cash and cash equivalents.

W WpHG

Abbreviation for Wertpapierhandelsgesetz (German Securities Trading Act).

Technology

A APU (Auxiliary Power Unit)

An energy generation system that operates without the need for an external power source and is used primarily for the purpose of mobile onboard power supply (vehicles, ships, aircraft). Among the fields of application targeted by ElringKlinger is fuel-cell-powered stationary air conditioning in trucks, which functions independently of the vehicle's engine. In this case, the available fuel is used to generate hydrogen gas via a reformer, which in turn supplies the fuel cell stack very effectively.

B

Bipolar plates

Bipolar plates are core components in fuel cell stacks (see Stack). Their functions are to create an electrical interconnection between two cells, to transmit the generated energy, to supply the cells with hydrogen and oxygen and to distribute coolant. ElringKlinger develops and manufactures metal bipolar plates. Among the technical requirements for these components are high-precision metal-forming within the contact area (in the micrometer range) and accurate, low-distortion laser welding of the cathode and anode plates.

C

C-steel

C-steel is the term used to describe types of steel with a carbon content of at least 0.25%. The "C" stands for the chemical symbol for carbon. ElringKlinger requires C-steel for manufacturing 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, setting down limits for the average fuel consumption of a manufacturer's fleet of vehicles. Failure to comply with CAFE regulations can result in significant fines.

Cell connector/Cell contact system

The cell contact system developed by ElringKlinger for lithium-ion batteries consists of cell connectors and a cell carrier in which the connectors are integrated as a robust laser-welded construction. Via the cell connectors, the individual battery cells are connected both in a row and parallel to one another. They assume a conductive function, absorb cell energy and contain sensor elements. The cell contact consists of a control interface with thermal and electric monitoring.

Combined power/heat generation

Combined power/heat generation involves actively using the waste heat produced during electricity generation, leading to a particularly high degree of overall efficiency. At present, ElringKlinger is developing fuel cell stacks for fuel-cell-powered micro-cogeneration units designed to supply houses and apartment buildings with electricity and heat.

D

DMFC (Direct Methanol Fuel Cell)

With alcohol as a fuel, DMFC offers good storage capabilities and is a cost-effective energy carrier. As the cells are not (yet) as efficient as, for instance, related PEM cells, their use is restricted to applications with low energy requirements. ElringKlinger develops and produces elastomer-coated sealing frames for DMFC fuel cells.

DPF (Diesel Particulate Filter)

The diesel particulate filter – also known as a soot particulate filter – is a component of the exhaust tract in diesel-powered vehicles responsible for filtering harmful soot particles from the exhaust. Among the numerous concepts developed for this purpose, wall flow filters made of ceramic – such as silicon carbide, aluminum titanate or cordierite – have established themselves as the standard choice, with a high filtration efficiency of approximately 95%. The geometries are varied, ranging from honeycomb structures to even, perforated surfaces. The European emission standards contain specific particulate limits. Today, almost all new passenger cars and commercial vehicles in the EU are fitted with a DPF.

DPF coating

The soot particles deposited in the diesel particulate filter (DPF) must be burned off in order to regenerate the filter. Filters are generally catalytically coated with a view to accelerating the reaction and reducing the required combustion temperature. The catalytic coating material is mostly based on precious metals (platinum, rhodium, palladium). The catalytic effect generates the high temperature required to burn off the soot particles and oxidate any remaining hydrocarbons or carbon monoxide into CO2 and water. Depending on the vehicle usage profile, regeneration can be passive or active. Passive regeneration, for example when driving on the motorway, occurs through the permanent conversion of soot between the temperatures of 350°C and 500°C (CRT = Continuous Regeneration Trap). Active regeneration, for example when driving in city traffic, increases the temperature to over 500°C by means of engine-controlled post-injection. ElringKlinger is working on a coating material for ceramic diesel particulate filter bodies that is based on an alkali silicate substance. This material is free of heavy and precious metals and is highly active at low temperatures.

E Elastomer

Plastics/polymers can be divided into three main categories depending on their processing properties: thermoplasts, duroplasts and elastomers. The distinctive feature of elastomers is that their shape can be changed temporarily through the application of pressure or stretching before they return to their original form ("rubber"). They are manufactured from natural or synthetic rubber, which retains the desired properties owing to "interlinking" (also vulcanization). The final material varies according to the raw materials, manufacturing process and additives involved. When working with elastomers in the field of sealing technology, ElringKlinger utilizes proprietary applications which are optimized to meet special customer requirements.

European emission standards

The emission standards prescribed by the European Parliament specify the emission limit values for HC, CO, NOx and particles that must be complied with by newly registered automobiles in Europe. Different limits apply for diesel and petrol engines. The Euro 5 standard came into force on September 1, 2009, prescribing – among other things – an 80% reduction in the particulate matter limit for diesel engines. The Euro 6 standard, which is to be introduced in 2014, will further reduce the nitrogen oxide values permitted for diesel vehicles.

F Fuel cell

A fuel cell converts fuel energy into electricity by means of a chemical reaction. For this reaction to take place, the cell needs oxygen and hydrogen – either directly or derived from fuel. In the latter case, a reformer provides the cell with hydrogen gas derived from, for example, diesel or natural gas. Unlike batteries, fuel cells do not store energy, but rather convert it. A fuel cell consists of two different electrodes (anode and cathode) with an electrolyte (ionic conductor) located between them. There are different types of fuel cell technologies, offering specific advantages depending on their application. To date, ElringKlinger has developed components for the SOFC high-temperature fuel cell, the PEM low-temperature fuel cell and the DMFC direct methanol fuel cell.

H Hybrid engine

In the automotive industry, the term "hybrid engine" refers to the combination of various drive systems or different energy sources; this includes, for instance, the combination of a combustion engine with an electric motor.

L Lithium-ion battery

Lithium-based batteries are rechargeable, durable high-energy batteries with a high energy density. They are used in electric and hybrid vehicles. Based on its R&D activities, ElringKlinger produces, among other things, modular cell contact systems for such batteries.

M Meander, honeycomb and segment stoppers

Stoppers are structural features contained in the spring steel layers of cylinder-head gaskets that help to seal engine combustion chambers. Coined meander, honeycomb and segment stopper geometries have taken over from folded and laser-welded stoppers as the state of the art when it comes to making optimum use of the geometric space available. New embossing/coining and stamping technologies provide engineers with a variety of possibilities for influencing the distribution of pressure in the sealing gap.

Metal-elastomer gaskets

Gaskets made from a metal core with vulcanized elastomer profiles for sealing power-transmitting connections, for example oil pump gaskets and timing case gaskets.

Metaloflex®
Under the Metaloflex® brand name, ElringKlinger produces metal layer cylinder-head gaskets made from beaded, elastomer-coated spring steel layers – single-layer or multilayer, depending on the application.

Metaloseal®
The specialty and exhaust gaskets marketed under the brand name Metaloseal® are based on the functional principle of linear sealing using a bead. The versatile sealing system consists of both pure metal and elastomer-coated metal gaskets, covering virtually all requirements for engines, transmissions, exhaust systems and engine accessories.

Moldflon®
See PTFE

MuCell
An ultralight polyamide plastic material which, thanks to its innovative pore structure, permits additional weight savings in the production of technical plastic housing modules such as cam covers and oilpans.

N

Nitrogen oxide (NOx)
Nitrogen oxide, also known internationally by the abbreviation NOx, is a generic term for nitrogen and oxygen compounds. These gases, which form in the exhausts of combustion engines, are harmful to humans and the environment. With the aid of urea solutions (for example "AdBlue") containing ammonia, SCR (selective catalytic reduction) exhaust aftertreatment systems can convert nitrogen oxide into harmless nitrogen and water. With its SCR adapter module for trucks and passenger cars, ElringKlinger supplies a key component for this process.

P

PEM fuel cell
PEM stands for "polymer electrolyte membrane". PEM fuel cells work at low temperatures of around 90°C and have a polymer membrane as their central element. In the synthetic reaction known as "cold combustion", oxygen and hydrogen react with one another aided by a catalyst, releasing electricity and causing water to form. For PEM fuel cells used in passenger cars, ElringKlinger has developed metal bipolar plates, of which several hundred are required in a single cell stack.

Plug-in hybrid
This concept is the next step for hybrid technology, with on-board energy storage systems no longer only capable of being recharged by the vehicle's combustion engine but also via an external electric power source. At present, however, this technology still entails very high production costs.

PTFE (polytetrafluoroethylene)
The thermoplastic high-performance plastic PTFE – commonly known by the trade name Teflon® – has a very low coefficient of friction and is particularly resistant to most aggressive chemicals and to external influences such as moisture and UV radiation. PTFE is resistant to temperatures as low as -200°C and only melts at over 320°C. With its modified material Moldflon®, which is registered as a trademark, ElringKlinger Kunststofftechnik GmbH has the first ever injection-moldable PTFE high-performance material with a wide range of potential applications, for instance in the field of medical technology.

S

SCR (Selective Catalytic Reduction)
See "Nitrogen Oxide"

Solid Oxide Fuel Cells (SOFC)
Solid oxide fuel cells (SOFC) are also known as "high-temperature fuel cells" owing to their high operating temperatures (approx. 800°C). This type of fuel cell can be operated with a wide range of fuels. The hydrogen gas required for the cell is derived from diesel, biogas, ethanol, etc., using a reformer. Based on this technology, ElringKlinger is currently developing the stack module (including thermal protection box) for a fuel cell solution, produced together with cooperation partners, which is designed to provide on-board power supply in trucks.

Stack
In a fuel cell context, the term "stack" refers to a complete stack of individual fuel cells including bipolar plates and retaining and connecting devices.
To boost performance, the individual fuel cells are connected in series. The number of combined cells in the stacks produced by ElringKlinger currently varies between 40 and approximately 500.

T

Turbocharger
By compressing the air that is necessary for combustion, turbochargers increase the air flow rate in engines. The turbocharger is one of the key components of engine downsizing, permitting the same level of performance with a reduced engine capacity. This in turn creates significant potential for reducing fuel consumption.

Imprint

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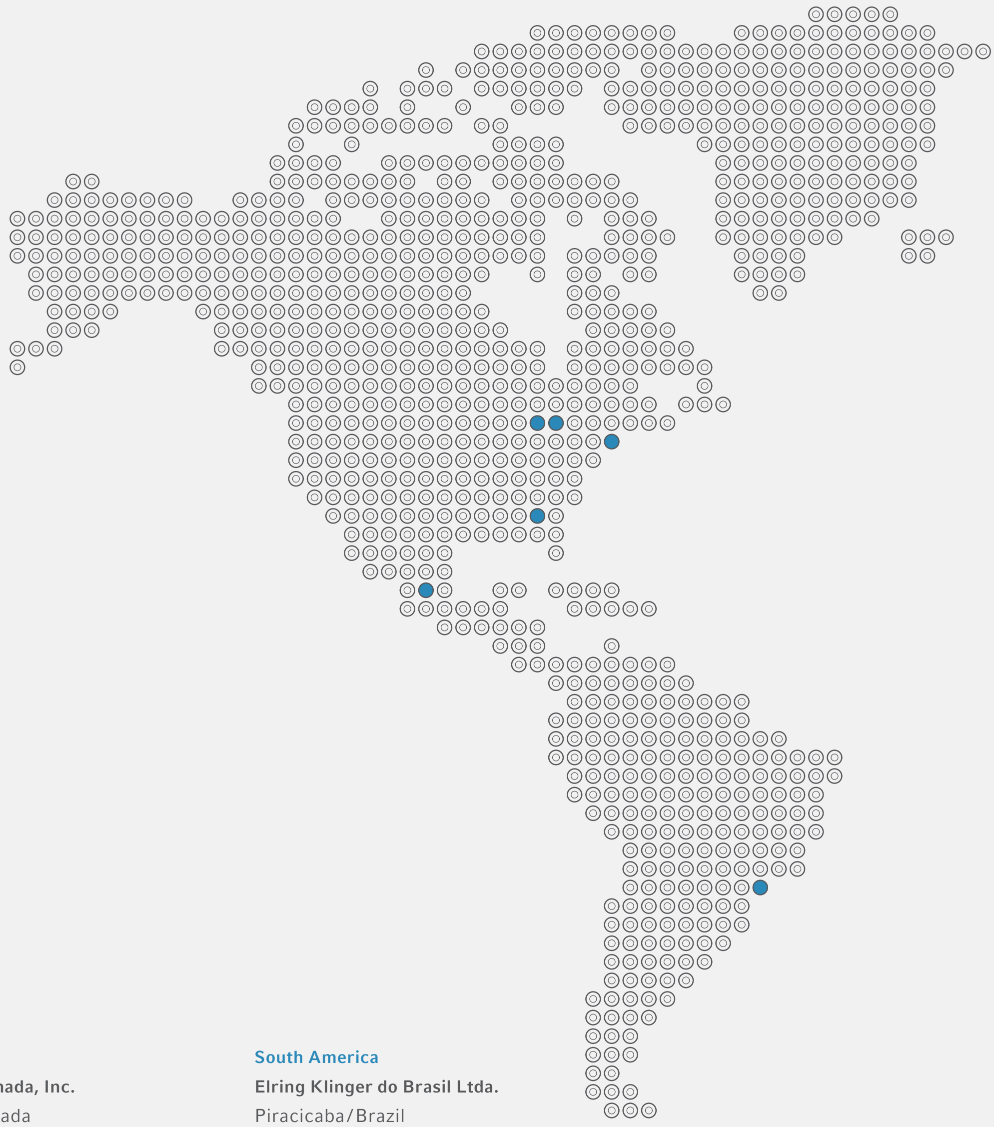
Further information is available at www.elringklinger.com

Disclaimer – Forward-looking Statements and Forecasts

This report contains forward-looking statements. These statements are based on expectations, market evaluations and forecasts by the Management Board and on information currently available to them. In particular, the forward-looking statements shall not be interpreted as a guarantee that the future events and results to which they refer will actually materialize. Whilst the Management Board is confident that the statements as well as the opinions and expectations on which they are based are realistic, the afore-mentioned 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

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

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ElringKlinger AG
Dettingen/Erms, Langenzenn, Runkel

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Elring Klinger Motortechnik GmbH
Idstein

ElringKlinger Logistic Service GmbH
Rottenburg am Neckar

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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

Technik-Park Heliport Kft.
Kecskemét-Kádafalva/Hungary

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

As at December 31, 2010

Financial Calendar 2011

MARCH 29, 2011
Annual Press Conference, Stuttgart
Analysts' Meeting, Frankfurt

MAY 12, 2011
Interim Report on the 1st Quarter of 2011

MAY 31, 2011
106th Annual General Shareholders' Meeting
Cultural and Congress Centre Liederhalle, 10:00 a.m. CET

JUNE 1, 2011
Dividend distribution

AUGUST 4, 2011
Interim Report on the 1st half of 2011

NOVEMBER 10, 2011
Interim Report on the 3rd Quarter of 2011

JUNE 5, 2012
107th Annual General Shareholders' Meeting

Calendar Trade Fairs

APRIL 21 – 28, 2011
Auto Shanghai, Shanghai

SEPTEMBER 15 – 25, 2011
64th IAA International Motor Show, Frankfurt/Main

OCTOBER 10 – 12, 2011
20th Aachen Colloquium Automobile and Engine Technology, Aachen

OCTOBER 11 – 15, 2011
Equip Auto, Paris

DECEMBER 06 – 07, 2011
10th International CTI Symposium & Expo
Innovative Automotive Transmissions and Hybrid & Electric Drives, Berlin

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