REPORT ON THE 2ND QUARTER AND 1ST HALF OF 2011

# EMBRACING BOTH WORLDS

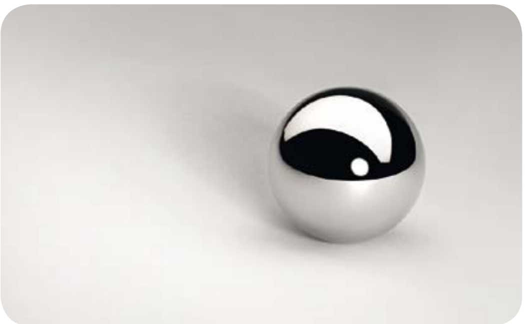
elringklinger

## 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 5,600 employees at 34 sites around the world, is dedicated to meeting.

# Contents

# Macroeconomic Conditions and Business Environment

### Global economic recovery loses momentum

Despite the protracted debt crisis and the impact of the natural disaster in Japan, the global economy continued to perform robustly during the second quarter of 2011. Having said that, there was also evidence to suggest a slight loss in forward momentum.

The individual economic regions again produced divergent performances in the period under review. While the emerging Asian markets and Germany generated strong growth, there were no signs of an upturn for countries on the periphery of Europe. What is more, the United States had to contend with a somewhat stuttering economic recovery.

### Germany continues to drive Europe's economy

Having started the year in a buoyant mood, Germany saw its rate of growth diminish slightly in the second quarter of 2011, albeit from a very high level. Despite losing some of its dynamism, the German economy remained the driving force behind growth in the eurozone, with GDP expanding by 2.8 % in the second quarter of 2011.

The European Union continues to be adversely affected by the debt crisis enveloping some of its member states. Within this context, both Portugal and Greece were downgraded yet again by rating agencies in the second quarter. Compared to the same period a year ago, the eurozone as a whole recorded moderate GDP growth of 1.8 % in the second quarter of 2011.

The eastern European economies achieved solid growth rates in the second quarter of 2011. In this period, Russia's GDP rose by 5.5 % compared to the same quarter in 2010.

### No sustained recovery in the US

The high price of oil combined with rising unemployment and a downturn in private consumption translated into relatively weak GDP growth of just 2.4 % for the United States in the second quarter of 2011.

After significant gains made in 2010, the South American economies decelerated slightly in the second quarter of 2011. Having said that, Brazil saw its GDP expand by a solid 3.6 % compared to the same quarter a year ago.

### Global economy spurred on by Asia

The emerging Asian nations continued to be the principal growth drivers for the world economy in the second quarter of 2011. Despite losing its momentum slightly, China recorded GDP growth of 9.0 %. At the same time, India's GDP rose by 7.7 %.

By contrast, Japan's second quarter was dominated by the severe repercussions of the natural disaster in March, which had a considerable effect on the country's economic performance. Against this backdrop, Japanese GDP contracted by 1.5 % compared with the same quarter a year ago.

### Global car production dampened by Japanese crisis

While global car production was up 7.5 % on last year's figure in the first three months of 2011, the following period proved considerably weaker, mainly as a result of production downtime in the wake of the Japanese tsunami disaster. Overall, global car production rose by 1.9 % year-on-year in the first half of 2011. By contrast, the number of passenger vehicles sold increased by around 5 % during the same period.

### German car market in prime condition

The German automobile market again presented itself in peak condition, with new car registrations rising by 10.5 % to 1.6 (1.5) million units in the first six months of 2011. Additionally, German manufacturers benefited from buoyant overseas demand, as a result of which domestic car production expanded by 4.8 % to around 3.0 million units.

### European vehicle sales remain sluggish

In contrast to Germany, the majority of Europe's markets were faced with a decline in the number of cars sold. The principal markets of Italy, the UK and Spain recorded a downturn in sales volumes in the first half of 2011. Within this group, only France saw a slight increase in vehicle sales. In total, the number of passenger cars sold in western Europe fell by 2.1 % to 7.0 (7.1) million units.

Eastern Europe, by contrast, developed more favorably in the period under review, recording double-digit growth both in terms of sales volumes and production. Following the downturn seen at the height of the financial crisis, the Russian vehicle market continued to rally. In the first six months of 2011, Russia saw its car and light commercial vehicle sales surge by around 56 % compared to the first half of 2010.

### Slower recovery of US auto market – Boom in South America

The recovery of the US market continued at a less dynamic pace during the first half of 2011. In total, sales of passenger cars and light trucks stood at 6.3 (5.6) million units, which corresponds to an increase of 12.8 %.

At the same time, car production contracted by around 6 %. This was attributable mainly to production downtime at Japanese manufacturing plants. In parallel, the availability of parts and difficulties surrounding some supplies in the wake of the natural disaster in Japan proved detrimental.

Despite operating at very high levels, the South American markets recorded further growth in demand for passenger cars. Indeed, the largest South American market, Brazil, saw its vehicle sales expand by 9.5 % to 1.6 (1.5) million units in the first half of 2011.

### Strong demand in Asian markets

As anticipated, demand within the Asian car markets remained brisk in the first half of the year. Although China experienced a slowdown in growth over the course of the first six months of 2011, new car registrations nevertheless increased by 5.8 % year-on-year. In June, the Chinese government announced a scrappage scheme for older automobiles as an incentive to purchase new vehicles. Alongside India, which boasted growth of 16.0 %, other countries such as Indonesia and Thailand also recorded encouraging growth in vehicle sales.

Following the devastating earthquake in March 2011 car sales slumped significantly in Japan. Over the course of the first six months of 2011 this led to a year-on-year decline of 29.0 % in the number of vehicles sold, down to just 1.6 (2.3) million units. In parallel, Japan's vehicle production was severely affected by the earthquake and contracted by almost one third in the first six months. However, in view of the below-average proportion of deliveries to Japanese car makers, the overall impact on the ElringKlinger Group was relatively low.

### Continued recovery in commercial vehicle markets worldwide

With economic recovery in full swing, the world's commercial vehicle sector also continued to prosper, although most of the markets have yet to match the levels recorded prior to the crisis. Both Europe and North America saw a rise in the demand for commercial vehicles over the course of the first half of 2011.

In Germany, new commercial vehicle registrations surged by 24.9 % in the first six months of the year, taking the figure to 158,450 (126,901) units.

Western Europe also recorded significant growth rates in the number of trucks sold. In contrast to the first half of 2010, new registrations increased by 41.1 %.

Eastern Europe accounted for the most pronounced growth rates within the commercial vehicle segment, with the number of new registrations more than doubling to 40,640 (18,761) units in the first half of 2011.

North America also recorded a significant year-on-year increase in the number of heavy trucks sold over the course of the first six months of 2011. Domestic registrations of new trucks rose by around 40 %.

# Significant events: majority takeover of Swiss Hug Group

On April 5, 2011, ElringKlinger AG and the Hug Group, Elsau, Switzerland, signed a purchase agreement in respect of the acquisition of a 66.7 % majority interest in the Swiss exhaust treatment specialist. Following the approval of the Federal Cartel Office, the transaction was subsequently closed on May 11, 2011. Hug Group was included fully in ElringKlinger's consolidated group retrospectively as at May 1, 2011, and therefore contributed to the sales revenues and earnings of the ElringKlinger Group as early as the second quarter of 2011.

In addition to its majority stake in Hug Engineering AG, Elsau, Switzerland, ElringKlinger AG also acquired a pro rata interest in Hug Filtersystems AG, Elsau, Switzerland, and several international sales companies. The core business activities of the Hug Group are centered around the development, engineering and manufacture of exhaust gas cleaning systems for catalytic exhaust aftertreatment as well as diesel particulate filters for stationary and mobile applications.

In response to more stringent emission standards worldwide, engines used in commercial vehicles as well as within the off-road segment are increasingly being equipped with extensive exhaust aftertreatment technology. Within this context, the focus is in particular on growth markets in Asia and South America. In view of the fact that the ElringKlinger Group operates 34 sites in all of the world's key markets, Hug is in a position to press ahead vigorously with its globalization efforts.

In cooperation with ElringKlinger AG, Hug Group is also looking to supply original-equipment customers with exhaust gas cleaning systems tailored in particular to heavy-duty applications for trucks. Combined with ElringKlinger CleanCoat coating material for soot reduction, Hug diesel particulate filters are to be used in the commercial vehicle sector, in off-road vehicles and in stationary systems.

The Hug Group expects to generate sales revenue of approx. CHF 60 million in its current 2010/11 financial year. Therefore, as from May 1, 2011, the company is expected to contribute around EUR 30 million in sales revenue to the ElringKlinger Group in the 2011 financial year.

# Sales and Earnings Performance

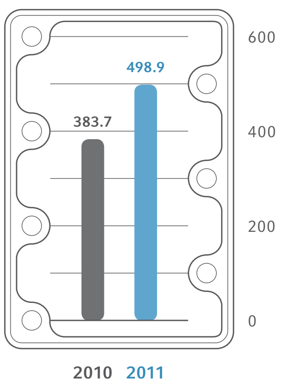
## Revenue buoyed by strong car demand and new product launches

The global automotive markets continued to recover over the course of the first six months of 2011, albeit at a less vigorous rate in the second quarter as knock-on effects of the tsunami disaster in Japan took hold. Fueled by strong global demand for new cars and numerous product launches within the Original Equipment segment, revenue generated by the ElringKlinger Group in the first half of 2011 rose by 30.0 % year-on-year to EUR 498.9 (383.7) million.

The flat gaskets operations acquired from the Freudenberg Group and the first-time consolidation of Swiss-based exhaust treatment specialist Hug contributed EUR 35.1 million in total to sales revenue in the first half. Even without these acquisitions, the growth rate of 20.9 % was visibly higher than the percentage increase in global vehicle production.

Although global car production contracted slightly in the second quarter compared to the first three months of 2011, the ElringKlinger Group managed to generate further quarter-on-quarter growth in sales revenue in the second quarter. Revenue generated in the second quarter of 2011 rose to EUR 254.4 million, up EUR 9.9 million on the previous quarter (EUR 244.5 million). Compared to the second quarter of 2010 (EUR 201.0 million), growth stood at 26.6 % or EUR 53.4 million.

SALES 1ST HALF
in EUR million



### Integration of the metal flat gaskets business of the Freudenberg Group

The acquisition by ElringKlinger AG of the Freudenberg Group's metal flat gaskets business was closed effective from January 1, 2011, and the acquired entities were included in the scope of consolidation of the ElringKlinger Group as of this date. In total, the former flat gaskets operations of the Freudenberg Group contributed sales of EUR 28.4 million to ElringKlinger's consolidated revenue in the first six months of 2011.

In the first half of 2011, the contribution made to earnings before taxes of the ElringKlinger Group was minus EUR 1.7 million, minus EUR 0.6 million of which was attributable to the second quarter. It includes the negative earnings effects of the purchase price allocation, equivalent to EUR 0.3 million. As part of measures implemented for the purpose of restructuring and raising efficiency levels, the Group recorded non-recurring staff costs of EUR 1.1 million, EUR 0.4 million of which in the second quarter.

Significant steps aimed at improving earnings performance at production level have already been implemented or are currently underway. These include in particular the introduction of fully automated manufacturing processes and high-end progressive system technologies. One of these measures included the relocation of cylinder-head gasket production away from the site in Gelting/Germany for the purpose of optimizing the overall value chain and logistics. These operations are now concentrated in France, in close proximity to ElringKlinger's customers. The Gelting plant will now focus on the development and production of special exhaust system gaskets, e. g. for turbochargers. In addition, ElringKlinger is currently assessing and implementing cost savings and synergies in the area of Research and Development, Purchasing, Sales and Administration.

The aim is to guide the operating margin of the acquired Freudenberg business towards a level of 10 % by the end of the year.

### Takeover of Hug Group

The majority takeover of Swiss-based exhaust treatment specialist Hug came into effect as of May 1, 2011, and the acquired entity was thus fully included in the scope of consolidation of the ElringKlinger Group for the first time.

Over the period of two months in which it was included for the first time within the scope of consolidation, Hug contributed second-quarter sales of EUR 6.7 million to Group revenue. The contribution to earnings before taxes was minus EUR 0.8 million. This includes the negative effect on earnings, equivalent to EUR 0.3 million, associated with the purchase price allocation as well as foreign exchange losses attributable mainly to the significant appreciation of the Swiss franc.

In order to improve operating profitability, the company’s cost structures are being optimized, also taking into account the aspect of foreign currency risk, and production is being automated. The use of distribution channels operated by the ElringKlinger Group opens up enormous cross-selling potential for the Hug product portfolio, which includes diesel particulate filters and exhaust abatement systems.

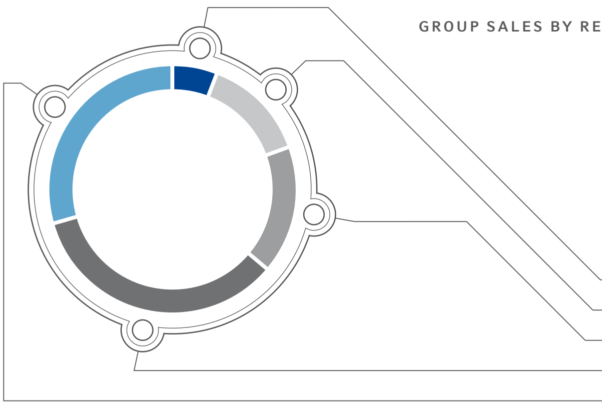
ElringKlinger is currently implementing extensive integration and cost-reduction measures at the recently acquired businesses, with the express purpose of bringing efficiency levels in line with those achieved by the ElringKlinger Group.

### Proportion of foreign sales remains at 71 %

As a result of the dynamic growth in domestic sales, the proportion of revenue generated within the home market remained largely unchanged in the first half of 2011, despite the inclusion of foreign acquisitions. The ElringKlinger Group accumulated 29.4 % (29.0 %) of total revenue in its home market of Germany. The proportion of revenue generated abroad was virtually unchanged at 70.6 % (71.0 %).

In Germany, sales revenue rose by 31.7 % to EUR 146.8 (111.5) million in the first half of 2011. The Rest of Europe – excluding Germany – saw revenue expand by 44.4 % to EUR 171.4 (118.7) million, as a result of which it retained its position as the strongest revenue-generating region within the ElringKlinger Group. The region’s vigorous growth was attributable in particular to the integration of the recently acquired metal flat gaskets business of the Freudenberg Group, generating most of its sales in Italy and France. The Hug Group, included in the scope of consolidation since May 1, 2011, also generates a large proportion of its sales revenue in Europe. What is more, a significant share of the European-made vehicles and engines – with a particular emphasis on German manufacturers – for which ElringKlinger supplies key components is exported to Asia and North America.

**GROUP SALES BY REGION 1ST HALF 2011** (prior year) in %



| | | |
|---|---|---|
| SOUTH AMERICA AND OTHER | 6.1 | (6.8) |
| ASIA AND AUSTRALIA | 13.6 | (15.4) |
| NAFTA | 16.5 | (17.9) |
| REST OF EUROPE | 34.4 | (30.9) |
| GERMANY | 29.4 | (29.0) |

In the NAFTA region, revenue increased by 20.3 % to EUR 82.5 (68.6) million in the first half of 2011, fueled primarily by strong gains achieved during the first quarter. The second quarter was impacted by production shortfalls attributable to the Japanese crisis, as a result of which revenue growth contracted to 4.4 %.

In South America, ElringKlinger saw its sales revenue expand by 17.4 % to EUR 30.4 (25.9) million in the first six months of 2011. This was due mainly to the continued solid performance of the Brazilian subsidiary Elring Klinger do Brasil Ltda.

Asia accounted for EUR 67.8 (59.0) million of the Group's sales revenue in the first half of 2011. Despite the downturn in Japan, this region as a whole grew by 14.9 % in terms of revenue. This was largely attributable to the business performance of the two Chinese subsidiaries. In the first quarter of 2011, ElringKlinger had commenced operations at a new plant in Changchun, northern China, which is more than double the size of the previous site. Due to several new orders, the Group is currently expanding the production space at its Suzhou plant by a further 5,000 square meters.

### Original Equipment business expands by 37 %

Recovery continued within the Original Equipment segment over the course of the first six months of 2011. The volume of just-in-time requests for components produced by the ElringKlinger Group increased yet again both in terms of passenger cars and commercial vehicles. Compared to the equivalent period a year ago, sales revenue generated in this segment rose by EUR 105.9 million to EUR 395.5 (289.6) million in the first half of 2011, driven in part by the recent acquisitions. Although global car production contracted slightly in the second quarter compared to the first three months of 2011, the Original Equipment segment managed to generate further quarter-on-quarter growth in sales revenue in the second quarter, driven by the introduction of several new product launches.

Within this context, it should be noted that revenue contributions associated with Freudenberg and Hug activities – consolidated for the first time – are attributable fully to the Original Equipment segment. Adjusted for these acquisitions, revenue generated by the Original Equipment segment amounted to EUR 360.4 million. Thus, organic growth within ElringKlinger's core business was yet again considerably higher than the gains made in global vehicle production.

The Group recorded above-average growth in the areas of Plastic Housing Modules/Elastomer Technology and Shielding Technology. The trend towards compact, downsized combustion engines has produced more buoyant demand for thermal and acoustic shielding components, an area in which ElringKlinger is considered a technology leader.

The year-on-year hike in commodity prices, as well as the strained situation still evident within the Original Equipment market in terms of pricing structures, had an adverse effect on earnings performance in the period under review. At the German sites, in particular, operations close to peak capacity necessitated the introduction of extra shifts, as well as resulting in higher logistical costs and additional holiday and flexitime provisions.

Furthermore, many of the new product launches were still in preparation or in the early stages of ramp-up, for example in the case of turbocharger V-ring gaskets or the introduction of the first serial production line for cell contact systems used in lithium-ion batteries.

Due to their negative earnings contributions, the recently acquired Freudenberg business and the Hug Group had a significant dilutive effect on earnings before taxes generated within the Original Equipment segment. As a result, earnings before taxes grew at a slower pace than revenue in the first half of 2011, up 14.7 % to EUR 35.2 (30.7) million.

### International growth in Aftermarket business

Moving forward from the high levels recorded last year, the Aftermarket segment managed to expand its sales revenue by 4.6 % to EUR 56.4 (53.9) million in the first half of 2011. Revenue growth was driven by the expansion of market share at an international level and by the ongoing extension of the product range marketed under the "Elring – Das Original" brand.

Despite the volatile political and economic situation in large parts of North Africa as well as the Middle East and the concomitant decline in demand for spare parts in these markets, ElringKlinger managed to stabilize revenue generated in this region at a level similar to last year's figure. In Europe, car scrappage schemes such as the one introduced in Germany in 2009 at the height of the economic crisis have generally led to a reduction in the number of older vehicles on the road, a situation that continues to adversely affect demand for replacement parts.

Sales in the expansive markets of eastern Europe continued to develop at an encouraging level, and as a result the Aftermarket segment recorded its highest revenue growth in this region.

Following the takeover of Freudenberg's flat gaskets business in France, the ElringKlinger Group has strengthened its competitiveness within the French aftermarket industry and is currently in the process of expanding its product range.

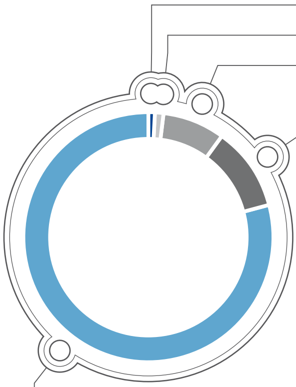
By optimizing the supplier structure and pursuing stringent cost management, the Aftermarket segment managed to propel earnings before taxes at a faster rate relative to sales revenue. At EUR 11.5 (10.5) million, earnings before taxes for this segment were 9.5 % up on last year's figure.

### Engineered Plastics segment benefits from economic upturn

Buoyed in particular by rising demand from customers operating in the automotive industry and the mechanical engineering sector, the Engineered Plastics segment saw its sales revenue grow by 15.5 % to EUR 40.3 (34.9) million.

As regards the Chinese subsidiary ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd., component production is currently being phased in at the Suzhou plant operated by the ElringKlinger Group.

SALES REVENUES BY SEGMENT 1ST HALF 2011 (prior year) in %



| | | |
|---|---|---|
| SERVICES | **0.6** | (0.4) |
| INDUSTRIAL PARKS | **0.8** | (1.0) |
| ENGINEERED PLASTICS | **8.1** | (9.1) |
| AFTERMARKET | **11.2** | (14.0) |
| ORIGINAL EQUIPMENT | **79.3** | (75.5) |

The surge in prices for polytetrafluoroethylene (PTFE) had a detrimental effect on the segment's earnings performance in the second quarter in particular. Higher prices are generally passed on to customers. However, these adjustments are implemented at a later stage, i.e. subsequent to the actual procurement of raw materials. Additionally, the Engineered Plastics segment incurred development and start-up costs for products made from the injection-moldable material Moldflon®, which is also being used to an increasing extent within the automotive sector.

Regardless of these factors, earnings before taxes rose faster than revenue to EUR 6.0 (4.9) million in the first six months of 2011.

### Increased revenue for Industrial Parks segment

Rent increases and improved utilization levels translated into higher rental income for the Industrial Parks segment in the first six months of 2011, up 7.7 % to EUR 4.2 (3.9) million. Earnings before taxes increased to EUR 1.8 (1.4) million.

### High demand for engineering services

The Services segment encompasses a range of engine testing and other development services offered by ElringKlinger. Demand among vehicle and engine manufacturers was very strong within the area of emission technology, with a particular focus on engineering services relating to SCR (Selective Catalytic Reduction) technology for the reduction of nitrogen oxide.

While the first six months of 2010 had been dominated by the adverse effects of low capacity utilization, the first half of 2011 produced a significant influx of new projects for Elring Klinger Motortechnik GmbH, both from vehicle manufacturers and from other automotive suppliers. Consequently, sales revenue within the Services segment increased by 29.7 % to EUR 4.8 (3.7) million. Earnings before taxes rose to EUR 0.7 (0.1) million in the first half of 2011.

### Headcount rises significantly due to higher capacity utilization and acquisitions

As at June 30, 2011, the ElringKlinger Group employed 5,601 (4,390) people. This corresponds to a year-on-year increase of 27.6 %. The takeover of the metal flat gaskets business from the Freudenberg Group accounted for 354 new staff members, while the majority interest acquired in the Hug Group, a Swiss-based exhaust treatment specialist, expanded the headcount by 209. Excluding these acquisitions, the overall number of personnel would have grown by just 14.8 %, i. e. at a lower rate than the organic growth in revenue recorded within ElringKlinger's core business (20.9 %).

Beyond this, the expansion of capacity in response to higher output – particularly at the Chinese plants, but also in Brazil, North America and Mexico – also contributed to higher staffing levels within the Group. Against this backdrop, the number of personnel employed abroad rose at a more pronounced rate than the domestic headcount.

At 2,514 (2,258), the headcount in Germany as at June 30, 2011, was up by 256 or 11.3 %, while the number of employees based outside Germany rose by 955 or 44.8 % to 3,087 (2,132). As a result of the takeover of Freudenberg activities, the ElringKlinger Group saw its headcount rise by 298 in Italy and France. The majority takeover of Hug Group produced an influx of 195 new employees in Switzerland, Italy and the United States. The proportion of personnel employed at international subsidiaries and joint ventures thus rose to 55.1 % (48.6 %).

### Dilutive effect of acquisitions

The ElringKlinger Group's financial performance remained solid during the first half of 2011. In parallel with revenue growth and improved efficiency levels in production, however, the Group also had to contend with a disproportionately large increase in costs attributable to the area of personnel as well as with regard to materials. The significantly lower gross margins currently generated by the new acquisitions exerted downward pressure on the Group's gross profit margin, equivalent to approx. 1.4 percentage points.

Rising significantly compared to the previous year, the price of raw materials primarily used by ElringKlinger reached a very high level in the first half of 2011. In order to restrict material costs and safeguard the volumes required, ElringKlinger has negotiated long-term supplier contracts to the largest extent possible. Rising costs are also counterbalanced by optimized product design, the use of new materials and streamlining measures in production. With prices receding towards the end of the second quarter, ElringKlinger took the opportunity to build up its stocks more extensively in this period. In the second quarter in particular, the larger just-in-time volumes requested by customers at short notice, a situation seen in many areas at ElringKlinger sites in Germany, led to overtime and additional shifts at production level, as well as prompting extra deliveries. This, in turn, resulted in a disproportionate increase in costs.

Having been brought forward by ElringKlinger from April to February 2011, the collective wage increase of 2.7 % for the Group's German sites resulted in higher staff costs in the period under review. Higher costs incurred by ElringKlinger AG were attributable primarily to inputs required for the start-up of the E-Mobility unit. Whereas staff costs within this area were significant, revenue remained negligible for now.

Provisions for the staff profit-sharing bonus of EUR 1,000 per employee for members of the ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH and Elring Klinger Motortechnik GmbH workforce, as agreed for the financial year 2010, were recognized as early as the first quarter of 2011, and resulted in expenses of EUR 2.5 million in total.

### Quarter-on-quarter improvement in gross profit margin

While the cost of sales outpaced sales growth in the first half of 2011, rising by 35.1 %, the remaining expense items increased at a less pronounced rate relative to sales revenue. Within this context, the cost of sales included EUR 1.1 million in non-recurring staff costs attributable to the takeover of the flat gaskets business of the Freudenberg Group. The gross profit margin was 27.6 %, compared to 30.3 % in the same period a year ago. The inclusion of the metal flat gaskets business previously owned by the Freudenberg Group, together with the integration of the Hug Group, had a dilutive effect of 1.3 percentage points on the Group's gross profit margin. Compared with the first quarter of 2011 (27.3 %), however, the Group's gross profit margin rose by 0.6 percentage points to 27.9 % in the second quarter.

### Significant expansion of research and development

In the first half of 2011, research and development costs within the ElringKlinger Group rose by EUR 2.8 million year-on-year. Research and development costs thus increased by 13.1 % compared to the same period a year ago, rising to EUR 24.2 (21.4) million in total. Thus, the amount expended on research and development was equivalent to 4.9 % of revenue.

Alongside R&D directed at several new applications for existing technologies, the Group focused in particular on expanding its activities in the new area of E-Mobility, which now employs fifty engineers and technicians. While this area has incurred significant input costs, it has yet to generate tangible sales; the first revenue contributions are scheduled for the second half of 2011.

Preparations for the start of series production of cell contact systems for lithium-ion batteries, which are used in hybrid and pure electric vehicles, were completed in the first half of 2011. Having introduced its first series production system at an industrial scale, ElringKlinger now has a tangible advantage within this area in terms of production technology as well as the manufacturing processes specially developed for this purpose.

As part of several projects, the company is currently looking at additional applications for cell contact systems, the focus being on next-generation cylindrical and prismatic cell structures.

In the first six months of 2011, the company received EUR 1.2 (1.4) million in government grants for ongoing development projects in the area of E-Mobility. Of this total, an amount of EUR 0.6 (1.4) million was attributable to the second quarter. At the same time, the company accordingly incurred expenses relating to development work and prototyping.

Of the R&D costs amounting to EUR 24.2 million, a total of EUR 2.4 (2.1) million was capitalized in the first half of 2011. In parallel, systematic depreciation/amortization stood at EUR 2.0 (1.8) million, as a result of which this item had no significant effect on earnings.

Both selling expenses, up 20.2 %, and general and administrative expenses, up 29.9 %, rose at a less dynamic rate than sales revenue in the first half of 2011. In the second quarter, selling expenses and general and administrative expenses increased slightly faster than revenue, partly as a result of the acquisitions.

### Operating result slightly down in second quarter

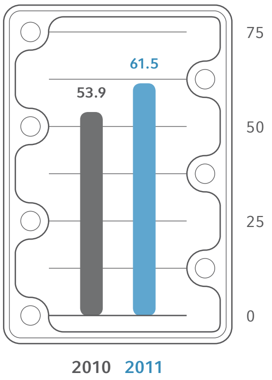
Earnings before interest, taxes, depreciation and amortization (EBITDA) were up EUR 11.1 million on last year's result for the first half, taking the total to EUR 105.4 (94.3) million. Owing to the substantial investments seen in previous years and the acquisition-specific factors, depreciation and amortization rose by EUR 3.5 million to EUR 43.9 (40.4) million in the first half of 2011. In the second quarter of 2011, EBITDA receded by EUR 0.5 million to EUR 52.1 (52.6) million.

The operating result improved by 14.6 % in the first six months 2011, reaching EUR 66.0 (57.6) million. At EUR 33.3 (34.3) million, the Group's operating result in the second quarter 2011 was down 2.9 % compared to the buoyant second quarter of 2010, primarily as a result of the negative margins currently contributed by the newly acquired entities. The operating margin in the second quarter was 13.1 % (17.0 %). Adjusted for the dilutive effect on earnings associated with the acquisition of Freudenberg and Hug activities, the operating margin of ElringKlinger's core business was 14.6 %.

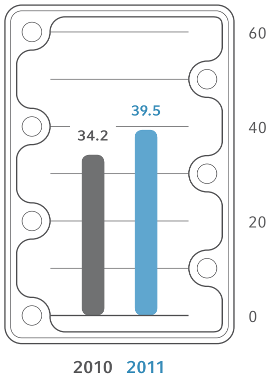
Earnings before interest and taxes (EBIT) – this figure includes foreign exchange gains and losses – were well below the Group's operating result in the first half of 2011. Impacted by foreign exchange losses of EUR 4.5 million, EBIT totaled EUR 61.5 (53.9) million after the first six months.

In the second quarter, EBIT was adversely affected by foreign exchange losses of EUR 3.7 million and thus stood at EUR 29.6 (31.6) million. In 2008, ElringKlinger AG financed the purchase consideration for the SEVEX Group, Switzerland, in Swiss francs. The net foreign exchange effect associated with this loan in particular was minus EUR 1.7 million in the second quarter of 2011. It was the result of the significant appreciation of the Swiss franc against the euro and the concomitant upward revaluation of this liability. On this basis, the EBIT margin for the second quarter of 2011 stood at 11.6 %; adjusted for the dilutive effects of the newly consolidated acquisitions, the EBIT margin was 13.1 %.

EBIT 1ST HALF
in EUR million




PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF ELRINGKLINGER AG 1ST HALF
in EUR million




## Earnings before taxes up 16.0 % in first half

Negative foreign currency effects were a key factor in driving up net finance costs to EUR 7.0 (5.6) million in the second quarter 2011. In the first quarter, net finance costs had been considerably lower at just EUR 3.8 million.

Against this backdrop, earnings before taxes totaled EUR 55.2 (47.6) million after the first six months of 2011, which corresponds to a year-on-year increase of 16.0 %. In the second quarter of 2011, earnings before taxes contracted by EUR 2.3 million to EUR 26.3 (28.6) million as a result of the factors outlined above.

## Net income after minority interests rises by 14.3 % in first half

At 26.1 % (24.9 %), the income tax rate was visibly higher in the first half of 2011 compared to the same period a year ago, but remained below the income tax rate of 27.0 % for the financial year 2010 as a whole. This was attributable mainly to higher earnings contributions by international Group companies with a below-average tax rates.

On this basis, the ElringKlinger Group generated net income of EUR 40.8 million in the first half of 2011, compared to EUR 35.7 million in the same period a year ago. In the second quarter of 2011, net income fell by 10.2 % year-on-year to EUR 19.4 (21.6) million due to the lower pre-tax result coupled with a higher tax rate.

Net income after minority interests stood at EUR 39.5 (34.2) million after the first six months of 2011. On this basis, basic and diluted earnings per share totaled EUR 0.62 (0.59). As at June 30, 2011, the number of ElringKlinger AG shares outstanding following the seasoned equity offering of October 6, 2010, was 63,359,990 (57,600,000).

After taxes and minority interests of EUR 0.6 (1.0) million, net income for the second quarter of 2011 totaled EUR 18.8 (20.6) million. Earnings per share for the second quarter stood at EUR 0.30 (0.36).

# Financial Position and Cash Flows

As at June 30, 2011, total assets amounted to EUR 1,123.3 (864.3) million, up EUR 259.0 million on the figure posted at June 30, 2010. The year-on-year increase was attributable to the seasoned equity offering implemented in October 2010 as well as the Group's significant growth.

The first-time inclusion of Swiss-based exhaust treatment specialist Hug within the scope of consolidation of the ElringKlinger Group effective from May 1, 2011, is reflected in the Group's financial position. The effects of this acquisition on the assets and liabilities of the ElringKlinger Group are presented in the Notes on page 42. Compared to the prior-year reporting date of June 30, 2010, it should also be noted that the acquired flat gaskets business of the Freudenberg Group was included in the scope of consolidation of the ElringKlinger Group effective from January 1, 2011.

Non-current assets rose to EUR 671.1 million as at June 30, 2011, and thus exceeded the figure of EUR 562.4 million reported at June 30, 2010, by EUR 108.7 million. This was due primarily to property, plant and equipment, which grew by EUR 80.1 million to EUR 505.7 (425.6) million, mainly as a result of investments in land, new factory buildings as well as plant and machinery. The consolidation of Hug accounted for an additional EUR 25.8 million in property, plant and equipment. Compared to March 31, 2011 (EUR 469.7 million), this item expanded by EUR 36.0 million.

The rise in intangible assets was largely attributable to the recent acquisitions. The inclusion of Freudenberg contributed a total of EUR 7.6 million. The takeover of the Hug Group produced goodwill of EUR 5.5 million and intangible assets of EUR 7.6 million. Thus, total intangible assets held by the ElringKlinger Group rose to EUR 112.3 (90.1) million.

### Acquisition-induced growth in inventories and receivables – Inventories up due to accounting policy for tools

In response to the significant increase in production output, the Group adjusted its stock levels accordingly, which contributed to the year-on-year increase in inventories by 59.2 % as at June 30, 2011, taking the total figure to EUR 183.5 (115.3) million, compared to EUR 152.6 million as at March 31, 2011. The inclusion of Hug led to a rise in inventories by EUR 16.0 million. As a result of changes to the accounting policy for customized tools, implemented as at January 1, 2011, according to which customized tools are accounted for as inventories until the point of completion and subsequently recognized in profit or loss when billed to the customer, inventories grew by EUR 10.6 million in the first half of 2011. Of this amount, EUR 5.7 million was attributable to the second quarter.

Furthermore, the central purchasing department took advantage of the slight downturn in prices for key raw materials towards the end of the second quarter and stockpiled these commodities at prices that proved more cost-effective for the Group. As a result, the share of inventories in total assets rose to 16.3 % (13.3 %). As at March 31, 2011, inventories had accounted for 15.1 %.

Capital tied up in trade receivables rose by 27.9 %. Compared to the end of the same reporting period last year, receivables thus increased by EUR 39.6 million to EUR 181.5 (141.9) million. They grew by EUR 15.9 million compared to March 31, 2011, with as much as EUR 7.3 million stemming from the consolidation of the Hug Group. Overall, receivables expanded at a slower rate relative to revenue growth.

Other current assets amounted to EUR 42.6 (10.3) million. The increase recorded in comparison with March 31, 2011 (EUR 14.5 million), was mainly due to an amount of EUR 24.4 million payable by an insurer. In parallel, the Group accounted for other liabilities of a corresponding amount, EUR 7.5 million of which had already been paid as at June 30, 2011 (cf. Notes, page 41). The consolidation of Hug added EUR 2.7 million to other current assets.

As at June 30, 2011, the ElringKlinger Group held cash totaling EUR 43.7 (31.9) million. The decline by EUR 16.1 million compared to March 31, 2011 (EUR 59.8 million), was attributable chiefly to the dividend distribution as well as the settlement of the consideration payable in respect of the majority acquisition of the Hug Group.

### Equity ratio at 47.9 %

As at June 30, 2011, revenue reserves held by the ElringKlinger Group amounted to EUR 321.5 (272.7) million. Despite net income of EUR 19.4 million for the period, revenue reserves declined by EUR 3.4 mn compared to March 31, 2011 (EUR 324.9 million), primarily as a result of a higher dividend payout of EUR 22.2 million.

In total, Group equity rose by EUR 12.8 million to EUR 538.4 million compared to March 31, 2011. Compared to June 30, 2010, Group equity increased by EUR 173.7 million. This was attributable mainly to the seasoned equity offering transacted in October 2010. As a result, share capital rose by EUR 5.8 million to EUR 63.4 million. The share premium from the issue of equity was accounted for in capital reserves, which increased by EUR 115.5 million to EUR 118.2 (2.7) million at the time. During this period, the equity ratio increased from 42.3 % to 47.9 %. After March 31, 2011, the Group saw its equity ratio contract from 51.9 % to 47.9 %, primarily as a result of the increase in financial liabilities by EUR 75.5 million, which was mainly attributable to the acquisition of Hug.

### Slight year-on-year rise in net debt

Net debt (non-current and current financial liabilities less cash) amounted to EUR 227.4 million as at June 30, 2011, thus slightly exceeding the figure posted at the end of the same period last year (EUR 221.1 million).

The ElringKlinger Group expanded its financial liabilities by EUR 75.5 million compared to March 31, 2011. This was attributable mainly to the settlement of the purchase consideration of EUR 17.1 million for the acquisition of Hug, interim financing of the dividend payout of EUR 22.2 million and the partial financing of investments in property, plant and equipment as well as higher working capital. The total figure included EUR 16.5 million in current financial liabilities and EUR 9.7 million in non-current financial liabilities relating to the acquisition and the first-time consolidation of Hug.

While current financial liabilities rose by EUR 55.2 million compared with June 30, 2010, non-current financial liabilities were reduced by EUR 37.2 million.

### Operating cash flow down on last year

The foreign exchange effects accounted for in the Statement of Cash Flows have been adjusted pursuant to IAS 7.20(b). Within this context, the unrealized foreign currency gains and losses included in the Statement of Cash Flows, previously also recognized in financing cash flows, have been recognized or adjusted in cash flows from operating activities in accordance with IAS 7.20(b). Unrealized foreign currency gains and losses have been disclosed within the item classified as “Other non-cash expenses/income”.

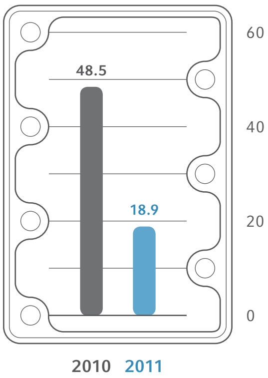
In the first half of 2011, net cash from operating activities was EUR 18.9 (48.5) million. By contrast, operating cash flow in the second quarter was negative at minus EUR 3.5 (29.4) million.

The significant increase in inventories, receivables and other assets not attributable to investing or financing activities, up EUR 48.3 million in total, largely offset earnings before taxes (EUR 26.3 million) and amortization/depreciation, which rose by EUR 1.6 million more year-on-year to EUR 22.6 million.

In the first quarter of 2011 provisions totaling EUR 1.6 million had been used or reversed. By contrast, the Group recognized provisions of EUR 2.0 million in the second quarter of 2011.

Driven by significant growth in output, inventories and trade receivables as well as other assets attributable to operating activities expanded by EUR 72.9 million or 48.5 % more in the first half of 2011, whereas the Group had recorded a total increase of just EUR 49.1 million within this area in the first six months of 2010.

NET CASH FROM OPERATING ACTIVITIES 1ST HALF
in EUR million




Inventories and trade receivables, as well as other assets not attributable to investing or financing activities, rose by EUR 48.3 (18.2) million in the second quarter of 2011. With respect to the strong order intake level and with the express purpose of exploiting the slight fall in commodity prices towards the end of the second quarter, stock levels were expanded to a larger extent than in the first quarter. The increase in other assets was attributable largely to the insurance claim of EUR 24.4 million discussed earlier. Additionally, inventories increased as a result of tools billed to customers, which in contrast to the same quarter a year ago are now no longer capitalized. In total, this added EUR 5.7 million to inventories in the second quarter. In the first quarter of 2011, they had accounted for an increase of EUR 4.9 million.

Trade payables and other liabilities not attributable to investing or financing activities were scaled down by EUR 1.0 million in the first quarter of 2011 and by further EUR 0.8 million in the second quarter. In the second quarter this item included other liabilities of EUR 16.9 million relating to warranties. Trade payables were reduced by EUR 8.4 million.

### Higher cash flow from investing activities

ElringKlinger invested a total of EUR 53.2 million in property, plant and equipment, investment property and intangible assets over the course of the first half of 2011, EUR 28.5 (32.9) million of which during the second quarter. Investment spending in the same period last year had totaled EUR 58.3 million.

Capital expenditure was directed mainly at the construction and expansion of factories as well as to a large extent at machinery for newly launched products and projects aimed at operational streamlining.

ElringKlinger invested at its site in Dettingen/Erms for the purpose of establishing the first production line for series manufacture of its recently developed cell contact systems used in lithium-ion batteries.

Additionally, funds were allocated to the automation of production processes at the newly acquired entities, particularly with regard to the former Freudenberg sites in France.

Having paid EUR 34.5 million in the first quarter of 2011 for the flat gaskets business acquired from the Freudenberg Group, an amount of EUR 17.1 million was transferred during the second quarter of 2011 as consideration for the purchase of a majority interest in the Hug Group. In total, the net outflow for investing activities was EUR 44.6 (32.3) million in the second quarter of 2011. In the first half of 2011 as a whole, net cash used in investing activities totaled EUR 103.7 (57.5) million. Of this total, EUR 51.6 million was attributable to the aggregate purchase price payable in respect of the two acquisitions.

Thus, ElringKlinger recorded negative operating free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions) of minus EUR 31.0 (-2.9) million in the second quarter of 2011.

### EUR 29.7 million in net cash from financing activities in Q2 2011

In the second quarter of 2011, the ElringKlinger Group took on net financial liabilities of EUR 46.7 million. In the same period last year, this figure had totaled EUR 16.3 million. At the same time, ElringKlinger AG increased its payout to shareholders and minority interests by EUR 10.5 million to EUR 22.2 (11.7) million.

Net cash from financing activities totaled EUR 29.7 (4.6) million. Due to the slight reduction in net financial liabilities in the first quarter of 2011, net cash from financing activities amounted to EUR 26.9 (11.0) million in the first half of 2011 as a whole.

Cash declined by EUR 16.1 million during the second quarter of 2011, down from EUR 59.8 (27.4) million at the beginning of the period to EUR 43.7 (31.9) million as at June 30, 2011.

# Opportunities and Risks

As regards the assessment of opportunities and risks for the ElringKlinger Group, the second quarter of 2011 saw no significant changes to the opportunities and risks discussed in the annual report of the ElringKlinger Group for the financial year 2010 (Annual Report 2010, pages 84 to 96), with the exception of the factors discussed below.

The 2010 Report on Opportunities and Risks can be accessed at http://www.elringklinger.de/gb2010/report-on-opportunities-and-risks

### Risks associated with the natural disaster in Japan

The potential risks discussed in the report on the first quarter 2011 with regard to the tsunami disaster and the subsequent production shortfalls in Japan can now be considered less severe than previously outlined. Due in part to the relatively minor contributions by ElringKlinger Marusan Corporation to Group revenue and earnings, there was no tangible evidence of any significant impairment of sales and earnings performance. Fears of serious interruptions to supply chains within the automotive industry and long-term production shortfalls at a global level as a result of operational stoppages or energy shortages – with a concomitant impact on the supply of specific components from Japan – proved unfounded.

There is, however, a persistent risk that ElringKlinger may not be supplied with the materials or input products required by the Group as a result of supply-side shortages. In response, ElringKlinger has been looking to substitute these commodities with alternative materials or newly developed product concepts.

### Currency risks

The global debt crisis, the uncertainties surrounding economic policy in some European countries and associated exchange rate volatility represent a significant increase in currency risk for the ElringKlinger Group.

Changes in the exchange rate of the Swiss franc against the euro, in particular, may result in more pronounced fluctuations in the Group's net finance costs. In 2008, ElringKlinger AG financed the acquisition of the Swiss SEVEX Group in Swiss francs. Consequently, any appreciation of the Swiss franc will have an adverse effect on net finance costs. It should be noted, however, that cash flows are not exposed to risk, as the financial liabilities in Swiss francs are scaled back with the help of profit distributions from ElringKlinger Abschirmtechnik (Schweiz) AG. Part of the loan has meanwhile been hedged by means of derivative instruments.

As a result of the majority takeover of the Swiss Hug Group, the potential impact of exchange rate movements between the Swiss franc and the euro has increased, although it should be pointed out that the expected contribution of around EUR 30 million to total revenue generated by the ElringKlinger Group in 2011 is relatively modest. Hug generates the majority of its sales revenue within the eurozone, whereas costs are primarily incurred in Swiss francs. As part of its efforts to improve the overall earnings potential of the Hug Group, ElringKlinger is currently looking to optimize the company's cost structures. Within this context, mitigating currency risk is of key importance particularly when establishing new capacities.

# Outlook

## Outlook – Market and Sector

### Global economy defiant amid risks

Despite discernible risks such as spiraling oil and commodity prices, the global economy looks set to continue on its path of growth in 2011 and expand by an estimated 4.0 %.

Within this context, Germany will remain the principal growth driver in Europe over the coming months. Recently revised upwards, the forecast for domestic economic growth now stands at 3.3 %. By contrast, the eurozone as a whole is expected to grow by a paltry 2.0 %, encumbered as it is by the economic weakness and significant national debt associated with some of its southern European members.

In the United States, meanwhile, economic growth is expected to weigh in at 2.5 % in 2011 after the somewhat slower than anticipated pace of recovery to date. The South American economies have been blessed with more buoyant growth, albeit at a less dynamic level than in the previous year. Brazil, for instance, is expected to see its GDP expand by 4.1 %.

The Asian economies, which taken as a whole are considered one of the principal markets for German-made vehicles, will continue to take the lead when it comes to growth over the remaining months of the year. Although the pace of expansion is likely to diminish slightly, the forecasts for Asia (excluding Japan) point to significant GDP growth of 7.5 % for 2011. Despite cautious measures implemented by the Chinese government in order to dampen the overall rate of growth, GDP for 2011 will exceed last year's figure by 8.9 %. India is expected to follow close on China's heels with growth of 7.5 %.

The devastating natural disaster of March 2011 has taken its toll on Japan's economy. Although industry recovered faster than anticipated, the economy as a whole is expected to contract in 2011. Japan's GDP is likely to decline by 0.6 %.

### Automotive industry continues to grow

Following their dynamic recovery in 2010, global car markets will continue to grow over the remainder of 2011, albeit at a less pronounced rate of expansion. In view of the shortfalls in Japanese production and the overall impact on international supply chains, the majority of forecasts relating to global car production for 2011 have been revised downward to just over 5 %.

After the positive performance of the first half, the ElringKlinger Group now also expects global car production to rise beyond the level initially anticipated at the beginning of the year, with growth estimated at between 4 and 5 %.

Buoyant overseas demand for German vehicles, particularly in China and the United States, will continue to have a positive effect on domestic auto production as the year progresses. Indeed, exports are likely to reach record-breaking levels. Car production in Germany is expected to exceed the mark of 5.9 (5.6) million units in 2011.

After a lackluster performance in 2010, the European automobile market as a whole is likely to see stagnating figures, at best. In total, the number of cars sold is expected to fall short of the figure posted in 2010.

In North America, the automotive industry will continue to recover only slowly during the second half of 2011. Against the backdrop of a difficult economic environment and high rates of unemployment, domestic demand is likely to increase by just a moderate amount. The dynamic level of growth in vehicle production witnessed over the course of 2010 will continue to weaken during the second half of 2011. The total number of passenger cars and light trucks produced is expected to rise to a figure of around 12 (11.6) million units. Although both production and sales figures are likely to increase year-on-year, they will again fall well short of the pre-crisis levels of approx. 17 million vehicles sold and 15 million 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 several years now, should act as a stimulus for market growth.

In Brazil, the number of passenger vehicles sold over the course of the next six months is expected to remain up on last year's figure. Although the pace of growth is likely to be less pronounced, new car registrations are forecast to rise by 3.7 % in 2011.

The long-term growth trend for the Asian vehicle markets remains intact. After a decline in May 2011, the number of passenger cars sold in China during the month of June rose by 6.2 %. Vehicle production is forecast to remain in excess of last year's figure over the coming months, rising to an estimated 18 million units.

India is likely to see its car sales expand by an estimated 12 to 15 % in 2011, despite a noticeable slowdown in the rate of growth over the course of the second half of the year.

Faced with the fallout from the environmental disaster in Japan and the discontinuation of state purchase incentives for new vehicles, the Japanese automotive market is likely to see production and sales figures decline significantly in the year as a whole. According to estimates, the total number of passenger vehicles sold will fall by around 26 % in 2011.

### Favorable climate for continued recovery of commercial vehicle markets

The ongoing recovery of global vehicle markets looks set to continue in the second half of 2011. Global sales of heavy trucks in excess of six tons are expected to rise by 8 % to approx. 3 million units in 2011. However, this figure still falls short of the pre-crisis level.

German truck manufacturers have forecast growth of up to 25 % in terms of production output. With transport volumes increasing as the economy continues to flourish, pan-European demand for commercial vehicles is likely to remain solid. Against this backdrop, the market for heavy trucks is likely to expand by more than 20 % calculated on the basis of new registrations.

The NAFTA region is expected to achieve total annual growth of 30 % within the area of medium-sized and large trucks.

Despite visible signs of stabilization, the Japanese truck market will remain 10 % down on last year's figure in 2011 as a whole.

ElringKlinger generates around 12 % of its sales revenue from components for the commercial vehicle industry, the main focus being on engine, transmission and exhaust system applications. Therefore, the upturn in this sector is expected to have a positive impact on business. The ElringKlinger Group plans to expand its capacities as well as its product range in the area of plastic housing modules in fiscal 2011 by building a new, fully automated manufacturing plant at its site in Dettingen/Erms, the emphasis being on production for the truck segment from the beginning of 2012 onward.

## Outlook Company

### Market environment remains challenging

Despite signs of receding prices in some commodity segments towards the end of the second quarter, the overall cost of raw materials remains at a very high level, driven partly by speculative trading. To some extent, higher prices for sourced materials have to be passed on to customers. Given the continued surge in economic growth at a global level and rising demand for components from the automotive industry, ElringKlinger is taking measures to ensure the availability of required materials by means of timely scheduling of volumes and, to a certain extent, stockpiling of such commodities or the use of alternative materials.

In response to the rapid evolution of new drive technologies and in view of the development contracts secured for cell contact systems used in lithium-ion batteries, ElringKlinger is making substantial start-up investments in research and development as well as in tooling and prototyping. Initial contribution margins within the area of E-Mobility will be generated following the start of series production.

With many customers, particularly those based in Germany, revising their delivery requirements upwards at short notice a high level of flexibility in production is required.

ElringKlinger is committed to the continuous improvement of cost structures with the help of streamlining projects within the area of manufacturing and optimization of its production processes. The new logistics center, which commences operations in the third quarter, will make a contribution to these efforts.

### Order intake remains dynamic

Contrary to widespread fears, demand for passenger cars – fueled mainly by the emerging markets – has remained stable. Order intake for the ElringKlinger Group continued to show signs of dynamic growth and again expanded noticeably faster than revenue in the second quarter of 2011, up 22.1 % to EUR 298.1 (244.1) million. As at June 30, 2011, order backlog (excluding Hug) stood at EUR 412.7 (303.1) million, which was 36.2 % up on the same quarter last year. In view of the significant contributions associated with new products such as turbocharger gaskets, new heat shield applications and lightweight plastic housing modules for commercial vehicles, the rate of organic growth achieved in the coming quarters is again expected to be considerably higher than the percentage increase in vehicle production.

### Revenue outlook revised upwards, earnings forecast unchanged

Based on the record levels achieved in order intake, the continued stability in terms of economic performance and the rate of expansion predicted within the automotive markets, the ElringKlinger Group currently expects to generate organic revenue growth of 12 to 14 % (previously 5 to 7 %). This will be complemented by a revenue contribution of around EUR 50 million from the consolidation of the metal flat gaskets business acquired from the Freudenberg Group as well as a revenue contribution of approx. EUR 30 million from the Swiss-based Hug Group. As a result, Group sales revenue for fiscal 2011 is expected to reach EUR 970 to 985 million.

The Group's operating margin will be diluted temporarily in fiscal 2011, largely due to the fact that the operating margins of the recently acquired entities are still visibly lower than the Group average and in view of the purchase price allocation as well as the significant start-up costs attributable to ElringKlinger's promising activities within the area of E-Mobility. The earnings potential of the acquisitions – comparable to the integration plan implemented in respect of the SEVEX Group in 2008 – is to be raised to Group level by the end of the coming year.

Despite the temporary dilutive effects attributable to the acquisitions as described above, the start-up costs for the E-Mobility unit and continuingly high commodity prices, Group EBIT is expected to rise by 15 to 25 % (previously 15 to 25 %).

# Events after the Reporting Date

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

Dettingen/Erms, August 4, 2011

The Management Board

Dr. Stefan Wolf | Theo Becker | Karl Schmauder

# ElringKlinger and the Capital Markets

### Stock markets recover from Japan-driven dip

ElringKlinger's share performance over the course of the first half of 2011 was dominated by profit-taking as well as investor uncertainty as to the possible impact of the natural disaster in Japan on future trends within the area of global car production. Caught up between favorable company news on the one hand and the international debt crisis on the other, the capital markets as a whole trended sideways in a trading environment characterized by significant fluctuation. Against this backdrop, the price of ElringKlinger shares plummeted to a low of EUR 19.53.

Supported by an optimistic mood emanating from the automotive sector as a whole, markets showed tangible signs of recovery from mid-March onward. In this climate, ElringKlinger's stock rose to a level of EUR 24.47 by the end of June and subsequently straddled the EUR 25 mark. As at June 30, 2011, ElringKlinger AG's market capitalization stood at EUR 1.6 billion.

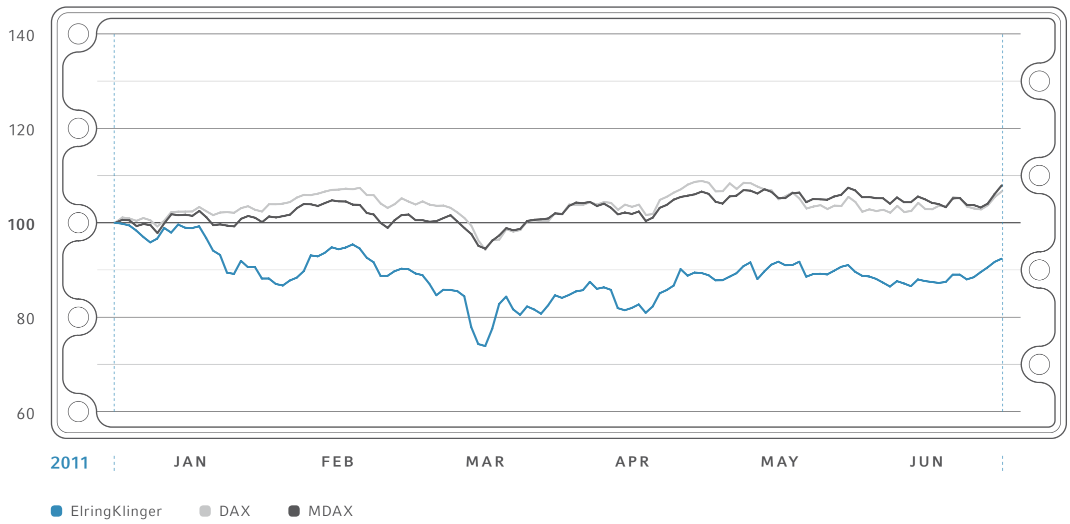
### ElringKlinger outperforms DAX and MDAX in second quarter

Having previously outpaced the DAX and MDAX in 2010, with a gain of almost 65 %, ElringKlinger's stock was unable to match the performance of these two indices in the first half of 2011. Over the course of the first six months the company's shares lost 7.7 % in market value, while the DAX and MDAX gained 6.7 % and 7.9 % respectively.

In the second quarter of 2011, by contrast, ElringKlinger shares delivered a stronger performance in relative terms. Despite trading with an ex-dividend markdown, the stock gained 10 % and thus performed noticeably better than the two benchmark indices.

ELRINGKLINGER'S SHARE PRICE PERFORMANCE (XETRA) SINCE JAN. 1, 2011

compared to MDAX and DAX



### Trading value doubles

In the first half of 2011, the average daily trading value of ElringKlinger shares more than doubled year-on-year to EUR 4,147,000 (1,970,000). The significant improvement in the stock's liquidity was attributable partly to the seasoned equity offering implemented in October 2010. As a result, the number of shares increased by around 10.0 %, with the stock's free float rising to 48.0 %. This made ElringKlinger shares more attractive in particular to larger, long-term investors such as banks, insurers and pension funds.

### Accolade for Investor Relations activities

Over the course of the first six months of 2011, ElringKlinger again organized a number of meetings with institutional and private investors as well as financial analysts. The company attended international road shows and conferences in Frankfurt am Main, Paris, Zurich, London and Copenhagen. In June 2011, ElringKlinger was again honored for the quality of its efforts in the area of financial communication. ElringKlinger achieved third place in the MDAX category as part of the German Investor Relations Awards presented by the business magazine "Capital".

### AGM 2011 raises dividend and elects Dr. Margarete Haase as Supervisory Board member

The 106th Annual General Meeting of ElringKlinger AG was held in Stuttgart on May 31, 2011. Shareholders attending the AGM resolved to increase the company's dividend by 75 % to EUR 0.35 (0.20) per share. Based on net income of EUR 36.5 million generated by ElringKlinger AG, this corresponded to a dividend payout ratio of 60.8 %.

At the same time, the Annual General Meeting elected Dr. Margarete Haase as a new member of the Supervisory Board of ElringKlinger AG. Dr. Haase, who also holds the office of Management Board member at Deutz AG responsible for Finance, Human Resources and Investor Relations, replacing former ElringKlinger Supervisory Board member Dr. Rainer Hahn.

| ElringKlinger Stock (WKN 785 602) | 1st Half 2011 | 1st Half 2010 |
|---|---|---|
| Number of shares outstanding | 63,359,990 | 57,600,000 |
| Share price (daily closing price in EUR)[1] | | |
| High | 26.45 | 21.83 |
| Low | 19.53 | 16.09 |
| Closing rate as at June 30 | 24.47 | 17.60 |
| Average daily trading volume (German stock exchanges; no. of shares traded) | 176,100 | 106,100 |
| Average daily trading value (German stock exchanges; in EUR) | 4,147,000 | 1,970,000 |
| Market capitalization as at June 30 (EUR m) | 1,550.4 | 1,013.8 |

[1] XETRA trading

# Group Income Statement

## of ElringKlinger AG, January 1 to June 30, 2011

| | 2nd Quarter 2011 EUR k | 2nd Quarter 2010 EUR k | 1st Half 2011 EUR k | 1st Half 2010 EUR k |
|---|---|---|---|---|
| **Sales revenue** | **254,416** | **201,003** | **498,866** | **383,676** |
| Cost of sales | -183,313 | -138,368 | -361,002 | -267,241 |
| **Gross profit** | **71,103** | **62,635** | **137,864** | **116,435** |
| | | | | |
| Selling expenses | -16,695 | -12,923 | -31,538 | -26,236 |
| General and administrative expenses | -9,519 | -6,906 | -17,886 | -13,768 |
| Research and development costs | -12,233 | -10,549 | -24,211 | -21,379 |
| Other operating income | 1,599 | 4,081 | 3,456 | 5,528 |
| Other operating expenses | -932 | -2,079 | -1,688 | -2,931 |
| **Operating result** | **33,323** | **34,259** | **65,997** | **57,649** |
| | | | | |
| Financial income | 2,301 | 4,637 | 4,912 | 9,113 |
| Financial costs | -9,306 | -10,254 | -15,741 | -19,201 |
| **Net finance costs** | **-7,005** | **-5,617** | **-10,829** | **-10,088** |
| | | | | |
| **Earnings before taxes** | **26,318** | **28,642** | **55,168** | **47,561** |
| Income tax expense | -6,960 | -7,042 | -14,392 | -11,861 |
| **Net income** | **19,358** | **21,600** | **40,776** | **35,700** |
| | | | | |
| of which: attributable to minority interests | 604 | 975 | 1,268 | 1,490 |
| **of which: attributable to shareholders of ElringKlinger AG** | **18,754** | **20,625** | **39,508** | **34,210** |
| | | | | |
| **Basic and diluted earnings per share in EUR** | **0.30** | **0.36** | **0.62** | **0.59** |

# Group Statement of Comprehensive Income

## of ElringKlinger AG, January 1 to June 30, 2011

| | 2nd Quarter 2011 EUR k | 2nd Quarter 2010 EUR k | 1st Half 2011 EUR k | 1st Half 2010 EUR k |
|---|---|---|---|---|
| **Net income** | **19,358** | **21,600** | **40,776** | **35,700** |
| Currency translation difference | 4,523 | 14,885 | -3,614 | 24,680 |
| **Changes recognized directly in equity** | **4,523** | **14,885** | **-3,614** | **24,680** |
| **Total comprehensive income** | **23,881** | **36,485** | **37,162** | **60,380** |
| | | | | |
| of which: attributable to minority interests | 1,190 | 1,604 | 1,624 | 2,465 |
| **of which: attributable to shareholders of ElringKlinger AG** | 22,691 | 34,881 | 35,538 | 57,915 |

# Group Statement of Financial Position

of ElringKlinger AG, as at June 30, 2011

| | June 30, 2011 EUR k | Dec. 31, 2010 EUR k | June 30, 2010 EUR k |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 112,304 | 91,460 | 90,068 |
| Property, plant and equipment | 505,735 | 449,494 | 425,572 |
| Investment property | 26,148 | 26,094 | 26,279 |
| Financial assets | 1,764 | 1,547 | 1,541 |
| Non-current income tax assets | 3,432 | 3,409 | 4,323 |
| Other non-current assets | 1,212 | 1,758 | 605 |
| Deferred tax assets | 20,471 | 18,749 | 14,051 [1] |
| **Non-current assets** | **671,066** | **592,511** | **562,439** |
| | | | |
| Inventories | 183,488 | 138,649 | 115,301 |
| Trade receivables | 181,492 | 138,195 | 141,912 |
| Current income tax assets | 941 | 1,658 | 2,485 |
| Other current assets | 42,604 | 9,175 | 10,252 |
| Cash | 43,743 | 101,190 | 31,948 |
| **Current assets** | **452,268** | **388,867** | **301,898** |
| | 1,123,334 | 981,378 | 864,337 |

[1] Prior-period figure adjusted, see disclosures in the consolidated notes of the annual report 2010 (cf. page 139)

| | June 30, 2011 EUR k | Dec. 31, 2010 EUR k | June 30, 2010 EUR k |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| Share capital | 63,360 | 63,360 | 57,600 |
| Capital reserves | 118,238 | 118,238 | 2,747 |
| Revenue reserves | 321,480 | 304,148 | 272,741 |
| Other reserves | 7,277 | 11,247 | 16,216[1] |
| **Equity attributable to the shareholders of ElringKlinger AG** | **510,355** | **496,993** | **349,304** |
| Minority interests | 28,045 | 15,340 | 15,439[1] |
| **Equity** | **538,400** | **512,333** | **364,743** |
| | | | |
| Provisions for pensions | 73,412 | 66,645 | 62,892[1] |
| Non-current provisions | 12,542 | 10,378 | 6,582 |
| Non-current financial liabilities | 115,001 | 122,359 | 152,167 |
| Deferred tax liabilities | 37,328 | 34,686 | 33,852 |
| Other non-current liabilities | 27,606 | 34,313 | 33,121 |
| **Non-current liabilities** | **265,889** | **268,381** | **288,614** |
| | | | |
| Current provisions | 14,346 | 10,721 | 9,630 |
| Trade payables | 53,827 | 46,405 | 34,044 |
| Liabilities to affiliated companies | 4 | 0 | 0 |
| Current financial liabilities | 156,093 | 76,876 | 100,905 |
| Tax payable | 12,224 | 10,440 | 12,345 |
| Other current liabilities | 82,551 | 56,222 | 54,056 |
| **Current liabilities** | **319,045** | **200,664** | **210,980** |
| | 1,123,334 | 981,378 | 864,337 |

[1] Prior-period figures adjusted, see disclosures in the consolidated notes of the annual report 2010 (cf. page 139)

# Group Statement of Changes in Equity

## of ElringKlinger AG, January 1 to June 30, 2011

| | Share Capital EUR k | Capital-reserve EUR k | Revenue reserves EUR k |
|---|---|---|---|
| **Balance as of Dec. 31, 2009/Balance as of Jan. 1, 2010** | **57,600** | **2,747** | **250,051** |
| Dividend distribution | | | -11,520 |
| Total comprehensive income | | | 34,210 |
| Net income | | | 34,210 |
| Changes recognized directly in equity | | | |
| **Balance as of June 30, 2010** | **57,600** | **2,747** | **272,741** |
| | | | |
| **Balance as of Dec. 31, 2010** | **63,360** | **118,238** | **304,148** |
| Dividend distribution | | | -22,176 |
| Changes to scope of consolidation | | | |
| Total comprehensive income | | | 39,508 |
| Net income | | | 39,508 |
| Changes recognized directly in equity | | | |
| **Balance as of June 30, 2011** | **63,360** | **118,238** | **321,480** |

| 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 |
| **-1,410** | **0** | **-6,079** | **302,909** | **13,166** | **316,075** |
| | | | -11,520 | -192 | -11,712 |
| | | 23,705 | 57,915 | 2,465 | 60,380 |
| | | | 34,210 | 1,490 | 35,700 |
| | | 23,705 | 23,705 | 975 | 24,680 |
| **-1,410** | **0** | **17,626** | **349,304** | **15,439** | **364,743** |
| | | | | | |
| **-4,255** | **-946** | **16,448** | **496,993** | **15,340** | **512,333** |
| | | | -22,176 | | -22,176 |
| | | | 0 | 11,081 | 11,081 |
| | | -3,970 | 35,538 | 1,624 | 37,162 |
| | | | 39,508 | 1,268 | 40,776 |
| | | -3,970 | -3,970 | 356 | -3,614 |
| -4,255 | -946 | 12,478 | 510,355 | 28,045 | 538,400 |

# Group Statement of Cash Flows

## of ElringKlinger AG, January 1 to June 30, 2011

| | 2nd Quarter 2011 EUR k | 2nd Quarter 2010[1] EUR k | 1st Half 2011[1] EUR k | 1st Half 2010[1] EUR k |
|---|---|---|---|---|
| Earnings before taxes | 26,318 | 28,642 | 55,168 | 47,561 |
| Depreciation/Amortization (less write-ups) of non-current assets | 22,571 | 20,978 | 43,878 | 40,393 |
| Net interest | 3,247 | 2,993 | 6,363 | 6,369 |
| Change in provisions | 2,011 | -1,499 | 376 | -828 |
| Gains/Losses on disposal of non-current assets | -56 | -4 | 240 | 1 |
| Change in inventories, trade receivables and other assets not resulting from financing and investing activities | -48,285 | -18,193 | -72,857 | -49,053 |
| Change in trade payables and other liabilities not resulting from financing and investing activities | -768 | 1,073 | -1,752 | 9,496 |
| Income taxes paid | -6,280 | -4,968 | -11,340 | -5,754 |
| Interest paid | -3,061 | -2,674 | -4,961 | -4,615 |
| Interest received | 106 | 27 | 146 | 58 |
| Other non-cash expenses/income | 747 | 3,018 | 3,632 | 4,892 |
| **Net cash from operating activities** | **-3,450** | **29,393** | **18,893** | **48,520** |
| | | | | |
| Proceeds from disposals of intangible assets and of property, plant and equipment | 1,053 | 37 | 1,112 | 632 |
| Proceeds from disposals of financial assets | 111 | 383 | 116 | 383 |
| Payments for investments in intangible assets | -1,540 | -1,252 | -2,900 | -2,362 |
| Payments for investments in property, plant and equipment and investment properties | -26,947 | -31,615 | -50,303 | -55,912 |
| Payments for investments in financial assets | -101 | 197 | -109 | -281 |
| Payments for the acquisition of consolidated entities | -17,141 | 0 | -51,629 | 0 |
| **Net cash from investing activities** | **-44,565** | **-32,250** | **-103,713** | **-57,540** |
| | | | | |
| Proceeds from the issue of shares | 0 | 0 | 0 | 0 |
| Proceeds from minorities for the purchase of shares | 5,181 | 0 | 5,181 | 0 |
| Payments to minorities for the purchase of shares | 0 | 0 | 0 | 0 |
| Dividends paid to shareholders and minorities | -22,176 | -11,712 | -22,176 | -11,712 |
| Changes in current financial liabilities | 63,010 | 32,101 | 62,223 | 41,450 |
| Additions to non-current financial liabilities | 5,884 | 0 | 6,968 | 0 |
| Repayment of non-current financial liabilities | -22,236 | -15,788 | -25,310 | -18,775 |
| **Net cash from financing activities** | **29,663** | **4,601** | **26,886** | **10,963** |
| | | | | |
| Changes in cash | -18,352 | 1,744 | -57,934 | 1,943 |
| Effects of currency exchange rates on cash | 168 | 2,777 | -1,680 | 4,425 |
| Cash inflow from the acquisition of consolidated entities | 2,116 | 0 | 2,167 | 0 |
| Cash at beginning of period | 59,811 | 27,427 | 101,190 | 25,580 |
| Cash at end of period | 43,743 | 31,948 | 43,743 | 31,948 |

[1] Prior quarters adjusted – please refer to Notes

# Group Sales by Region

| | 2nd Quarter 2011 EUR k | 2nd Quarter 2010 EUR k | 1st Half 2011 EUR k | 1st Half 2010 EUR k |
|---|---|---|---|---|
| Germany | 73,902 | 51,430 | 146,779 | 111,456 |
| Rest of Europe | 88,976 | 66,776 | 171,386 | 118,690 |
| NAFTA | 40,209 | 38,526 | 82,478 | 68,636 |
| Asia and Australia | 36,282 | 32,236 | 67,844 | 58,972 |
| South America and other | 15,047 | 12,035 | 30,379 | 25,922 |
| Group | 254,416 | 201,003 | 498,866 | 383,676 |

# Segment Reporting

## of ElringKlinger AG, April 1 to June 30, 2011

| Segment | Original Equipment 2011 EUR k | Original Equipment 2010 EUR k | Aftermarket 2011 EUR k | Aftermarket 2010 EUR k | Engineered Plastics 2011 EUR k | Engineered Plastics 2010 EUR k |
|---|---|---|---|---|---|---|
| **Segment sales** | **209,124** | **157,187** | **26,659** | **27,122** | **20,110** | **17,890** |
| - Intersegment sales | -4,860 | -3,991 | 0 | 0 | 0 | 0 |
| **Sales revenue** | **204,264** | **153,196** | **26,659** | **27,122** | **20,110** | **17,890** |
| **EBIT**[1] | **19,204** | **21,642** | **5,961** | **5,606** | **3,088** | **3,449** |
| + Interest income | 86 | 21 | 4 | 5 | 88 | 95 |
| - Interest expenses | -2,861 | -2,611 | -283 | -251 | -94 | -106 |
| **Earnings before taxes** | **16,429** | **19,052** | **5,682** | **5,360** | **3,082** | **3,438** |
| Depreciation and amortization | -21,124 | -19,528 | -160 | -269 | -701 | -635 |
| Investments[2] | 26,580 | 29,826 | 729 | 406 | 912 | 2,377 |

## January 1 to June 30, 2011

| Segment | Original Equipment 2011 EUR k | Original Equipment 2010 EUR k | Aftermarket 2011 EUR k | Aftermarket 2010 EUR k | Engineered Plastics 2011 EUR k | Engineered Plastics 2010 EUR k |
|---|---|---|---|---|---|---|
| **Segment sales** | **406,964** | **298,357** | **56,360** | **53,908** | **40,337** | **34,855** |
| - Intersegment sales | -11,489 | -8,802 | 0 | 0 | 0 | 0 |
| **Sales revenue** | **395,475** | **289,555** | **56,360** | **53,908** | **40,337** | **34,855** |
| **EBIT**[1] | **40,357** | **36,116** | **11,967** | **11,047** | **6,428** | **4,917** |
| + Interest income | 131 | 48 | 11 | 9 | 108 | 180 |
| - Interest expenses | -5,265 | -5,505 | -524 | -543 | -488 | -212 |
| **Earnings before taxes** | **35,223** | **30,659** | **11,454** | **10,513** | **6,048** | **4,885** |
| Depreciation and amortization | -41,013 | -37,509 | -319 | -504 | -1,400 | -1,269 |
| Investments[2] | 49,643 | 54,317 | 1,367 | 893 | 1,674 | 2,735 |

[1] Earnings before interest and taxes
[2] Additions to Intangible Assets and Property, Plant & Equipment

| | Industrial Parks | | Services | | Consolidation | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2011 EUR k | 2010 EUR k | 2011 EUR k | 2010 EUR k | 2011 EUR k | 2010 EUR k | 2011 EUR k | 2010 EUR k |
| | **2,190** | **1,915** | **2,359** | **2,107** | **-1,166** | **-1,227** | **259,276** | **204,994** |
| | 0 | 0 | 0 | 0 | 0 | 0 | -4,860 | -3,991 |
| | **2,190** | **1,915** | **2,359** | **2,107** | **-1,166** | **-1,227** | **254,416** | **201,003** |
| | | | | | | | | |
| | **1,079** | **751** | **233** | **187** | | | **29,565** | **31,635** |
| | | | | | | | | |
| | 0 | 0 | 0 | 0 | -72 | -94 | 106 | 27 |
| | -175 | -133 | -12 | -13 | 72 | 94 | -3,353 | -3,020 |
| | 904 | 618 | 221 | 174 | | | 26,318 | 28,642 |
| | | | | | | | | |
| | -277 | -264 | -309 | -282 | | | -22,571 | -20,978 |
| | 24 | 61 | 242 | 197 | | | 28,487 | 32,867 |

| | Industrial Parks | | Services | | Consolidation | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2011 EUR k | 2010 EUR k | 2011 EUR k | 2010 EUR k | 2011 EUR k | 2010 EUR k | 2011 EUR k | 2010 EUR k |
| | **4,220** | **3,921** | **4,805** | **3,673** | **-2,331** | **-2,236** | **510,355** | **392,478** |
| | 0 | 0 | 0 | 0 | 0 | 0 | -11,489 | -8,802 |
| | **4,220** | **3,921** | **4,805** | **3,673** | **-2,331** | **-2,236** | **498,866** | **383,676** |
| | | | | | | | | |
| | **2,064** | **1,730** | **715** | **120** | | | **61,531** | **53,930** |
| | | | | | | | | |
| | 0 | 0 | 0 | 0 | -77 | -179 | 173 | 58 |
| | -314 | -325 | -22 | -21 | 77 | 179 | -6,536 | -6,427 |
| | 1,750 | 1,405 | 693 | 99 | | | 55,168 | 47,561 |
| | | | | | | | | |
| | -553 | -542 | -593 | -569 | | | -43,878 | -40,393 |
| | 175 | 94 | 344 | 235 | | | 53,203 | 58,274 |

# Notes to the First Half of 2011

ElringKlinger AG is an exchange-listed stock corporation headquartered in Germany.

The accompanying condensed consolidated interim financial statements of ElringKlinger AG and its subsidiaries as of June 30, 2011, have been prepared in accordance with the International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) and the Interpretations issued by the IFRS Interpretations Committee, as adopted by the European Union (EU).

As the consolidated interim financial statements are presented in a condensed format, the financial statements accompanying the report on the first half of the financial year do not include all information and disclosures required under IFRS for annual consolidated financial statements.

The consolidated interim financial statements have not been audited. They were authorized for issue based on a resolution passed by the Management Board on August 4, 2011.

## Basis of Reporting

With the exception of the change to the accounting policy for customized tools (as discussed in the report on the first quarter of 2011), the accounting policies applied to the consolidated interim financial statements for the first half of 2011 correspond to those used in the consolidated financial statements for the financial year ended December 31, 2010.

For a detailed description of the basis of preparation and accounting policies, please refer to the notes to the consolidated financial statements of the 2010 Annual Report published by ElringKlinger AG.

The cost-of-sales (also referred to as function-of-expense) method has been applied when preparing the Group income statement. The presentation currency of the ElringKlinger Group is the euro.

ElringKlinger Spezialdichtungen GmbH was merged into ElringKlinger AG on May 19, 2011, effective retro-spectively as of January 1, 2011.

In addition to the financial statements of ElringKlinger AG, the interim financial statements as of June 30, 2011, include four domestic and 29 foreign entities in which ElringKlinger AG holds a direct or indirect interest of more than 50 % or over which, for other reasons, it has the power to govern the financial and operating policies ("Control"). Inclusion in the consolidated group commences on the date on which control is obtained; it ceases as soon as control no longer exists.

The two joint-venture companies ElringKlinger Korea Co., Ltd., Changwon, South Korea, and ElringKlinger Marusan Corporation, Tokyo, Japan, with both of their subsidiaries, were included in the interim report on the basis of proportionate consolidation in accordance with IAS 31. In the case of proportionate consolidation, all assets and liabilities as well as expenses and income of the joint ventures are included in the consolidated financial statements at the proportionate interest held (50 %).

The unrealized foreign currency gains and losses included in the Statement of Cash Flows, previously also recognized in financing cash flows, have now been recognized or adjusted in cash flows from operating activities in accordance with IAS 7.20(b).

In connection with a warranty incident, ElringKlinger AG and the customer affected concluded a settlement agreement for the payment of an amount totaling EUR 24.4 million. The warranty incident relates to gaskets supplied at the beginning of 2008. A partial amount of EUR 17.4 million has already been paid in 2011. Payment of the remaining amount will be distributed over 2012 and 2013. In parallel, ElringKlinger AG has a claim against its insurers for the same amount, of which EUR 10.0 million was settled in July 2011. Negotiations with the insurers as regards the settlement of the remaining amount claimed have yet to be concluded. ElringKlinger anticipates that this claim will be settled in full.

In the first half of 2011, the acquisition of the static flat gaskets business from Freudenberg & Co. KG, Weinheim, which came into effect on January 1 2011, contributed EUR 28,403 k to the sales revenue and EUR -1,668 k to earnings before taxes of the ElringKlinger Group.

## Company acquisition

Effective from May 1 2011, ElringKlinger AG acquired a 66.7 % interest in the Hug Group, Elsau, Switzerland. The core business activities of the Hug Group are centered around the development, engineering and manufacture of exhaust gas cleaning systems for catalytic exhaust aftertreatment as well as diesel particulate filters for stationary and mobile applications. In future, Hug will also be looking to supply a wider range of original-equipment customers with exhaust gas cleaning systems tailored to heavy-duty applications (trucks and construction machines).

The purchase price agreed with regard to the acquisition was EUR 17,141 k. The acquisition-related costs amounted to EUR 108 k in the reporting period.

The goodwill of EUR 5,524 k arising on the acquisition was paid primarily in respect of the positive earnings prospects.

In the second quarter of 2011, the acquired entity contributed EUR 6,706 k in sales revenue to the ElringKlinger Group and a loss of EUR -779 k to earnings before taxes.

If the acquisition had become effective on January 1 2011, the management estimates the consolidated sales revenue at EUR 20,080 k and the consolidated earnings before taxes at EUR -930 k for the first half of 2011.

The Group does not anticipate that part of the goodwill recognized will be deductible for income tax purposes.

At the date of acquisition, the acquisition had the following effects on the Group's assets and liabilities:

| | Fair Value EUR k |
|---|---|
| Intangible assets | 7,578 |
| Property, plant and equipment | 25,788 |
| Financial assets | 214 |
| Deferred tax assets | 1,933 |
| Inventories | 16,041 |
| Trade receivables | 7,347 |
| Other current assets | 2,742 |
| Cash | 2,116 |
| Provisions | -3,571 |
| Deferred tax liabilities | -3,690 |
| Liabilities | -39,074 |
| **Net assets** | **17.424** |
| Minority interests | -5,807 |
| Goodwill | 5,524 |
| | |
| Purchase price | 17,141 |

No contingent liabilities were identified during the acquisition procedure.

The fair value of trade receivables is EUR 7,347 k. The gross amount of trade receivables due was EUR 7,759 k, of which a total of EUR 412 k is considered uncollectible.

The fair values presented for the respective assets and liabilities are provisional. A definitive valuation of the assets and liabilities has yet to be made.

## Exchange rates and derivative financial instruments

Exchange rates developed as follows:

| Currency | Abbr. | Rate on the closing date June 30, 2011 | Rate on the closing date Dec. 31, 2010 | Average rate Jan. – Jun. 2011 | Average rate Jan.– Dec. 2010 |
|---|---|---|---|---|---|
| US Dollar (USA) | USD | 1.44720 | 1.33800 | 1.42400 | 1.32091 |
| Pound (United Kingdom) | GBP | 0.90410 | 0.86250 | 0.87737 | 0.85601 |
| Swiss Franc (Switzerland) | CHF | 1.20790 | 1.25250 | 1.26590 | 1.36998 |
| Canadian Dollar (Canada) | CAD | 1.40030 | 1.33700 | 1.38477 | 1.36522 |
| Real (Brazil) | BRL | 2.26910 | 2.22110 | 2.30348 | 2.32703 |
| Mexican Peso (Mexico) | MXN | 16.99630 | 16.59260 | 16.85577 | 16.69878 |
| RMB (China) | CNY | 9.35640 | 8.82050 | 9.29277 | 8.92888 |
| WON (South Korea) | KRW | 1,541.00000 | 1,500.89000 | 1,555.14000 | 1,528.50083 |
| Rand (South Africa) | ZAR | 9.83200 | 8.88490 | 9.77563 | 9.65535 |
| Yen (Japan) | JPY | 116.40000 | 108.80000 | 116.34667 | 115.29333 |
| Forint (Hungary) | HUF | 265.62000 | 277.84000 | 268.10167 | 276.38500 |
| Turkish Lira (Turkey) | TRY | 2.35450 | 2.06610 | 2.25337 | 1.99815 |
| Indian Rupee (India) | INR | 64.65260 | 59.82760 | 63.99627 | 60.23459 |

In the first half of 2011, derivative financial instruments were used for the purpose of hedging interest rate risks.

Owing to the favorable performance of the swap transactions, the Group recorded a positive earnings effect in the first half of 2011. The balance between the reduction of current provisions (other operating income of EUR 162 k) and interest payable (other operating expense of EUR 116 k) led to an improvement in earnings before taxes by EUR 46 k in the first half of 2011.

## Contingencies and related-party disclosures

The contingencies and related-party relationships disclosed in the consolidated financial statements for 2010 were not subject to significant changes in the first half of 2011.

## Government grants

As a result of government grants received in respect of development projects, other operating income rose by EUR 1,171 k in the first half of 2011, of which a total of EUR 600 k was attributable to the first quarter of 2011.

## Dividend payment

In the second quarter of 2011, ElringKlinger AG distributed a dividend of EUR 22,176 k (EUR 0.35 per entitled share) from its unappropriated retained earnings of 2010.

## Events after the reporting date

There were no significant events after the end of the interim reporting period that necessitate additional explanatory disclosure.

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management report of the Group 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 for the remaining months of the financial year.

Dettingen/Erms, August 4, 2011

The Management Board

Dr. Stefan Wolf　　Theo Becker　　Karl Schmauder

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

## Financial Calendar 2011

**NOVEMBER 10, 2011**
Interim Report on the 3rd Quarter of 2011

**JUNE 5, 2012**
107th Annual General Shareholders' Meeting

## Calendar Trade Fairs

**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 6 – 7, 2011**
10th International CTI Symposium & Expo
Innovative Automotive Transmissions and Hybrid & Electric Drives, Berlin

If you would like to receive our interim reports by e-mail please send your details to:
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