2014

Report on the 2nd Quarter and 1st Half

beyond CO_2

elringklinger

beyond

CO_2

Solutions from ElringKlinger

ElringKlinger specializes in the development of cutting-edge green technology that helps not only to reduce CO_2 but also to cut emissions of nitrogen oxides, hydrocarbons and particulates, all of which can damage our health. Today, ElringKlinger is one of only a small number of automotive suppliers around the world to develop and produce technologically sophisticated components for every type of vehicle drive, from downsized and optimized versions of the traditional combustion engine through to electric vehicles powered by batteries or fuel cells. To round off our emissions-reduction portfolio, we supply particulate filters and complete exhaust gas purification systems for use in ships, buses, trucks, construction and agricultural machinery, locomotives and power stations. Additionally, ElringKlinger Kunststofftechnik supplies products made of high-performance PTFE plastics – increasingly to sectors outside the automotive industry. One of our great strengths lies in our capacity to innovate, and we harness this to achieve the company's goals of sustainable mobility and profitable growth. These efforts are supported by our committed workforce of some 7,000 people at more than 40 ElringKlinger Group locations worldwide.

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Inconsistencies in global economic climate – Pressure from Ukraine crisis and emerging markets

Economic conditions in the various regions around the globe were highly divergent during the first half of 2014. On the back of a sluggish start to the year, prompted by a severe cold spell in the first quarter of 2014, the US economy began to gather pace, while the eurozone remained on track for recovery. By contrast, the performance of the emerging economies proved disappointing. Geopolitical risks and the fallout from the crisis in Ukraine gave cause for concern.

Tentative economic recovery in Western Europe – German industry affected by exposure to geopolitical risks

Although Germany's industrial sector has been able to maintain its momentum, it is now exposed to a more severe headwind as the repercussions of the crisis in Ukraine and the sluggish performance of emerging markets become more pronounced. The German economy benefited from robust levels of domestic consumption and more buoyant demand from other states within the European Union. At the same time, however, waning demand from the emerging markets and seasonal factors had a dampening effect.

Underpinned by the monetary policy pursued by the European Central Bank (ECB), economic recovery in the eurozone continued during the second quarter of 2014. Having said that, there were visible signs of a slowdown in economic growth more recently. The rate of growth in France and Italy, in particular, as well as domestic indicators of market sentiment proved to be disappointing.

In Russia, meanwhile, the impact of the Crimean crisis and the conflict in Ukraine prompted a significant downturn in the local economy, with the ruble also coming under pressure.

Confident mood in US economy

Having been adversely affected by plunging temperatures at the beginning of the year, the US economy picked up markedly in the second quarter of 2014. The US job market has also been increasingly buoyant. Having said that, not all growth indicators are pointing upwards, and the air is getting thinner at the prospect of the Fed raising interest rates in the near future.

By contrast, the countries of Latin America have had to contend with a significant downturn in their economies. Brazil, the most important market in South America, again failed to produce any impetus for economic turnaround in the second quarter of 2014. High interest rates, tax hikes and a fraught budget situation exerted downward pressure on consumption and investments. In turn, car sales were adversely affected by a lack of consumer confidence.

Sustained vigor in Chinese economic growth

The second quarter saw China's economy expand by 7.3% compared to the same quarter a year ago. This was only marginally lower than the rate of growth recorded in the first quarter of 2014 (7.4%). In India, meanwhile, the second quarter of 2014 produced a gradual turnaround in terms of economic output, thus marking an improvement in the protracted malaise afflicting this market. The ASEAN region recorded growth rates of more than 5%. Markets such as Indonesia and Thailand, by contrast, were hit by an outflow of capital and fluctuations in foreign exchange rates.

The Japanese economy grew by 1.6% in the first quarter of 2014 compared to the final three months of 2013. In line with expectations, the second quarter of 2014 saw a slowdown in the momentum of growth in Japan, as the first quarter had benefited from the pre-emptive effects prior to the planned hike in value-added tax, which included a significant upturn in Japan's GDP. The government introduced an economic stimulus package to support demand.

GDP GROWTH RATES (Year-on-year change)

in %	4th Quarter 2013	1st Quarter 2013	2nd Quarter 2014
Germany	1.4	2.3	1.8
Eurozone	0.5	0.9	0.8
United States	2.5	1.5	2.0
Brazil	2.2	1.9	0.7
China	7.7	7.4	7.3
India	4.6	4.6	5.0
Japan	2.5	3.0	0.7

Source: HSBC July 2014

Global car demand driven by US and China

Growth in global vehicle production was driven primarily by the United States and China during the second quarter of 2014. Car sales in Western Europe were slightly up. By contrast, the emerging markets of Brazil, Russia and India as well as some of the ASEAN markets had to contend with a downturn in the number of cars sold; market contraction was sizeable in many cases.

German car production flourishes thanks to strong exports

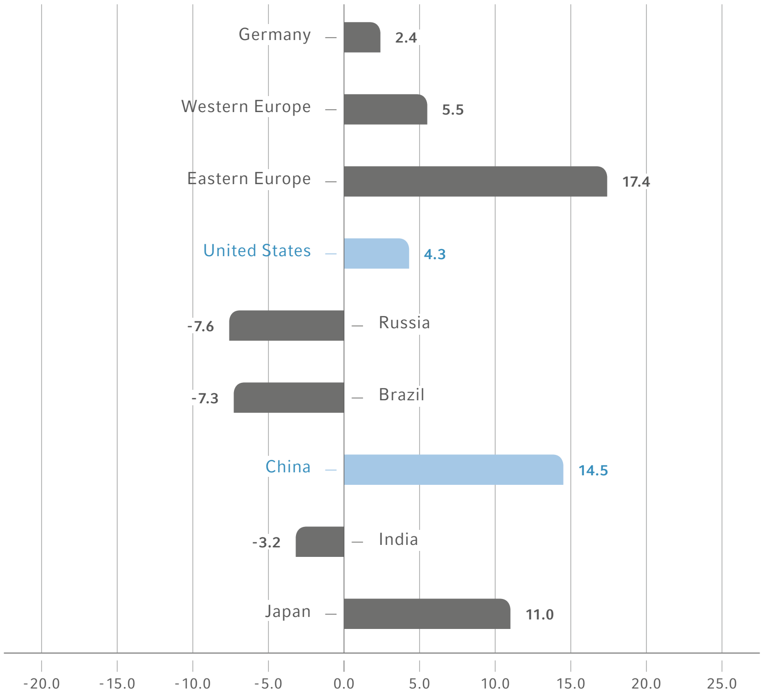
Buoyed by persistently strong demand from the US and China, but also by more expansive sales in Europe, car production in Germany edged its way up to a new all-time high. The number of passenger cars produced in the first half of 2014 grew by 6.3% to 2.9 million units. More than three-quarters of the vehicles produced in Germany were destined for export markets. By contrast, the number of new car registrations in Germany over the same period rose by a modest 2.4%.

Western Europe maintains upward trend but remains anemic

Extricating itself from a 25-year low, the European car market managed to turn its fortunes around at the end of 2013 and generate modest growth. In the first six months of 2014 new car registrations in Western Europe were up 5.5% on the figure recorded a year ago. At +10.6%, demand was particularly strong in the United Kingdom, while Spain and Portugal benefited from state-funded incentives for the purchase of new vehicles. Consumer demand in France and Italy, by contrast, grew at a moderate rate. At +4.5%, growth in new car registrations slowed down in June. Despite the forward momentum, the month of June was the second worst figure in the last twelve years with regard to the number of vehicles sold. While car production in Europe had been up by 8% in the first three months, the level of output stood at just +2% in the second quarter of 2014.

NEW CAR REGISTRATIONS 1ST HALF 2014

Year-on-year change (in %)



Source: VDA, Automotive News Data Center (July 2014)

Most of the vehicle markets in Eastern Europe, such as Poland, Hungary and the Czech Republic, proved to be relatively dynamic, with new car registrations increasing by double digits in some cases. In Russia, however, the number of passenger cars sold fell by 7.6% in the first half of the year, with figures plunging by 17.3% in the month of June alone.

Sustained growth in US auto sales

The long and particularly cold winter experienced in the United States in the first two months of the year was hardly conducive to new vehicle purchases at the time. Since then, however, a dynamic upswing in sales has offset the effects of sluggish demand during the severe winter months. In the first six months of 2014, new registrations for cars and light trucks rose by 4.3% year on year. Consumer patterns showed a clear trend towards the purchase of light trucks and premium-class vehicles, which proved beneficial in particular to Germany’s high-end manufacturers.

Slump in Brazilian market

Alongside Russia, Brazil remained one of the most prominent laggards within the key automobile markets. With sales already having languished in 2013, the Brazilian market collapsed by 7.3% in the first six months of 2014. Production output plunged at an even faster rate of 16.8%. In June 2014 alone, South America's biggest vehicle market saw production levels nosedive by 33.3% compared to the same month a year ago. ElringKlinger responded to this downturn immediately by adjusting capacity levels at its Brazilian subsidiary to reflect the substantial decline in customer demand.

Unbridled growth in China

The Chinese automobile market grew at an impressive rate in the first six months of 2014. New car registrations rose by 14.5% in the first six months. Persistently strong demand in China, particularly for premium-class cars from Germany, had a visible impact on German vehicle production.

Following a disappointing performance in recent years and a slump in vehicle sales, the Indian car market appears to have emerged from the doldrums after the country's general elections. Since May 2014, at least, new registrations have been pointing upwards compared to the same period a year ago.

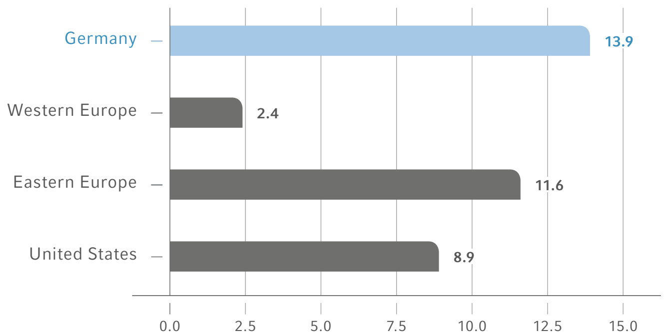
In Japan, the number of new passenger cars sold rose markedly as economic recovery took hold. The second quarter of 2014, however, was less dynamic in terms of vehicle sales due to the pre-emptive factors discussed earlier.

Economic climate reflected in performance of commercial vehicle markets

Despite the pre-emptive purchases of new trucks in the second half of 2013 – in anticipation of the introduction of the Euro VI standard – demand in Western Europe was relatively stable in the first six months of 2014. While the commercial vehicle markets in the United States gained considerable momentum, both Brazil and Russia were faced with a significant downturn.

NEW REGISTRATIONS OF MID-SIZED AND HEAVY TRUCKS 1ST HALF 2014

Year-on-year change (in %)



Source: ACEA, Automotive News Data Center (July 2014)

Sales volumes in the global truck markets tend to move in line with economic performance in the respective regions. Thus, economic recovery in large parts of Europe was reflected in more buoyant demand from fleet operators. In the first six months of 2014, the number of trucks sold in the Western European markets edged up by 2.4%. However, the individual markets throughout Europe developed along divergent lines during this period. Germany, currently the driving force behind Europe's economy, saw new truck registrations expand by 13.9%. June, however, produced a slight downturn in growth at a European level as regards truck sales.

The North American truck market was in good shape. In the United States, demand for Class 8 trucks was particularly strong in the second quarter of 2014. A more buoyant economy translated into rising freight volumes and improved freight rates. This, in turn, prompted freight forwarding companies to invest in new vehicles. After a strong first quarter, with sales of Class 8 commercial vehicles rising by almost 15%, sales within this vehicle category also continued to expand in the second quarter of 2014.

ElringKlinger generates around 15% of its revenue through truck parts in the Original Equipment segment. With the help of new lightweight products developed by the Plastic Housing Modules division – including engine and gearbox oil pans, oil suction pipe modules and cam covers – per-vehicle revenue from trucks of the new Euro VI generation is steadily increasing.

Sales and Earnings Performance

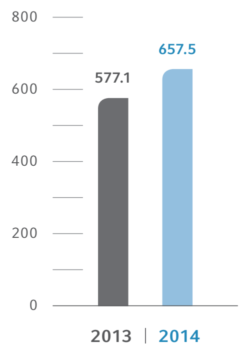
Strong organic growth in revenue of 11.7%

Compared to the level of growth in car production, the ElringKlinger Group continued to expand at a considerably faster rate than the global vehicle markets in the first six months of 2014. The expansion in revenue was underpinned by a slight upturn in new vehicle registrations in Western Europe as well as by buoyant demand in China and North America. At the same time, structural growth within many of the product groups, ultimately resulting in the supply of more parts per vehicle, helped to drive revenue upwards. The introduction of new products also translated into higher sales revenue.

In the first half of 2014, revenue grew by 13.9% to EUR 657.5 (577.1) million. Calculated on an organic basis, i.e. eliminating the effects of consolidation and exchange rates, sales revenue was up by 11.7%. When determining organic revenue growth, ElringKlinger Marusan Corporation, Tokyo, Japan, was accounted for as if the entity had remained subject to proportionate consolidation, as was originally the case in 2013.

Despite encompassing fewer working days as a result of public holidays in Germany and Europe, the second quarter of 2014 produced higher revenue also compared to the first three months of the year: EUR 333.5 (296.1) million. Particularly strong tooling revenue in preparation for new series production ramp-ups was a key factor in driving sales forward during this period. Organically, the Group still managed to expand revenue by 10.2% in the second quarter of 2014, despite the higher comparative base.

GROUP SALES 1ST HALF
in € million



The strength of the euro – particularly the movement of this currency relative to the South American and many of the Asian currencies – had a dilutive effect on Group sales revenue in the first half of 2014. The ElringKlinger Group generated around 40% of its revenue outside the eurozone. The negative effect of translating revenues into the Group currency – the euro – was equivalent to EUR 15.4 million. If exchange rates had remained unchanged, Group sales would have been EUR 8.6 million higher in the first quarter of 2014 and EUR 6.8 million higher in the second quarter.

Due to the necessary retrospective application of IFRS 11 as regards the presentation of comparative prior-year figures (2013), the joint venture ElringKlinger Marusan Corporation was no longer accounted for on a proportionate basis but rather in accordance with the equity method (cf. Notes, page 44). As a result, the Group revenue figure originally presented for the first quarter of 2013 was retrospectively reduced to EUR 281.0 million, the difference being attributable to the entity's revenue contribution (EUR 5.8 million) formerly included at a proportionate rate of 50%. In the second quarter of 2013, Group revenue was thus reduced by EUR 7.2 million to EUR 296.1 million.

However, ElringKlinger Marusan Corporation was already fully consolidated in the first quarter of 2014 as a result of the assumption of control completed as of December 31, 2013, and was included in the Group accounts with its total revenue of EUR 11.9 million. Therefore, the additional revenue contribution was EUR 6.0 million. In the second quarter of 2014 total revenue generated by ElringKlinger Marusan Corporation amounted to EUR 11.3 million; the additional revenue contribution as a result of full consolidation stood at EUR 5.7 million.

Visible increase in revenue and earnings in Exhaust Gas Purification division

Cross-marketing activities with ElringKlinger had a positive impact on business in the Exhaust Gas Purification division. Operating in this area of the business, Hug benefited from the sales channels established by the ElringKlinger Group and succeeded in initiating a number of new projects. More buoyant demand for Hug-developed products translated into improved capacity utilization. Production capacity for filter ceramics was further expanded. In successfully implementing recent restructuring measures and introducing state-of-the-art production technology, the company was able to optimize its cost structures. This led to a marked improvement in earnings performance. Due to the project-based nature of its business and as a result of the product mix, however, the revenue and earnings performance of the manufacturer of exhaust gas purification systems for commercial vehicles and industrial applications tends to fluctuate at a more pronounced rate than in the case of ElringKlinger's serial production business.

Benefiting from solid demand in its US retrofitting business for heavy trucks as well as from new projects for inland waterway vessels and business centered around exhaust gas purification systems for natural gas power plants, sales at the Hug Group in the first six months of 2014 rose by more than a third to EUR 40.1 (29.2) million.

In the first three months of 2014 the ElringKlinger subsidiary generated sales revenue of EUR 20.7 (11.0) million. At EUR 7.6 (1.0) million, first-quarter pre-tax earnings were up markedly compared to the same period a year ago. This was attributable in particular to income generated from large-scale projects. Despite the high comparative base, revenue was propelled upwards again in the second quarter to reach EUR 19.5 (18.2) million. Before taxes, Hug earned EUR 4.1 (3.8) million in the second quarter of 2014. As a result, Hug saw its profit margin move well above that of the Group in the first six months of 2014.

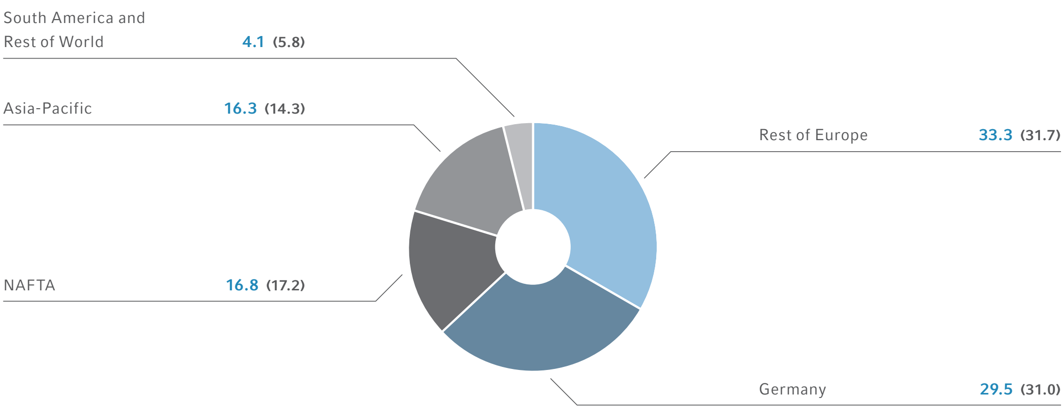
Buoyant growth in Europe – Business in Asia impacted by foreign exchange rates

Higher car production figures in Germany had a positive impact on revenue performance at ElringKlinger in the period under review. In this context, the company benefited in particular from the relatively high proportion of revenue generated from business with domestic premium-class car makers and suppliers, whose sales, in turn, were driven by consistently strong demand in the end markets of China and the United States.

Against this background, the ElringKlinger Group managed to lift its sales revenues in Germany by 8.6% to EUR 194.0 (178.7) million in the first six months of 2014. Due to more pronounced aggregate growth at an international level, however, the share of domestic sales in total Group revenue fell to 29.5% (31.0%).

GROUP SALES BY REGION 1ST HALF 2014

(prior year) in %



In Europe, ElringKlinger benefited from a slight upturn in demand for new cars after years of decline in this market. A number of major new product rollouts also prompted growth in this region, as a result of which the "Rest of Europe" (excluding Germany) saw revenue grow by 19.6% to EUR 218.9 (183.1) million.

Accounting for around one third of the Group's revenue, Europe remained the strongest sales region for the ElringKlinger Group. However, it should be taken into account that a large proportion of the engines and vehicles manufactured in Europe – particularly in Germany – for which ElringKlinger supplies parts are ultimately destined for export markets in North America and Asia.

ElringKlinger recorded revenue growth of 11.1% in North America, despite the adverse influence of lower revenue in Canada – due to factors associated with the product mix – and unfavorable movements in foreign exchange rates. Revenue generated from sales in this region rose to EUR 110.3 (99.3) million.

In South America, meanwhile, the Brazilian vehicle market experienced an outright slump and performed well below expectations. In the first half of 2014 car production contracted by almost one fifth. Additionally, the Group's revenue performance was impacted by the depreciation of the Brazilian real against the euro. As a result, ElringKlinger sales fell by 20.1% to EUR 27.0 (33.8) million in this region. In the first half of 2014, South America as a sales region accounted for 4.1% of Group revenue, down from a figure of 5.8% in the same period a year ago.

The Asia-Pacific region saw Group revenue expand to EUR 107.3 (82.3) million in the first six months of 2014, which corresponds to growth of 30.4%. It should be noted that revenues attributable to ElringKlinger Marusan Corporation are no longer included in the prior-year figures on a proportionate basis following the retrospective application of IFRS 11, as explained above. In this context, ElringKlinger Marusan Corporation was fully consolidated in the quarter under review. Eliminating the additional revenue contribution due to changes in the consolidation of ElringKlinger Marusan Corporation, revenue growth in the Asia-Pacific region amounted to only 0.3% in the first half of 2014. The relatively small increase in revenue in this high-growth region is a reflection mainly of the weakness of local currencies relative to the euro.

Asia plays a pivotal role in ElringKlinger's growth strategy. In the ASEAN region, for instance, the company established a new plant near Jakarta, in addition to building a new facility in Korea. In the period from January to June 2014, Asia as a sales region accounted for 16.3% of Group revenue, up from 14.3% in the same period a year ago. Factoring in exports from Europe to Asia, particularly those relating to German premium-range car makers, the share of ElringKlinger's Original Equipment revenue attributable to Asia would amount to roughly one quarter.

Steadily expanding in recent years, revenue generated from sales in the international markets maintained its forward momentum. In the first half of 2014, the share of foreign sales in Group revenue increased to 70.5% (69.0%).

Strong first half for Original Equipment

Revenue growth in the first half of the year was driven primarily by strong organic growth in the Original Equipment segment, which accounts for the largest share of revenue.

The modest recovery seen in the Western European automobile market as well as growth in China and North America translated into higher Original Equipment revenue between January and June 2014, up by 15.7% to EUR 538.2 (465.2) million.

It should be noted that the aforementioned effects of retrospective at-equity consolidation of ElringKlinger Marusan Corporation meant a EUR 13.0 million reduction in segment revenue for the first half of the previous financial year. Without these effects or if retaining proportionate consolidation, the Original Equipment segment would have recorded growth of 10.1% in the first half of 2014.

Revenue performance in the Original Equipment segment continued to benefit not only from new product ramp-ups but also from growing customer demand at a structural level for automatic transmission components, turbocharger gaskets, thermal-acoustic shielding parts and lightweight plastic modules. The number of parts fitted to vehicles has been steadily increasing with regard to many of the aforementioned products.

Growth in revenue was successfully translated into a disproportionately large increase in earnings, much of which was attributable to the expansion of profit in the Exhaust Gas Purification division, as discussed earlier. By contrast, subdued business activities in Brazil had a dampening effect. Segment earnings before taxes rose by 19.4% in the first half of 2014, taking the total to EUR 57.8 (48.4) million.

The earnings contribution made by the E-Mobility division was still well within negative territory, which had a dilutive effect on segment earnings. Substantial fixed costs, up-front expenses attributable to development activities and higher than expected start-up costs associated with the recent launch of serial production projects contributed to a loss before interest and taxes of EUR 4.1 million in the Battery Technology division. The year-on-year increase in revenue contributions to EUR 5.0 million in the first six months of 2014 was not yet sufficient to move beyond the break-even point. Although revenues remained largely unchanged compared to the previous quarter, process streamlining in production resulted in a slight improvement in earnings performance during the second quarter. Having recorded a loss of EUR 2.2 million in the first quarter, the loss posted in the second quarter was less pronounced at EUR 1.9 million. Towards the end of this year, ElringKlinger will supply the cell contact systems for another vehicle engineered by one of Germany's top-class car makers.

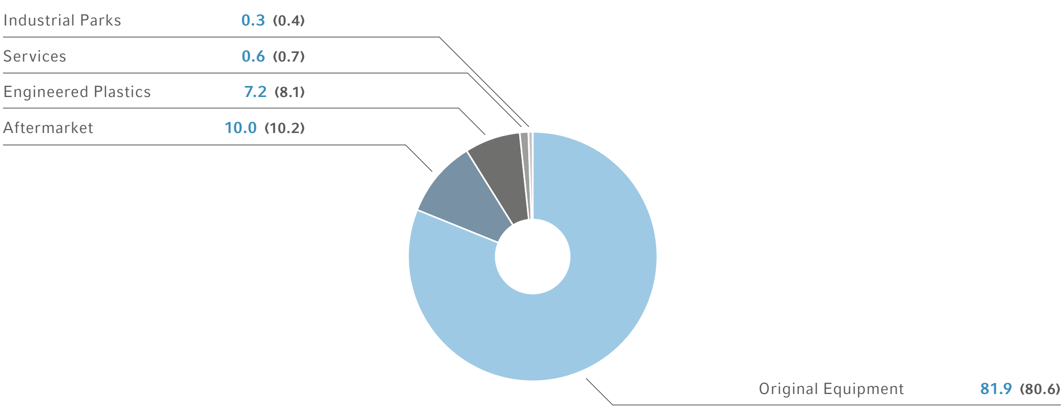
Accelerated growth in Aftermarket segment

The Aftermarket segment saw its revenue increase by 11.7% to EUR 66.0 (59.1) million in the first half of 2014, despite the geopolitical uncertainties afflicting several sales regions that are not of insignificance to the business.

ElringKlinger further cemented its market position in its domestic market, Germany, during the first six months of 2014, recording double-digit growth rates in revenue.

Economic recovery and improved consumer confidence in Southern and Western Europe had a positive impact on the volume of sales in ElringKlinger's Aftermarket segment. In many cases, car owners now went ahead with repair jobs previously postponed in response to the economic crisis in these regions. Revenue growth in this region was also boosted by more dynamic marketing and sales activities in Western European markets such as Italy, France and Spain. As a result of these efforts, Western Europe as a whole made the largest contribution to the encouraging performance of the Aftermarket segment.

GROUP SALES BY SEGMENT 1ST HALF 2014
(prior year) in %



Despite the political stand-off between Ukraine and Russia, as well as fluctuations in exchange rates and grave concern over the future state of the economy in this region, revenue generated in Eastern Europe continued to expand. In this context, ElringKlinger benefited in particular from the sustained increase in the number of German-made cars owned by Eastern Europeans.

Revenue from sales in the crisis-plagued region of North Africa and the Middle East was close to the substantial figure recorded a year ago, despite the extremely challenging political and economic situation seen in this region too.

ElringKlinger's Aftermarket segment recorded its largest percentage growth in revenue in the North American market in the period under review, albeit from a relatively low comparative base.

At +14.8%, revenue growth in the Aftermarket segment during the second quarter was clearly up on the growth figure of 8.6% reported in the first quarter. Revenue generated in the second quarter totaled EUR 33.3 (29.0) million, a further improvement on the solid sales performance of the preceding quarter.

Almost in parallel with revenue growth, earnings before taxes rose by 12.0% to EUR 13.1 (11.7) million in the first half of 2014.

Moderate revenue growth in Engineered Plastics segment

Within the Engineered Plastics segment, ElringKlinger develops and manufactures products made of the high-performance plastic PTFE (polytetrafluoroethylene), which are also supplied to industries not associated with the automotive sector. While revenue from sales to the vehicle industry expanded at pace, business with customers operating in the mechanical engineering sector and other industries was relatively sluggish. Revenue attributable to the Engineered Plastics segment increased by a modest 1.3% to EUR 47.2 (46.6) million in the first half of 2014.

The Group pressed ahead with efforts to internationalize its business, which had previously been focused heavily on Central Europe. Whereas China contributed an increasingly large amount to segment revenue during the first half of 2014, the United States, as the world's largest PTFE market, is currently being cultivated by ElringKlinger. Efforts to establish local sales structures were associated with up-front costs and particularly high selling expenses. At the same time, the company succeeded in acquiring its first projects in this market.

At EUR 6.7 (7.1) million, the Engineered Plastics segment saw a slight dip in earnings before taxes during the first six months of 2014 as a whole.

Second-quarter revenue remained largely unchanged year on year at EUR 22.7 (22.9) million. While earnings before taxes in the second quarter were slightly lower than a year ago, at EUR 3.5 (4.0) million, the figure was marginally up on that of the preceding quarter (EUR 3.2 million).

Revenue contribution of Industrial Parks remains stable

Rental income from premises at the Group's industrial parks in Idstein, Germany, and Kecskemét-Kádafalva, Hungary, totaled EUR 2.2 (2.1) million in the first half of the current financial year. At EUR 0.3 (0.1) million, earnings before taxes were slightly higher than in the same period a year ago.

More buoyant demand for Engineering Services in second quarter

In the Services segment, Elring Klinger Motortechnik GmbH provides engineering and testing services for vehicle manufacturers and other suppliers. Among the most popular services in this portfolio are those centered around SCR (Selective Catalytic Reduction) technology aimed at nitrogen oxide reduction as well as particle counting for diesel particulate filters. Additionally, ElringKlinger Logistic Service GmbH, which also operates within the Services segment, provides internal and external logistics services within the area of sorting and packing.

Revenue generated by the Services segment had fallen by 14.3% to EUR 1.8 (2.1) million in the first quarter of 2014. This had been attributable mainly to the decision by one of Germany's premium car manufacturers – at short notice – to use fewer engineering and testing services of Elring Klinger Motortechnik GmbH than previously scheduled. Due to below-average capacity utilization, earnings before taxes had fallen to EUR 0.5 (0.7) million in this period. However, order intake improved again during the second quarter, with sales revenue for this period expanding to EUR 2.1 (2.0) million. Therefore, at EUR 3.9 (4.1) million, sales revenue for the first half of 2014 as a whole largely returned to the level recorded in the same period a year ago. Earnings before taxes were slightly down year on year at EUR 1.0 (1.1) million.

Headcount up 3% in first half of 2014

As of June 30, 2014, the ElringKlinger Group employed 6,941 (6,434) people worldwide. This represents a year-on-year increase of 7.9%, i.e. the headcount was up by 507. Full consolidation of ElringKlinger Marusan Corporation, Tokyo, Japan, in 2014 added 98 employees to the workforce.

In the first half of 2014, the number of employees rose by 225 people or 3.4%. This increase (by 172 employees) in staffing levels occurred mainly in the first three months of 2014. The double-digit expansion of production volumes at Group level necessitated staff upsizing primarily in areas closely associated with manufacturing operations. Sales and R&D also saw an increase in personnel levels.

Around half of the new recruits were assigned to the German sites operated by the parent company ElringKlinger AG as well as ElringKlinger Kunststofftechnik GmbH. This was attributable among other factors to product ramp-ups associated with plastic housing modules destined for the truck market as well as the high level of capacity utilization in the area of tooling technology.

The ElringKlinger Group employed 46.2% (45.9%) of its headcount, equivalent to 3,206 (2,954) people, in Germany as of June 30, 2014, i.e. just under half of the Group's workforce. Year on year, this corresponds to growth of 8.5% in the domestic personnel base.

At 7.3% in total, staffing levels at the international Group companies rose at a slower pace than in Germany, taking the non-domestic headcount to 3,735 (3,480). The expansion of staffing levels was counteracted to some extent by downsizing at the Brazilian and French subsidiaries. In Brazil, in particular, the company was forced to react to the severe downturn in local vehicle sales by reducing its HR capacity.

By contrast, new staff members had to be recruited mainly at the North American plants, in the United Kingdom as well as at ElringKlinger Abschirmtechnik (Schweiz) AG in response to more expansive business.

The international subsidiaries and investees accounted for 53.8% (54.1%) of the Group's employees.

Gross profit margin stable at 27.8% in first half

The financial performance of the ElringKlinger Group remained solid in the first half of 2014. The gross profit margin for the first six months was largely unchanged year on year at 27.8% (28.0%). In the second quarter, it stood at 27.5%, thus narrowly failing to match the high figure recorded in the same period a year ago (28.8%).

Prices for the majority of commodities trended slightly higher in the first half of 2014. Alloy surcharges associated with high-grade steel continued to rise in the period under review. However, more sizeable proceeds from the sale of scrap material helped to offset some of this price hike. Purchase prices for plastic granules remained relatively high compared to the same period a year ago.

As a result of the collective pay rise by 3.4% that came into effect on July 1, 2013, and applies to personnel employed in Germany, staff costs rose in the first quarter of 2014 compared to the same period a year ago. On this basis, a further collective pay increase by 2.2% took place in May 2014, thus adding to the hike in staff costs in the second quarter of 2014. The increase in staff costs was partially offset by more far-reaching automation and productivity gains with regard to operational processes.

The staff profit-sharing bonus of EUR 1,450 (1,300) per employee for members of the ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH and Elring Klinger Motortechnik GmbH workforce, as agreed for the financial year 2013, resulted in additional staff costs of EUR 4.7 (3.7) million in total, which were mainly attributable to the cost of sales.

In total, the cost of sales rose by 14.2% in the first half of 2014, thus increasing at a rate similar to that of sales revenue. In the second quarter of 2014, the above-mentioned increase in staff costs, together with a larger proportion of tooling revenue and a quarter-on-quarter significantly lower earnings contribution from Hug, resulted in a disproportionately large increase in the cost of sales by 14.7% to EUR 241.7 (210.7) million. By contrast, sales revenue rose by 12.6%.

Sustained focus on research and development

Over the course of the first half of 2014, the ElringKlinger Group again invested a considerable amount of funds into research and development – in excess of the industry average. Compared to the previous year, R&D expenditure was expanded by a further EUR 1.6 million to EUR 29.1 (27.5) million. In addition, research and development costs amounting to EUR 3.6 (3.0) million were capitalized. By contrast, systematic depreciation/amortization totaled EUR 3.1 (2.7) million. Thus, capitalization had no significant effect on earnings.

Under IFRS, scheduled amortization of capitalized R&D costs amounting to EUR 3.1 million is no longer recognized in R&D expense but rather in cost of sales; this has a dilutive effect on the gross profit margin. Despite an increase in expenses in absolute terms, the R&D ratio – which includes the capitalized R&D costs – fell to 5.0% (5.3%) as a result of pronounced growth in revenue.

In the first half of 2014, ElringKlinger AG received government grants of EUR 2.5 (2.2) million for ongoing research and development projects, the emphasis being on activities in the area of fuel cells and lightweight engineering. In parallel, the company incurred expenses at a comparable level for development work and prototyping.

Alongside development work centered around new applications in the area of cylinder-head and specialty gaskets, the focus of research and development in the first six months of 2014 was on new lightweight components made of plastics or organo-plastics as well as concepts that combine lightweight metal parts with injection-molded components. In addition, the emphasis was on innovative material concepts for thermal-acoustic shielding components and, in the area of exhaust gas purification technology, on the development of higher-performance substrates for the reduction of diesel particulates and nitrogen oxide emissions, as well as end-to-end systems for new fields of application. At Hug, activities included preparations for testing a pioneering diesel particulate filter for large engines fitted to ocean vessels powered by heavy fuel oil. With an eye towards the US market, the Swiss exhaust gas specialists are currently working on the certification of exhaust gas purification systems for stationary off-highway engines as well as other specialist vehicles used in the mining industry. Hug sees new opportunities in this area of the market as from fiscal 2016 onwards.

Development engineers in the E-Mobility division are working on further battery components such as cell housing covers for lithium-ion batteries.

At +15.8%, selling expenses rose at a faster rate than revenue in the period from January to June 2014. General and administrative expenses increased by 18.9% or EUR 4.5 million compared to the first half of 2013.

EBIT up 13.3% in first half

Earnings before interest, taxes, depreciation and amortization (EBITDA) totaled EUR 121.4 (110.0) million in the first six months of 2014. The second quarter of 2014 accounted for EUR 60.6 (58.9) million. As a result of sustained investment activities, depreciation and amortization rose to EUR 37.8 (36.2) million in the period from January to June 2014. In the second quarter of 2014, depreciation and amortization amounted to EUR 19.1 (18.0) million.

This included a negative aggregate effect of EUR 1.7 million associated with the purchase price allocation for Hug Engineering AG (EUR 0.6 million) as well as the assumption of control over ElringKlinger Marusan Corporation (EUR 1.1 million). In the second quarter of 2014, the purchase price allocations totaled EUR 0.8 million.

Despite the earnings-related strains attributable to up-front and start-up costs incurred in the E-Mobility division (minus EUR 4.1 million), the operating result (=EBIT) for the first half of 2014 exceeded the previous year's first-half figure by 13.3% to reach EUR 83.6 (73.8) million. Therefore, EBIT growth was slightly more pronounced in percentage terms than the rate of organic revenue growth.

In addition to benefiting from revenue growth in all areas of the Original Equipment segment, EBIT was fueled in particular by the significant year-on-year improvement in first-half earnings contributed by the Hug Group and its activities in the field of exhaust gas purification technology.

By contrast, earnings contributed by ElringKlinger Meillor S.A., France, which are now in positive territory but still well below the Group average, had a dilutive effect on the Group's margin equivalent to approx. 0.2 percentage points. Full consolidation of ElringKlinger Marusan Corporation reduced the Group's EBIT margin by around 0.3 percentage points.

Slight year-on-year growth in EBIT for second quarter

In the second quarter of 2014, the Group achieved earnings before interest and taxes (EBIT) of EUR 41.5 (41.0) million, thereby exceeding the figure posted in the prior-year quarter, which had been the strongest in terms of revenue and earnings. At EUR 4.0 (3.9) million EBIT generated by the Hug Group was up on the previous year. However due to the nature of its projects and factors relating to the product mix, the second quarter figure came in EUR 3.7 million lower than in the first quarter of 2014. Revenue from tools (EUR 22.3 million) was up by almost EUR 6 million compared to the first three months of 2014, but the contribution made to earnings was below average. A sizeable proportion of tools billed in the second quarter was attributable to preparations for several large-scale ramp-ups from 2015 onwards, the focus being on lightweight components.

The particularly weak performance of the Brazilian market had an adverse effect on both revenue and earnings. Against this backdrop, the earnings contribution of the Brazilian subsidiary was around EUR 1.0 million short of the original target in the second quarter.

Before purchase price allocation, adjusted EBIT stood at EUR 85.3 million in the first half of 2014 and EUR 42.3 million in the second quarter. The adjusted EBIT margin before purchase price allocation was 12.7% in the second quarter.

For the purpose of improved comparability, as from December 31, 2013, ElringKlinger no longer includes foreign exchange effects, which are mainly attributable to financing activities, in the financial indicator EBIT. Thus, as is standard, EBIT corresponds to the company's operating result reported in the income statement. Applying the former method of calculation, EBIT – which in contrast to the operating result included foreign exchange gains and losses from financing activities – would have amounted to EUR 84.9 (74.2) million in the first half of 2014. In the second quarter, the total would have been EUR 42.7 (38.4) million, corresponding to growth of 11.2%.

Net finance costs slightly lower in first half

Net finance costs saw a slight improvement in the first half of 2014 compared to the same period a year ago. Low interest rates and positive effects associated with foreign exchange rates, contributing EUR 1.3 (0.5) million, prompted a reduction in net finance costs by EUR 0.6 million to EUR 4.7 (5.3) million. Despite net debt rising by EUR 29.7 million, net interest expenses remained largely unchanged at EUR 6.0 (5.8) million.

Net finance costs amounted to EUR 2.1 (5.5) million in the second quarter of 2014. While the same quarter a year ago had been adversely affected by foreign exchange losses of EUR 2.5 million, the second quarter of 2014 produced foreign exchange gains of EUR 1.2 million.

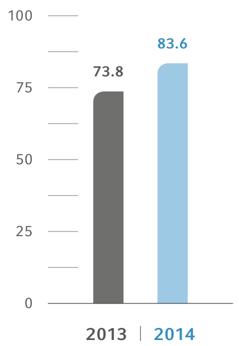
The difference of 0.6 million between the net finance costs previously reported for the second quarter of 2013 (EUR 4.9 million) and the figure now disclosed (EUR 5.5 million) for that period is due to the earnings contribution attributable to ElringKlinger Marusan Corporation, which until December 31, 2013, had been accounted for on the basis of proportionate consolidation and, under the provisions of IFRS 11, has now been consolidated retrospectively using the equity method.

Thus, earnings before taxes were up by EUR 10.5 million or 15.4% in the first half of 2014, taking the total to EUR 78.9 (68.4) million. In the second quarter, the ElringKlinger Group earned 11.6% more before taxes. Earnings before taxes rose to EUR 39.5 (35.4) million in this period.

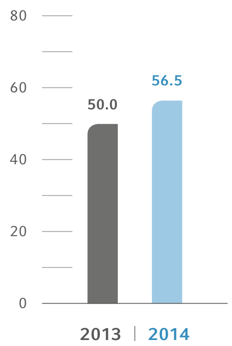
Net income grows by 10.9%

The significant increase in earnings before taxes resulted in higher income tax expenses for the Group. The latter amounted to EUR 19.9 (15.2) million in the first half of 2014, which corresponds to a year-on-year increase of EUR 4.7 million. The Group's tax rate rose to 25.2% (22.2%).

GROUP EBIT 1ST HALF
in € million



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



As a result, the ElringKlinger Group managed to exceed its substantial net income for the first six months of 2013 by a further 10.9%. Net income thus rose to EUR 59.0 (53.2) million. In the second quarter of 2014, net income grew by 3.8% year on year to EUR 29.7 (28.6) million.

Net income attributable to non-controlling interests, mainly consisting of non-controlling interests in the Hug Group and ElringKlinger Kunststofftechnik GmbH, was lower year on year, as a result of which net income attributable to the shareholders of ElringKlinger AG rose faster than net income, up 13.0% to EUR 56.5 (50.0) million. In the second quarter, the ElringKlinger Group posted growth in net income after non-controlling interests of 8.8%, taking the total to EUR 28.5 (26.2) million.

On this basis, basic and diluted earnings per share totaled EUR 0.89 (0.79) in the first half of 2014. In the second quarter, earnings per share stood at EUR 0.45 (0.41). As of June 30, 2014, the number of ElringKlinger AG shares outstanding remained unchanged at 63,359,990.

Financial Position and Cash Flows

The ElringKlinger Group remained solid with regard to its financial position and cash flows, recording an equity ratio of 49.8% and positive operating cash flow of EUR 55.0 million as of June 30, 2014.

Total assets grow to EUR 1,472 million

As of June 30, 2014, total Group assets were up by 10.3% at EUR 1,472.4 (1,334.4) million. This was attributable to an investment-induced expansion of property, plant and equipment and intangible assets as well as to an increase in working capital in response to more expansive business. Compared to the figure of EUR 1,392.1 million posted as of December 31, 2013, total assets were up by 5.8%.

In the first half of 2014, investments in property, plant and equipment as well as intangible assets totaled EUR 59.9 (53.3) million. This was well in excess of associated depreciation/amortization amounting to EUR 37.8 (36.2) million. Compared to the end of the 2013 financial year, property, plant and equipment thus rose to EUR 635.8 (612.1) million as of June 30, 2014. Compared to the figure of EUR 572.4 million recorded as of June 30, 2013, growth stood at 11.1%, which was lower than the Group's reported revenue growth of 13.9%. Additionally, the increase in intangible assets has to be seen against the backdrop of the assumption of control over ElringKlinger Marusan Corporation effective from December 31, 2013. Compared to December 31, 2013, intangible assets increased by 1.7% to EUR 179.7 (176.7) million.

Due to the retrospective application of IFRS 11 for the first quarter of 2013, ElringKlinger Marusan Corporation, Tokyo, Japan, which was fully consolidated for the first time in 2014, was no longer consolidated on a proportionate basis as regards the prior-year figures. Instead, this entity was accounted for using the equity method. Therefore, as of June 30, 2013, this investment is presented as "Investments accounted for using the equity method", at an amount totaling EUR 20.3 million.

Higher working capital following business expansion

Prompted by a dynamic expansion of business activities, both inventories and trade receivables rose in the period under review. Compared to June 30, 2013, inventories were up by 15.0% to EUR 270.2 (234.9) million and receivables grew by 14.2% to EUR 248.5 (217.6) million. Part of the increase in receivables was attributable to particularly substantial billings for tools, which are associated with ramp-ups for new products. Thus, the increase in working capital was just above revenue growth.

Compared to December 31, 2013, inventories increased by EUR 12.8 million, while trade receivables rose by EUR 41.0 million. In line with seasonal patterns, the largest part of the aforementioned increases was attributable to the first quarter. Compared to the figure recorded as of March 31, 2014, inventories and receivables were up marginally by just EUR 3.1 million and EUR 8.0 million respectively.

CURRENT AND NON-CURRENT ASSETS

EUR million	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
Intangible assets	179.7	176.4	176.7
Property, plant and equipment	635.8	623.6	612.1
Other items	30.6	31.0	30.7
Non-current assets	**846.1**	**831.0**	**819.5**
Inventories	270.2	267.1	257.4
Trade receivables	248.5	240.5	207.5
Other items	107.6	108.6	107.7
Current assets	**626.3**	**616.2**	**572.6**
Total assets	1,472.4	1,447.2	1,392.1

Further improvement in equity ratio

As of June 30, 2014, Group equity was up at EUR 733.6 (650.0) million. Thus, the ElringKlinger Group saw its equity ratio improve to a level of 49.8% (48.7%).

This was largely attributable to higher revenue reserves, which rose to EUR 522.9 (443.1) million as a result of the Group's solid earnings performance. In this context, it should be noted that the second quarter included a dividend payout of EUR 31.7 million to the shareholders of ElringKlinger AG that had a corresponding impact on revenue reserves. The change in other reserves had a positive effect equivalent to EUR 7.7 million. This resulted from exchange differences.

Compared to December 31, 2013 (EUR 701.3 million), equity rose by EUR 32.3 million.

Net debt at EUR 333 million

Corporate growth was funded by means of operating cash flow as well as through additional bank loans. Current and non-current financial liabilities rose to EUR 393.4 (359.4) million in total as of June 30, 2014. Having deducted cash, the Group's net financial debt was EUR 333.3 (303.6) million.

Compared to March 31, 2014, net financial debt increased by EUR 27.0 million in the second quarter of 2014. This was also attributable to the dividend payout (EUR 31.7 million) in May. The Group anticipates that net financial debt will gradually be scaled back in the second half of the year.

Trade payables rose marginally to EUR 73.1 (71.1) million as of June 30, 2014. Compared to December 31, 2013 (EUR 68.6 million), they increased by EUR 4.5 million. In both cases, the increase was attributable to factors relating to the reporting date.

The year-on-year reduction in pension provisions to EUR 93.7 (99.3) million is due to an adjustment in the actuarial interest rate as of December 31, 2013. Compared to the figure reported at the end of the 2013 financial year (EUR 92.3 million), pension provisions rose slightly.

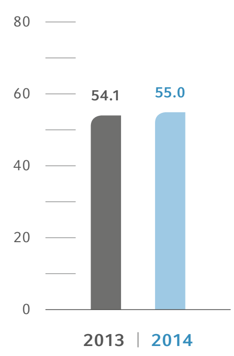
The substantial year-on-year increase in other current liabilities to EUR 96.4 (60.4) million as of June 30, 2014, was attributable to a liability of EUR 37.1 million from an obligation regarding a possible subsequent acquisition of ElringKlinger Marusan Corporation; this liability had been recognized as of December 31, 2013. Compared to March 31, 2014 (EUR 98.5 million), other current liabilities fell slightly due to the payment in the second quarter of a profit-sharing bonus granted to staff at ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH and Elring Klinger Motortechnik GmbH, which amounted to EUR 4.7 million in total.

In total, the share of liabilities in total equity and liabilities fell to 50.2% (51.3%) as of June 30, 2014.

CURRENT AND NON-CURRENT LIABILITIES

EUR million	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013
Provisions for pensions	93.7	93.0	92.3
Non-current financial liabilities	244.5	233.1	237.3
Other items	45.8	48.2	49.4
Non-current liabilities	**384.0**	**374.3**	**379.0**
Trade payables	73.1	77.1	68.6
Current financial liabilities	148.9	133.4	120.9
Other items	132.7	132.0	122.2
Current liabilities	**354.7**	**342.5**	**311.7**

NET CASH FROM OPERATING ACTIVITIES 1ST HALF
in € million



Visible quarter-on-quarter improvement in cash flow in Q2 2014

In the first half of 2014, net cash from operating activities increased slightly to EUR 55.0 (54.1) million compared to the same period a year ago. Higher earnings before taxes of EUR 78.9 (68.4) million and the increase in depreciation/amortization were offset primarily by a growth-induced expansion of inventories and trade receivables, resulting in a larger proportion of capital tied up in these items.

The second quarter saw a tangible improvement in cash flow from operating activities when compared to the preceding three-month period. Having recorded EUR 18.8 million in the first three months of 2014, the Group generated net cash from operating activities of EUR 36.3 million. Cash flow from operating activities was comparable to the solid figure recorded in the second quarter of the previous year (EUR 36.2 million).

Based on higher earnings before taxes of EUR 39.5 (35.4) million and depreciation/amortization of EUR 19.1 (18.0) million, cash flows were influenced by the following factors in the second quarter of 2014: In total, the change in inventories, trade receivables and other assets not attributable to investing or financing activities had a dilutive effect on cash flow of EUR -6.9 (-0.5) million. The rise in inventories and receivables compared to the end of the reporting period of the previous quarter was attributable mainly to higher tool-related inventories. By contrast, other working capital remained largely unchanged.

Additionally, trade payables and other liabilities not attributable to investing or financing activities were scaled back. At EUR -7.2 (-4.4) million, this had a dampening effect on cash flow from operating activities. This figure includes the payment of a staff profit-sharing bonus for the 2013 financial year, totaling EUR 4.7 million.

On balance, there were no significant changes to the other items of cash flow from operating activities compared to the same quarter a year ago. Income taxes paid amounted to EUR 9.6 (9.8) million.

Focus of investments on subsidiaries

With investments in intangible assets and property, plant and equipment totaling EUR 59.9 (53.3) million in the first six months of 2014, the investment ratio stood at 9.1%, which was within the company's target corridor of 8 to 10%.

In the second quarter, cash outflow in connection with investing activities amounted to EUR 30.8 (29.0) million. The focus was on expansion investments at the foreign subsidiaries.

ElringKlinger Abschirmtechnik (Schweiz) AG received new production machinery, e.g. for the manufacture of underbody shielding components and for thermoformed acoustic assemblies made of plastic. In addition, the Shielding Technology division expanded its capacity levels by introducing an end-to-end production line for the manufacture of thermal-acoustic shielding components made of multilayer composite materials.

Market growth in Asia is reflected in the Group's significant investing activities directed at its sites in the region. Alongside a new plant built in Korea, investments were made in additional production equipment at the Chinese sites in Changchun and Suzhou, including systems for the manufacture of specialty gaskets and assets required to prepare for the production ramp-up of new lightweight parts based on hybrid polymer-metal technology.

At ElringKlinger Kunststofftechnik GmbH in Bietigheim-Bissingen, Germany, construction work commenced on a new production building that will include an extruder tower. This major project will create 8,000 square meters of additional production capacity within the Engineered Plastics segment, which is to include the manufacture of PTFE parts used not only in the automotive sector but also in a range of other industries. In this context, the first payments associated with this project were made in the period under review.

Machinery was also procured at the Canadian subsidiary, the emphasis being on the production of lightweight polymer components.

Owing to the significant level of operating cash flow in the second quarter of 2014, ElringKlinger recorded positive operating free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions) in this period, totaling EUR 5.7 (7.4) million. In the first six months of 2014 operating free cash flow stood at EUR -4.6 (1.1) million.

Cash flow from financing activities dominated by dividend payment

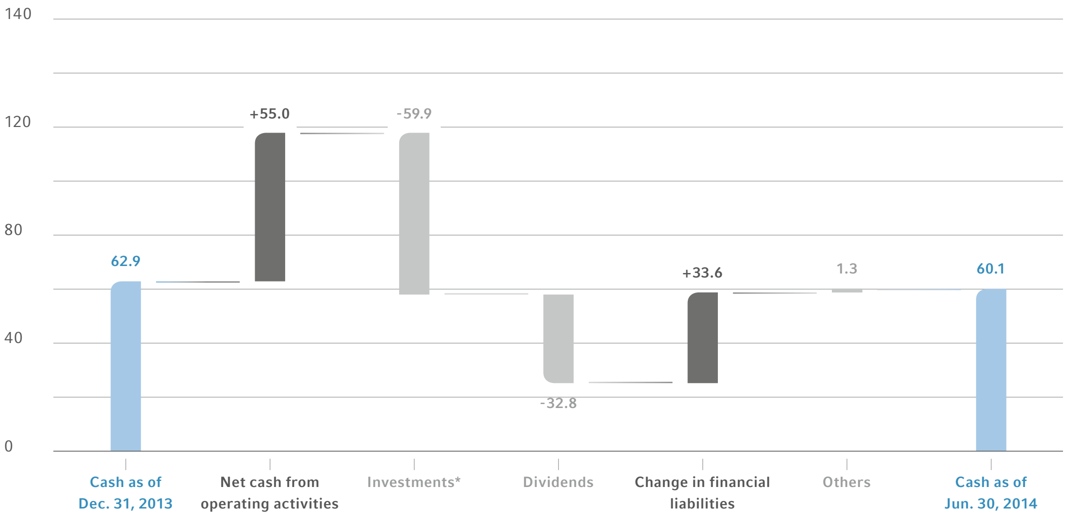
In the first half of 2014, the Group paid out a total dividend of EUR 32.8 (29.7) million to the shareholders of ElringKlinger AG and non-controlling interests.

Interim financing in the form of financial liabilities was put in place for part of the dividend payout. The Group expanded its financial liabilities by a net amount of EUR 25.9 (28.2) million in the second quarter of 2014.

Net cash from financing activities totaled EUR -6.9 (-1.3) million in the second quarter of 2014. In the first six months of 2014 net cash from financing activities was EUR 0.7 (11.9) million.

As of June 30, 2014, cash and cash equivalents held by the Group amounted to EUR 60.1 (55.8) million.

CHANGE IN CASH 1ST HALF 2014
in € million



* Investments in property, plant and equipment, investment property and intangible assets

Opportunities and Risks

Slump in demand in Brazil and conflict in Ukraine pose risks

As regards the assessment of opportunities and risks for the ElringKlinger Group, there were no fundamental changes in the second quarter of 2014 compared to the details discussed in the 2013 Annual Report of the ElringKlinger Group (page 117 et seq.).

There are currently no identifiable risks that might jeopardize the future existence of the Group as a going concern, either in isolation or in conjunction with other risk factors.

Over the course of the first half of 2014, however, some regions saw more pronounced levels of geopolitical uncertainty and risk that are beyond the company's control. This applies primarily to parts of the Middle East and North Africa, which are by no means insignificant to ElringKlinger's aftermarket business.

The smoldering conflict in Ukraine poses further uncertainties as to the potential repercussions of sanctions that have already been agreed in part. Indirectly, this could prove detrimental to the demand side in the form of exchange rate fluctuations or less favorable terms of refinancing. Until now, however, these uncertainties have had no significant impact on the direction taken by business.

In total, the ElringKlinger Group generates less than one percent of its revenue, centered mainly around the Aftermarket segment, in the states of the Russian Federation and in Ukraine itself. Therefore, the potential risk to the financial position, financial performance and cash flows of the ElringKlinger Group can be categorized as being negligible.

The outright collapse seen in the Brazilian vehicle market, with car production nosediving by 33.3% in June 2014 alone, affected the Group's revenue and earnings performance during the first six months of 2014 in that both revenue and earnings for the region fell short of the original targets. To a large extent, the Group managed to offset this by better than expected business performance in other markets. Having said that, there are as yet no signs of a rapid improvement to market conditions in Brazil. Therefore, ElringKlinger has adjusted its capacity levels in response to the visible downturn in demand. The Group currently generates around 4% of its consolidated revenue in South America.

The report on opportunities and risks can also be accessed on the website of ElringKlinger at www.elringklinger.de/ar2013/report-on-opportunities-and-risks.

Outlook

Outlook – Market and Sector

Greater risks to global economic growth

The International Monetary Fund (IMF) still expects an increase in global economic output for the year as a whole. Economic momentum will, however, be more modest than was anticipated at the beginning of the year. At the mid-year point, the IMF lowered its forecast for the current year from 3.7% to 3.4%. The adjustment was made in light of concern over the economies of heavyweights China and the USA, as well as in response to the Ukraine crisis. Along with persistently sluggish growth rates in some emerging markets, this acted as a drag on global economic expansion.

Slow-paced recovery in the Euro area

Germany continues to enjoy comparatively healthy economic conditions which, despite the somewhat weaker second quarter of 2014, are indicative of sustained economic recovery. On the one hand, increasing demand from EU partner countries and growth in the United States are supporting German exports; on the other, the downturn in emerging markets together with risks emanating from political hot spots may significantly compromise foreign trade.

GDP GROWTH PROJECTIONS (Year-on-year change)

in %	2013	Projections 2014	Projections 2015
World	3.2	3.4	4.0
Germany	0.5	1.9	1.7
Eurozone	-0.4	1.1	1.5
United States	1.9	1.7	3.0
Brazil	2.5	1.3	2.0
China	7.7	7.4	7.1
India	5.0	5.4	6.4
Japan	1.5	1.6	1.1

Source: International Monetary Fund (July 2014)

The eurozone economy has ended its long period of recession and is pursuing recovery at a cautious pace. Having said that, the situation varies among the largest European national economies. While there are clear indications of ongoing economic recovery in Spain and Portugal for the remainder of the year, the French economy continues to lag the other countries in the European Monetary Union. In the United Kingdom, Sweden or Poland, by contrast, the economy continues to run at full speed.

The IMF slashed the outlook for Russia by 1.1 percentage points as a result of the political unrest. A certain amount of stagnation in economic performance is likely in 2014 as a whole.

Accelerated growth in the US economy during the second quarter and the sustained recovery of the US employment market point to a robust economic performance for the rest of the year. Nevertheless, the IMF felt it had no choice but to reduce the growth forecast for 2014 as a whole. The situation in South America is patchy. The Brazilian economy currently shows no sign of an economic recovery. Fundamental structural problems mean that a significant upturn is not envisaged in the short term. In the meantime, growth in Brazil for 2014 is estimated at only 1.3 percent.

In 2014, Asia remains the most important pillar of growth for the world economy, although some states in the ASEAN region are prone to weakening. In China, the economy is still advancing, albeit at a reduced pace. The growth target for 2014 lies at 7.5%. The government is reluctant to embrace stimulus measures. This might, however, be advantageous for the sustainable growth of the economy.

In India, a boost in consumer confidence has been seen for the first time in a long while, which appears to be down to the lowered excise duties introduced in February and the clear political situation following the general election held in May. The Japanese economy is expected to gather further pace over the course of the year. The economic stimulus package provided by the government in May is likely to play a role in facilitating an upturn in the second half of the year.

China and the US keep the car markets on course for growth: emerging markets falter

Powered by the dynamic performance of the two largest automobile markets, China and the United States, the global automobile industry is expected to remain on track for moderate growth. According to the majority of recent projections, demand for cars should increase by 3 to 4% in the current year, although some of the forecasts made in the year so far were revised downwards. Global vehicle production is expected to experience a similar level of growth.

ElringKlinger's outlook for the full year remains unchanged, with a predicted increase of 2 to 3% in the production of passenger cars and light trucks. The company pinpoints the main area of growth as the North American and, above all, the Chinese market. In comparison, there is still scant evidence of improvement for the BRI markets, which were consistently weak in the first half of 2014.

Recovery in Western Europe remains limited

The momentum of upturn for the European automotive market appears limited, and the region as a whole is unlikely to gain pace as the year progresses. In July, the number of new car registrations in Western Europe grew by 4.5%. This proved insufficient, however, to compensate for the previous year's loss, and ultimately represents the second poorest June sales figure of the last twelve years. Based on an extremely low level recorded in 2013, a moderate rate of growth, just in excess of 4%, is predicted for the EU market for new cars in 2014.

Thanks to considerable export-driven demand, the bottom line for German vehicle production in 2014 as a whole is expected to be extremely encouraging: according to the forecast, domestic vehicle production will exceed the previous year by 4%, thereby achieving a record number of 5.7 million units. The domestic sales market is also set for a modest gain in 2014, and is expected to narrowly exceed the previous year's level of 3.0 million newly registered cars.

In light of the current political uncertainties, Russia, which was well on the way to becoming the second largest automobile market in Europe after Germany, will fail to reverse the trend in the second half of the year.

In June, registration figures in the US climbed to 16.9 million vehicles – projected for the year as a whole (SAAR) – the highest position since mid-2006. Therefore, a further gain in the mid-single-digit percentage range is expected to be registered for 2014 as a whole.

For the fourth largest automobile market in the world, Brazil, prospects remain gloomy. In order to stabilize profitability, ElringKlinger has already carried out capacity adjustments in reaction to the distinctly sluggish demand there. Against the backdrop of a persistently weak economy and a lack of reforms, it is conceivable that sales of cars and light trucks in 2014, which have slumped, will fall significantly short of the previous year's figures. After -7.3% in the first half of the year, the full year is hardly likely to turn out any better. In terms of production, meanwhile, an even greater decrease is expected in comparison to new registrations, predicted at 13%.

In China, the world's single largest market for automobiles, growth remains dynamic. According to current estimates, 2014 car sales in China are expected to surpass the already impressive level of the previous year by 8.5%. Consequently, vehicle production will also experience further growth at a domestic level. High growth rates are expected to continue, as indicated by increasing levels of wealth in the country and the modest percentage of car ownership within the population, which lies at around 5%.

India has seen an increase in new car registrations since May. In the wake of general elections and with the prospect of greater economic stability, the subcontinent's automobile industry, which has been underperforming in recent years, has been given the opportunity for recovery, at least on a moderate scale.

In Japan, meanwhile, the number of cars sold in 2014 as a whole is likely to decrease in relation to the previous year. The value-added tax increase in April 2014 led to noticeable pull-forward effects in the first three months of the year. This will have a negative impact on sale volumes in the coming quarters.

Slowdown in Europe's commercial vehicle market – US on course for growth

Despite robust growth rates in Germany, there is no evidence to suggest a strong momentum in Europe as a whole. The recovery of the commercial vehicle industry in this region is moving forward at a rather sluggish pace, as incoming orders illustrate: for 2014 as a whole, truck sales are now estimated to be just below the previous year's level. Some manufacturers expect a drop of more than 5%.

By contrast, the Class 8 truck market in the US is likely to maintain its upward trend in the year as a whole. Following a strong first half of the year and a comparatively high order backlog, an encouraging growth rate of 10% has been forecast for the US truck market. Similar to the direction taken by the domestic car market, truck sales in South America are likely to fall significantly. Current projections assume that the truck market in Brazil will shrink by at least 10% in 2014.

For ElringKlinger, business involving truck components is generally taking on greater importance. In particular, the new product portfolio for lightweight plastic housing modules allows greater revenue per vehicle starting from the new generation of Euro VI trucks. As a result, the proportion of revenue generated with parts for the truck sector in the Original Equipment segment is expected to record perceptible growth in the medium term. In 2013 the share of revenue stood at around 15%.

Outlook – Company

Order backlog at record level – Continued rise in order intake from high base

The Group expects to generate further growth in revenue and earnings in 2014. In the second quarter of 2014, order intake rose by a further 3.5% compared to the buoyant second quarter of 2013, taking the figure to EUR 380.0 (367.0) million in the period under review. Compared to the first quarter of the current financial year, the Group saw order intake expand by 14.7%.

The ElringKlinger Group is supported by a solid order backlog when it comes to achieving sales growth targeted for 2014 and 2015. After a figure of EUR 602.6 million recorded at the end of the preceding quarter, order backlog reached EUR 649.1 (569.9) million – a new record for the Group.

Solid revenue and earnings at Hug

Exhaust gas specialist Hug is expected to exceed its original revenue target for 2014, which had been set as percentage growth towards the upper end of the single-digit range. For the remainder of the year, the Group's projection with regard to Hug's operating margin remains unchanged, i.e. the exhaust gas specialist is expected to achieve a figure in excess of the Group average.

CARB truck retrofitting with diesel particulate filters continues to be a key revenue driver, the focus being on North America. Alongside California other US states are considering similar legislation governing the reduction of fleet emissions. Therefore, this may result in additional projects within this area. There are also good prospects of further revenue flow for Hug from exhaust gas purification systems used in large natural-gas-fueled engines, which are increasingly being deployed in North American power stations for the purpose of electricity generation. A newly developed recuperation catalytic converter capable of significantly reducing the leakage of methane, a hazardous greenhouse gas, is to be targeted at this area of the market.

In the medium term, the Exhaust Gas Purification division will benefit from other interesting opportunities for exhaust gas purification systems in the shipping industry, the emphasis being on reducing particulates, hydrocarbons and nitrogen oxides emitted by marine diesel engines in freight vessels and cruise liners. Hug already equips a significant number of inland waterway vessels with complete exhaust gas purification systems. Demand is often driven by the introduction of pollutant standards or stricter emission legislation. Against this backdrop, Hug sees new fields of application for Hug products – particularly in the US and China – relating to diesel locomotives, construction machinery, agricultural equipment and stationary engines.

Up-front costs in E-Mobility division

The E-Mobility division continues to be heavily dependent on up-front expenditure not only for the expansion of business with cell contact systems but also for the development of further components for high-voltage batteries such as cell housing covers with integrated functions.

Development work and production ramp-ups associated with these promising projects centered around new drive technologies tend to exert temporary pressure on the Group profit margin. However, they are also seen as an essential launch pad for sustained growth in the area of electromobility. By contributing higher revenue flows, the serial projects initiated at production level towards the end of 2013 are to help improve to a larger extent the coverage of fixed costs from 2014. Depending on demand from end customers, ElringKlinger sees potential for an improvement in earnings within the E-Mobility division in 2014 and the prospect of reaching the point of profitability in the 2015 financial year.

Growth in revenue and earnings expected for FY 2014

Based on the assumption that global car production will expand by 2 to 3%, the ElringKlinger Group has retained its forecast that – on the back of revenue totaling EUR 1,175.2 million in 2013 – its revenue will grow by 5 to 7% organically, thus outpacing the market as a whole in terms of percentage growth. The full consolidation of ElringKlinger Marusan Corporation, Japan, is expected to contribute close to EUR 25 million in additional revenue for the Group.

Full inclusion of the lower-margin subsidiary ElringKlinger Marusan Corporation within the Group's scope of consolidation will have a slightly dilutive effect on the Group EBIT margin in 2014 (approx. -0.3 percentage points). At the same time, the introduction of Euro VI is expected to lead to improved capacity utilization in the truck category over the course of the year. Additionally, revenue streams attributable to battery technology are expected to expand and the level of organic growth projected for revenue will be accompanied by earnings contributions. In total, these factors will provide a slight boost to the Group's profit margin. Adjusted for non-recurring items, EBIT is to rise for the fifth consecutive year, reaching a level of EUR 160 to 165 million.

Events after the Reporting Period

Acquisition of fuel cell specialist New Enerday

Effective from July 1, 2014, ElringKlinger AG acquired 75% of the interests in New Enerday GmbH, based in Neubrandenburg, Germany. In acquiring the fuel cell specialist, the company has strengthened its business activities in the area of high-temperature SOFCs (solid oxide fuel cells), in addition to extending its own expertise centered around associated electronics, reformer technology and system integration. ElringKlinger anticipates that the acquisition will be concluded over the course of the third quarter. Thus, the entity is to be included in the scope of consolidation of the ElringKlinger Group effective from July 1, 2014. The purchase price was towards the lower end of the single-digit million range. The other 25% ownership interest will remain with the founder of the enterprise.

New Enerday develops and manufactures electricity generators based on fuel cell technology. This involves the use of high-temperature SOFCs that are capable of generating highly efficient electrical energy from fossil fuels such as natural gas, LPG, bioethanol or diesel. New Enerday already possesses marketable LPG-based products in an output range of 350 to 750 W, which can be interconnected on a modular basis if required for the purpose of achieving higher levels of system output.

Together with New Enerday, ElringKlinger will be operating with an end-to-end value chain and extensive systems expertise. The acquisition has also given ElringKlinger access to important industrial property rights.

Expansion in Asia: new plant in South Korea commences operations

In 2013, ElringKlinger had acquired the interests held by the then joint venture partner of ElringKlinger Korea Co., Ltd., thus becoming the sole owner of the entity as part of its efforts to drive business expansion in the Asian market. In mid-July 2014, a state-of-the-art production plant was opened at the site in Gumi, South Korea. Covering a production area of around 7,000 square meters, the ElringKlinger plant will manufacture the full range of products from cylinder-head gaskets through to lightweight plastic housing modules for the Korean vehicle industry.

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

Dettingen/Erms, August 7, 2014
The Management Board

Dr. Stefan Wolf | Theo Becker | Karl Schmauder

ElringKlinger and the Capital Markets

Stock markets remain mildly bullish despite adverse external influences

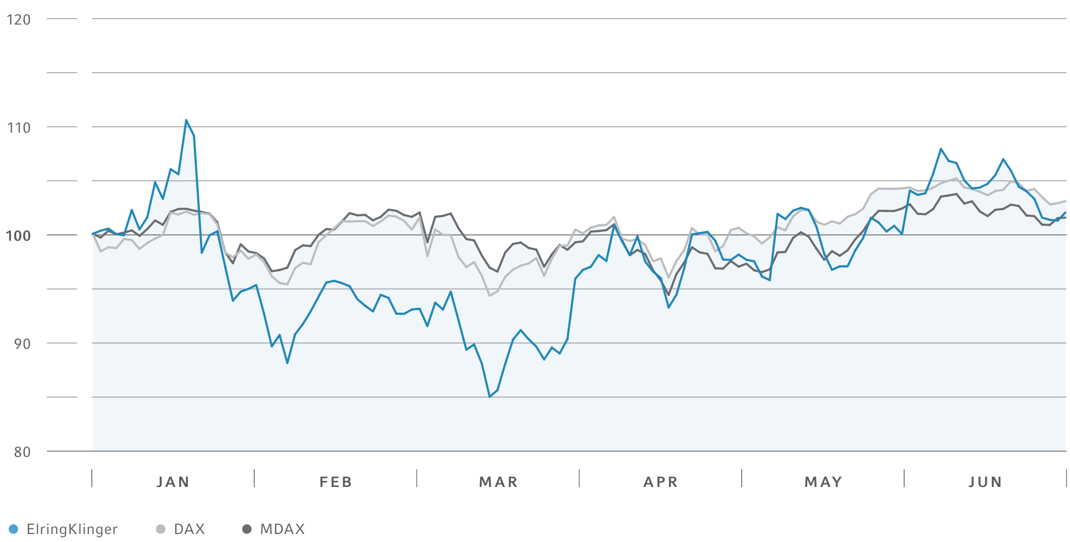
The economic recovery in Europe continued at a moderate pace during the first half of 2014. However, the region as a whole has yet to see any signs of a dynamic upturn in its economy.

Time and again, the increasingly tense situation on the Crimean peninsula, the conflict in Ukraine and instability in large parts of the Middle East gave rise to tangible uncertainty within the stock markets. European stock markets were among those worst affected, with prices tumbling sharply in some cases, led in particular by Germany's blue chip index, the DAX. By contrast, the ECB's policy of ultra-low interest rates provided buoyancy for the capital markets. Drawing on their substantial cash reserves, other central banks also had a supportive influence on market prices.

Against this backdrop of polarized forces, the markets continued to edge their way forward. In the first six months of 2014 the Euro Stoxx 50 rose by 4.2%, whereas the DAX managed to climb by 2.9%. On June 5, the DAX moved beyond 10,000 points for the first time in its history. By the end of the first half, however, it had fallen markedly to a level of 9,833 points. The MDAX performed slightly weaker, up by 1.5% in the same period.

ELRINGKLINGER'S SHARE PRICE PERFORMANCE (XETRA) SINCE JAN. 1, 2014

compared to MDAX and DAX



Losses recorded in March largely regained by ElringKlinger stock

Rising by 16%, shares in ElringKlinger made solid gains in 2013. At the beginning of 2014 the stock initially surged by a further 10% to levels in excess of EUR 32. However, against the backdrop of preliminary fiscal 2013 results that fell slightly short of market expectations – having been impacted by foreign exchange losses attributable to the strong euro – the company's shares subsequently trended lower again. In line with weaker market performance as a whole, ElringKlinger's share price receded to a half-year low of EUR 25.23 in mid-March.

Towards the end of the first quarter the stock enjoyed a period of marked recovery. ElringKlinger's share price was given a further boost by the announcement of a major contract for newly developed lightweight metal-polymer components, which heralded the company's move into lightweight engineering for vehicle body and chassis parts using hybrid hydroforming technology. This was the single largest order in ElringKlinger's history, with projected sales of EUR 120 to 130 million in total over a six-year period.

The response shown by investors to various international roadshows and investment events was tremendous. The company's results published at the beginning of May in respect of the first quarter of 2014 provided an additional boost. By June 30, 2014, ElringKlinger shares had recovered again, closing the first half of the financial year at a level of EUR 30.14. Overall, the first half of 2014 saw the company's stock appreciate by 1.9%, thus outperforming the benchmark MDAX index.

Trading volumes up in first six months

The first six months of 2014 saw a slight increase in trading volumes associated with ElringKlinger shares. The average volume of ElringKlinger shares traded per day increased by 5.3% to 101,700 (96,600) units compared to the first half of 2013.

Expressed in euros, the average daily trading value of ElringKlinger shares on German stock exchanges rose by 18.9% to EUR 2,933,500 (2,467,000). Despite the lower freefloat (48.0%) when compared to the MDAX average (64.8%), ElringKlinger's stock thus offered sufficiently high levels of liquidity also for institutional and affluent private investors to handle larger transactions.

Capital market communication: strong interest in on-site events

On March 28, 2014, the company held a financial results press conference in Stuttgart, followed by an analysts' and investors' meeting in Frankfurt am Main, for the purpose of presenting the annual financial statements of ElringKlinger AG for 2013. ElringKlinger's management outlined the results for the financial year just ended and explained its activities in the new field of lightweight technology, as part of which the method of metal hydroforming has been combined with injection-molding for the very first time to achieve significant weight savings in vehicles. Additionally, the focus was on the company's strategy for Asia and on its outlook for the current financial year. Both events attracted considerable interest.

During the first half of the year, ElringKlinger took part in three domestic capital market conferences and presented the company's business activities to an audience mainly comprising institutional investors from around the globe. Additionally, the company organized a Northern European roadshow spanning several days. There was considerable interest in meetings arranged for the purpose of exploring the company's technological abilities and production processes first-hand. Boasting more than 21 on-site events, including those held at the Centre of Excellence for Injection-Molding Tools (formerly Hummel-Formen) in Lenningen and at the Chinese facility in Suzhou, the Investor Relations team organized a record number of plant tours and technology presentations. A Technology Day at exhaust gas purification specialist Hug in Elsau, Switzerland, has been planned for the second half of the year.

ElringKlinger AGM approves dividend increase to 50 cents – Broad consent to all items of the agenda

Addressing an audience of around 550 shareholders and guests attending the AGM at the Liederhalle Cultural and Congress Center in Stuttgart on May 16, 2014, CEO Dr. Stefan Wolf looked back on what was a satisfactory financial year 2013. Shareholders supported the proposal put forward by the Management Board and Supervisory Board and approved, by a large majority, an 11.1% increase in the regular dividend to EUR 0.50 (0.45) per share. Participating in the company's success, company shareholders thus received a dividend payout of EUR 31.7 (28.5) million in total, which represents a year-on-year increase of 11.2%. Calculated on the basis of net income of ElringKlinger AG, which is the figure of relevance to dividend distribution, the dividend payout ratio for the financial year 2013 was 52.7% (50.4%).

As a replacement for Dr. Thomas Klinger-Lohr, who stepped down from the Supervisory Board as of December 31, 2013, the AGM voted in favor of electing Gabriele Sons onto the Supervisory Board. In March, she had already been appointed as a member of the Supervisory Board on a temporary basis until the AGM by the District Court. Ms. Sons is a member of the Management Board of ThyssenKrupp Elevator AG. The shareholders of ElringKlinger also passed the other proposals put forward by the management. The actions of the Management Board and Supervisory Board were approved by a large majority.

ELRINGKLINGER STOCK (ISIN DE 0007856023)	1st Half 2014	1st Half 2013
Number of shares outstanding	63,359,990	63,359,990
Share price (daily closing price in EUR)[1]		
High	32.60	28.45
Low	25.23	22.46
Closing price on June 30	30.14	25.64
Average daily trading volume (German stock exchanges; no. of shares traded)	101,700	96,600
Average daily trading value (German stock exchanges; in EUR)	2,933,500	2,467,000
Market capitalization at June 30 (EUR millions)	**1,909.7**	**1,624.6**

[1] Xetra trading

Group Income Statement

of ElringKlinger AG, January 1 to June 30, 2014

EUR k	2nd Quarter 2014	2nd Quarter 2013*	1st Half 2014	1st Half 2013*
Sales revenue	**333,528**	**296,110**	**657,523**	**577,113**
Cost of sales	-241,701	-210,734	-474,485	-415,369
Gross profit	**91,827**	**85,376**	**183,038**	**161,744**
Selling expenses	-22,593	-19,480	-44,824	-38,699
General and administrative expenses	-15,155	-12,199	-28,589	-24,046
Research and development costs	-13,646	-12,912	-29,147	-27,460
Other operating income	3,067	1,739	6,475	5,042
Other operating expenses	-1,976	-1,555	-3,329	-2,831
Operating result	**41,524**	**40,969**	**83,624**	**73,750**
Finance income	2,326	1,555	4,685	6,233
Finance costs	-4,398	-7,081	-9,387	-11,554
Net finance costs	**-2,072**	**-5,526**	**-4,702**	**-5,321**
Earnings before taxes	**39,452**	**35,443**	**78,922**	**68,429**
Income tax expense	-9,732	-6,807	-19,930	-15,211
Net income	**29,720**	**28,636**	**58,992**	**53,218**
of which: attributable to non-controlling interests	1,174	2,439	2,507	3,264
of which: attributable to shareholders of ElringKlinger AG	**28,546**	**26,197**	**56,485**	**49,954**
Basic and diluted earnings per share in EUR	**0.45**	**0.41**	**0.89**	**0.79**

* Prior-year figures restated in accordance with IFRS 11 and IAS 8, see comments in the notes to the interim consolidated financial statements

Group Statement of Comprehensive Income

of ElringKlinger AG, January 1 to June 30, 2014

EUR k	2nd Quarter 2014	2nd Quarter 2013*	1st Half 2014	1st Half 2013*
Net income	**29,720**	**28,636**	**58,992**	**53,218**
Currency translation difference	6,357	-8,984	6,123	-4,949
Gains and losses that can be reclassified to the income statement in future periods	**6,357**	**-8,984**	**6,123**	**-4,949**
Other comprehensive income after taxes	**6,357**	**-8,984**	**6,123**	**-4,949**
Total comprehensive income	**36,077**	**19,652**	**65,115**	**48,269**
of which: attributable to non-controlling interests	1,681	2,267	2,402	4,180
of which: attributable to shareholders of ElringKlinger AG	**34,396**	**17,385**	**62,713**	**44,089**

* Prior-year figures restated in accordance with IFRS 11 and IAS 8, see comments in the notes to the interim consolidated financial statements

Group Statement of Financial Position

of ElringKlinger AG, as at June 30, 2014

EUR k	June 30, 2014	Dec. 31, 2013	June 30, 2013*
ASSETS			
Intangible assets	179,749	176,710	135,935
Property, plant and equipment	635,821	612,108	572,372
Investment property	12,242	12,747	13,068
Financial assets	2,055	1,980	2,062
Investments accounted for using the equity method	0	0	20,342
Non-current income tax assets	2,202	2,189	2,824
Other non-current assets	3,498	3,001	2,511
Deferred tax assets	10,489	10,745**	32,119**
Non-current assets	**846,056**	**819,480**	**781,233**
Inventories	270,188	257,387	234,853
Trade receivables	248,518	207,453	217,566
Current income tax assets	4,062	3,986	3,019
Other current assets	43,524	40,820**	41,850**
Cash and cash equivalents	60,057	62,949	55,849
Current assets	**626,349**	**572,595**	**553,137**
	1,472,405	1,392,075	1,334,370

Prior-year figures restated in accordance with IFRS 11(*) and IAS 8 (**), see comments in the notes to the interim consolidated financial statements

EUR k	June 30, 2014	Dec. 31, 2013	June 30, 2013*
LIABILITIES AND EQUITY			
Share capital	63,360	63,360	63,360
Capital reserves	118,238	118,238	118,238
Revenue reserves	522,936	498,131**	443,140**
Other reserves	331	-5,897	-7,354
Equity attributable to the shareholders of ElringKlinger AG	**704,865**	**673,832**	**617,384**
Non-controlling interest in equity	28,781	27,507	32,607
Equity	**733,646**	**701,339**	**649,991**
Provisions for pensions	93,687	92,323	99,328
Non-current provisions	11,223	10,345	10,481
Non-current financial liabilities	244,486	237,346	167,713
Deferred tax liabilities	31,674	32,528	46,168
Other non-current liabilities	2,964	6,504	4,963
Non-current liabilities	**384,034**	**379,046**	**328,653**
Current provisions	19,776	19,472	16,885
Trade payables	73,127	68,574	71,068
Current financial liabilities	148,934	120,883	191,642
Tax payable	16,523	14,696	15,698
Other current liabilities	96,365	88,065	60,433
Current liabilities	**354,725**	**311,690**	**355,726**
	1,472,405	1,392,075	1,334,370

Group Statement of Changes in Equity

of ElringKlinger AG, January 1 to June 30, 2014

EUR k	Share capital	Capital reserves	Revenue reserves*
Balance as of Dec. 31, 2012	**63,360**	**118,238**	**424,440**
Adjustments for IAS 8, IFRS 11*			-3,215
Balance as of Jan. 1, 2013	**63,360**	**118,238**	**421,225**
Dividend distribution			-28,512
Change in scope of consolidated financial statement			473
Purchase of shares from controlling interests			
Total comprehensive income			49,954
Net income			49,954
Other comprehensive income			
Balance as of June 30, 2013	**63,360**	**118,238**	**443,140**
Balance as of Dec. 31, 2013	**63,360**	**118,238**	**498,131**
Dividend distribution			-31,680
Total comprehensive income			56,485
Net income			56,485
Other comprehensive income			
Balance as of June 30, 2014	**63,360**	**118,238**	**522,936**

* Prior-year figures restated in accordance with IFRS 11 and IAS 8, see comments in the notes to the interim consolidated financial statements

Other reserves					
Actuarial gains and losses from pension commitments, net	Equity impact of controlling interests	Currency translation differences*	Equity attributable to the shareholders of ElringKlinger AG*	Non-controlling interests in equity*	Group equity*
-22,003	**-833**	**27,747**	**610,949**	**31,268**	**642,217**
		-6,174	-9,389	-1,443	-10,832
-22,003	**-833**	**21,573**	**601,560**	**29,825**	**631,385**
			-28,512	-1,138	-29,650
22			495	81	576
	-248		-248	-341	-589
		-5,865	44,089	4,180	48,269
			49,954	3,264	53,218
		-5,865	-5,865	916	-4,949
-21,981	**-1,081**	**15,708**	**617,384**	**32,607**	**649,991**
-15,989	**2,033**	**8,059**	**673,832**	**27,507**	**701,339**
			-31,680	-1,128	-32,808
		6,228	62,713	2,402	65,115
			56,485	2,507	58,992
		6,228	6,228	-105	6,123
-15,989	2,033	14,287	704,865	28,781	733,646

Group Statement of Cash Flows

of ElringKlinger AG, January 1 to June 30, 2014

EUR k	2nd Quarter 2014	2nd Quarter 2013*	1st Half 2014	1st Half 2013*
Earnings before taxes	39,452	35,443	78,922	68,429
Depreciation/amortization (less write-ups) of non-current assets	19,095	17,963	37,787	36,197
Net interest	3,237	2,993	5,956	5,799
Change in provisions	1,716	-1,522	354	-2,623
Gains/losses on disposal of non-current assets	49	-71	126	-117
Earnings from investments accounted for using the equity method	0	424	0	-97
Change in inventories, trade receivables and other assets not resulting from financing and investing activities	-6,928	-532	-53,641	-42,098
Change in trade payables and other liabilities not resulting from financing and investing activities	-7,221	-4,363	13,698	13,760
Income taxes paid	-9,642	-9,814	-22,775	-17,833
Interest paid	-2,156	-2,622	-4,036	-4,018
Interest received	67	40	138	95
Other non-cash expenses/income	-1,411	-1,715	-1,480	-3,422
Net cash from operating activities	**36,258**	**36,224**	**55,049**	**54,072**
Proceeds from disposals of property, plant and equipment, intangible assets and investment property	228	508	371	635
Proceeds from disposals of financial assets	23	0	174	215
Payments for investments in intangible assets	-6,324	-1,758	-8,627	-4,088
Payments for investments in property, plant and equipment and investment property	-24,431	-27,255	-51,310	-49,219
Payments for investments in financial assets	-13	-343	-226	-565
Payments for the acquisition of subsidiaries, less cash	0	0	0	-3,151
Net cash from investing activities	**-30,517**	**-28,848**	**-59,618**	**-56,173**
Proceeds from non-controlling interests for the purchase of shares	0	98	0	98
Payments to non-controlling interests for the purchase of shares	0	0	0	-589
Dividends paid to shareholders and to non-controlling interests	-32,808	-29,650	-32,808	-29,650
Proceeds from the addition of financial liabilities	49,341	75,629	66,520	94,952
Payments for the repayment of financial liabilities	-23,472	-47,392	-32,968	-52,930
Net cash from financing activities	**-6,939**	**-1,315**	**744**	**11,881**
Changes in cash	-1,198	6,061	-3,825	9,780
Effects of currency exchange rates on cash	1,075	-925	933	-406
Cash at beginning of period	60,180	50,713	62,949	46,475
Cash at end of period	60,057	55,849	60,057	55,849

* Prior-year figures restated according to IFRS 11, see comments in the notes to the interim consolidated financial statements

Group Sales by Region

EUR k	2nd Quarter 2014	2nd Quarter 2013*	1st Half 2014	1st Half 2013*
Germany	97,086	90,794	193,987	178,673
Rest of Europe	110,447	94,176	218,912	183,136
NAFTA	57,568	50,296	110,293	99,250
Asia-Pacific	53,708	43,374	107,287	82,283
South America and Other	14,719	17,470	27,044	33,771
Group	**333,528**	**296,110**	**657,523**	**577,113**

* Prior-year figures restated in accordance with IFRS 11, see comments in the notes to the interim consolidated financial statements

Segment Reporting

of ElringKlinger AG, April 1 to June 30, 2014

Segment	Original Equipment		Aftermarket		Engineered Plastics	
EUR k	2014	2013	2014	2013	2014	2013
Sales revenue[1]	**274,229**	**241,221**	**33,323**	**28,960**	**22,747**	**22,898**
Intersegment revenue	5,542	3,780	1	0	124	87
Segment revenue	**279,771**	**245,001**	**33,324**	**28,960**	**22,871**	**22,985**
EBIT[2]	**30,539**	**30,603**	**6,755**	**5,919**	**3,550**	**4,085**
+ Interest income	78	36	11	3	120	99
- Interest expense	-2,917	-2,682	-374	-279	-145	-159
Earnings before taxes	28,752	25,442	6,491	5,652	3,526	4,024
Depreciation and amortization	-17,319	-16,409	-398	-347	-976	-942
Capital expenditures[3]	28,438	26,555	558	363	1,423	1,821

January 1 to June 30, 2014

Segment	Original Equipment		Aftermarket		Engineered Plastics	
EUR k	2014	2013	2014	2013	2014	2013
Sales revenue[1]	**538,163**	**465,157**	**65,994**	**59,095**	**47,235**	**46,641**
Intersegment revenue	11,821	8,841	66	0	150	319
Segment revenue	**549,984**	**473,998**	**66,060**	**59,095**	**47,385**	**46,960**
EBIT[2]	**61,944**	**53,010**	**13,550**	**12,332**	**6,817**	**7,183**
+ Interest income	165	90	19	6	228	185
- Interest expense	-5,381	-5,123	-677	-621	-290	-319
Earnings before taxes	57,763	48,439	13,060	11,712	6,736	7,051
Depreciation and amortization	-34,287	-33,151	-778	-691	-1,922	-1,827
Capital expenditures[3]	55,498	46,664	981	708	2,996	2,962

[1] A different presentation was selected for sales revenue in prior-year
[2] Earnings before interest and taxes (operating result)
[3] Investments in intangible assets, property, plant and equipment and investment property

	Industrial Parks		Services		Consolidation		Group	
	2014	2013	2014	2013	2014	2013	2014	2013
	1,122	**1,080**	**2,107**	**1,951**	**0**	**0**	**333,528**	**296,110**
	59	2	1,425	1,013	-7,151	-4,882	0	0
	1,181	**1,082**	**3,532**	**2,964**	**-7,151**	**-4,882**	**333,528**	**296,110**
	124	**-66**	**556**	**428**			**41,524**	**40,969**
	4	2	8	5	-154	-108	67	37
	-15	-18	-7	0	154	108	-3,304	-3,030
	126	-108	557	433			39,452	35,443
	-101	-12	-301	-253			-19,095	-17,963
	17	8	319	266			30,755	29,013

	Industrial Parks		Services		Consolidation		Group	
	2014	2013	2014	2013	2014	2013	2014	2013
	2,206	**2,121**	**3,925**	**4,099**	**0**	**0**	**657,523**	**577,113**
	117	75	2,499	2,056	-14,653	-11,291	0	0
	2,323	**2,196**	**6,424**	**6,155**	**-14,653**	**-11,291**	**657,523**	**577,113**
	292	**149**	**1,021**	**1,076**			**83,624**	**73,750**
	8	3	14	9	-296	-198	138	95
	-28	-29	-14	0	296	198	-6,094	-5,894
	342	142	1,021	1,085			78,922	68,429
	-198	-21	-602	-507			-37,787	-36,197
	23	39	439	2,934			59,937	53,307

Notes to the First Half of 2014

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, 2014, have been prepared on the basis of IAS 34 (Interim Financial Reporting). The interim financial statements conform with the International Financial Reporting Standards (IFRS), including the Interpretations issued by the IFRS Interpretations Committee, as adopted by the European Union.

As the consolidated interim financial statements are presented in a condensed format, the financial statements as of June 30, 2014, 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 7, 2014.

Basis of reporting

Correction of prior-year figures

In connection with a warranty incident, ElringKlinger AG and the customers concerned concluded a settlement agreement in 2011 for the payment of an amount totaling EUR 24.4 million. The warranty case relates to gaskets supplied at the beginning of 2008. In the meantime, the amount attributable to the aggregate loss has been settled in full. In parallel, ElringKlinger AG has a claim against the primary insurer and excess carrier for the same amount, of which EUR 10.0 million was already settled in 2011. Settlement of the remaining amount claimed has not yet occurred. The primary insurer has denied compulsory insurance cover beyond the amount of EUR 10.0 million already paid. Therefore, ElringKlinger AG has filed a suit against the primary insurer in respect of payment of EUR 14.4 million. In April 2014, the court of first instance dismissed the claim put forward by ElringKlinger AG. ElringKlinger has appealed against the ruling. ElringKlinger anticipates that the court of second instance will rule in favor of the legal opinion presented by ElringKlinger and that the primary insurer will be ordered to pay the amount in question, i.e. EUR 14.4 million. In view of the ruling by the court of first instance, ElringKlinger has decided to adjust retrospectively, without affecting profit or loss, the partial amount of EUR 4.4 million in respect of the claim for compensation not covered by the excess carrier, as the degree of certainty required for recognition of this claim was insufficient. Should ElringKlinger definitively fail in its legal action, the maximum cover provided by the excess carrier would be EUR 10.0 million in respect of this loss event.

The effect on the comparative figures for the previous financial year is presented in the following tables:

Group statement of financial position *EUR k*	Amount published Jan. 1, 2013	Change	Amount adjusted Jan. 1, 2013
Assets			
Deferred tax assets	29,552	1,225	30,777
Other current assets	45,351	-4,440	40,911
Equity and liabilities			
Revenue reserves	424,440	-3,215	421,225

Group statement of financial position *EUR k*	Amount published Dec. 31, 2013	Change	Amount adjusted Dec. 31, 2013
Assets			
Deferred tax assets	9,520	1,225	10,745
Other current assets	45,260	-4,440	40,820
Equity and liabilities			
Revenue reserves	501,346	-3,215	498,131

For the purpose of improving the presentation of the Group income statement, as of the financial year 2013 amortization of internally generated capitalized development costs is recognized under cost of sales instead of under research and development costs. As of June 30, 2013, this resulted in an increase in the cost of sales by EUR 2,718k and a reduction in research and development costs by the same amount.

The following new or amended Standards and Interpretations issued by the IASB were to be applied to the consolidated interim financial statements for the first time in 2014:

IFRS 11 – Joint Arrangements – and
IAS 28 – Investments in Associates and Joint Ventures –

Having previously been accounted for in the consolidated financial statements on the basis of proportionate consolidation, the entity ElringKlinger Marusan Corporation, Tokyo, Japan, was fully consolidated as of December 31, 2013, following a contractual agreement concerning assumption of control.

Retrospective application of IFRS 11 necessitates the disclosure of adjusted comparative figures for the prior period. Correspondingly, the joint venture is deconsolidated in 2013 and presented as investments accounted for using the equity method. The effects of applying IFRS 11 are as follows:

Effect on income statement:

EUR k	Jun. 30, 2013
Sales revenue	-12,997
Cost of sales	11,017
Selling expenses	288
General and administrative expenses	795
Research and development costs	260
Other operating income	-112
Other operating expenses	1
Finance income	-156
– of which income from investments accounted for using the equity method	97
Finance costs	36
Income tax expense	868
Net income for the period	**0**

The transition had no effect on net income for the period or on basic or diluted Group earnings per share.

Effects on statement of financial position:

EUR k	Jun. 30, 2013
Intangible assets	192
Property, plant and equipment	7,640
Financial assets	20
Other non-current assets	108
Deferred tax assets	404
Inventories	1,846
Trade receivables	6,920
Other current assets	1,523
Cash and cash equivalents	6,844
Total assets	**25,497**
Provisions for pensions	892
Non-current financial liabilities	19
Deferred tax liabilities	274
Other non-current liabilities	129
Current provisions	606
Trade payables	2,516
Current financial liabilities	978
Tax liabilities	1,174
Other current liabilities	611
Total liabilities	**7,199**
Net assets	**18,298**
Proportionate goodwill	2,695
Non-controlling interests	-1,433
Effect from proportionate consolidation	3,864
Income from investments accounted for using the equity method	97
Foreign exchange translation differences	-3,179
Investments accounted for using the equity method	**20,342**

Effects on statement of cash flows:

EUR k	Jun. 30, 2013
Operating activities	-902
Investing activities	893
Financing activities	116
Net reduction in cash and cash equivalents	-6,844

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

The reporting currency of the ElringKlinger Group is the euro.

Scope of consolidated financial statements

Alongside the financial statements of ElringKlinger AG, the interim financial statements as of June 30, 2014, include the financial statements of six domestic and 30 foreign entities in which ElringKlinger AG holds 50% of the interests, either directly or indirectly, 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.

Exchange rates

Exchange rates developed as follows:

Currency	Abbr.	Closing rate Jun. 30, 2014	Closing rate Dec. 31, 2013	Average rate Jan.–Jun. 2014	Average rate Jan.–Dec. 2013
US dollar (USA)	USD	1.36580	1.37910	1.37053	1.33083
Pound (UK)	GBP	0.80150	0.83370	0.81890	0.85008
Franc (Switzerland)	CHF	1.21560	1.22760	1.21878	1.22906
Canadian dollar (Canada)	CAD	1.45890	1.46710	1.50397	1.37711
Real (Brazil)	BRL	3.00020	3.25760	3.12983	2.89373
Peso (Mexico)	MXN	17.71240	18.07310	17.97235	17.12746
RMB (China)	CNY	8.47220	8.34910	8.48370	8.17328
WON (South Korea)	KRW	1,382.04000	1,450.93000	1,434.18167	1,456.23833
Rand (South Africa)	ZAR	14.45970	14.56600	14.66168	13.01281
Yen (Japan)	JPY	138.44000	144.72000	140.00833	130.18167
Forint (Hungary)	HUF	309.30000	297.04000	308.43833	297.93333
Turkish lira (Turkey)	TRY	2.89690	2.96050	2.96308	2.56752
Leu (Romania)	RON	4.38300	4.47100	4.44835	4.41495
Indian rupee (India)	INR	82.20230	85.36600	83.10145	78.47108
Indonesian rupiah (Indonesia)	IDR	16,248.15000	16,764.78000	16,058.83667	14,067.13083
Bath (Thailand)	THB	44.32300	45.1780	44.70333	41.08033

Disclosures relating to financial instruments

This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the statement of financial position containing financial instruments. There was no offsetting of financial instruments recognized by the company.

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

	Cash and cash equivalents	Trade receivables	Other current assets	Financial assets		Total
EUR k	CA	CA	CA	CA	FV	CA
As of Jun. 30, 2014						
Loans and receivables	60,057	248,518	3,529	74	74	312,178
held to maturity	0	0	0	1,433	1,437	1,433
held for trading	0	0	223	0	0	223
available for sale	0	0	0	548	548	548
Total	**60,057**	**248,518**	**3,752**	**2,055**	**2,059**	**314,382**
As of Dec. 31, 2013						
Loans and receivables	62,949	207,453	1,228	74	74	271,704
held to maturity	0	0	0	1,433	1,431	1,433
held for trading	0	0	87	0	0	87
available for sale	0	0	0	473	473	473
Total	**62,949**	**207,453**	**1,315**	**1,980**	**1,978**	**273,697**

The other current assets include derivatives of EUR 223k (Dec. 31, 2013: EUR 87k) measured at fair value.

The following table shows the carrying amounts (CA) and fair values (FV) of financial liabilities:

	Other current liabilities		Current financial liabilities	Trade payables	Derivatives		Non-current financial liabilities		Total
EUR k	CA	FV	CA	CA	CA	FV	CA	FV	CA
As of Jun. 30, 2014									
Financial liabilities measured at acquisition cost	53,015	53,015	148,934	73,127	0	0	244,486	248,475	519,562
Financial liabilities measured at fair value through profit or loss	0	0	0	0	0	0	0	0	0
As of Dec. 31, 2013									
Financial liabilities measured at acquisition cost	49,040	49,040	120,883	68,574	0	0	237,346	239,438	475,843
Financial liabilities measured at fair value through profit or loss	0	0	0	0	220	220	0	0	220

The other current liabilities include a purchase price liability of EUR 37,054k in respect of a written put option, which has been measured at amortized cost.

The management has ascertained that the carrying amounts of cash and cash equivalents, trade receivables, other receivables, trade payables, other current financial liabilities and other current liabilities largely correspond to their fair values, primarily as a result of the short maturities of these instruments.

The fair values of other financial instruments held to maturity and other financial instruments held for trading are based on prices in an active market as of the end of the reporting period.

ElringKlinger determines the market value of non-current fixed-interest liabilities to banks, finance lease liabilities and derivatives by discounting expected future cash flows with the current prevailing interest rates for similar financial liabilities with comparable residual terms and the company-specific interest rate.

The fair value of the put option, included in other current liabilities, of non-controlling interests in ElringKlinger Marusan Corporation in respect of their interests is based on projections of the enterprise value. As regards the valuation of this put option of non-controlling interests, estimates are made with regard to the forecast of business performance as well as with regard to the choice of the interest rate to be applied in respect of the liability to be recognized. A change in the enterprise value by 10% would result in an increase/decrease in the put option by EUR 3,705k.

Financial assets and liabilities measured at fair value are classified into the following three-level fair value hierarchy as of the end of the reporting period of June 30, 2014:

EUR k	Level 1	Level 2	Level 3
Jun. 30, 2014			
Financial assets			
available for sale	548	0	0
held for trading*	0	223	0
Total	**548**	**223**	**0**
Financial liabilities			
available for sale	0	0	0
held for trading*	0	0	0
Total	**0**	**0**	**0**
Dec. 31, 2013			
Financial assets			
available for sale	473	0	0
held for trading*	0	87	0
Total	**473**	**87**	**0**
Financial liabilities			
available for sale	0	0	0
held for trading*	0	220	0
Total	**0**	**220**	**0**

* These are derivatives that do not qualify for hedge accounting.

The following table provides details of the classification of financial assets and liabilities that are not measured at fair value but for which a fair value has been presented, according to the three-level fair value hierarchy as of the end of the reporting period of June 30, 2014:

EUR k	Level 1	Level 2	Level 3
Jun. 30, 2014			
Financial assets			
Financial assets	1,437	0	74
Total	**1,437**	**0**	**74**
Financial liabilities			
Non-current liabilities from finance leases	0	0	36
Non-current financial liabilities	0	244,450	0
Purchase price liability from written put option	0	0	37,054
Total	**0**	**244,450**	**37,090**
Dec. 31, 2013			
Financial assets			
Financial assets	1,431	0	74
Total	**1,431**	**0**	**74**
Financial liabilities			
Non-current liabilities from finance leases	0	0	162
Non-current financial liabilities	0	237,184	0
Purchase price liability from written put option	0	0	37,054
Total	**0**	**237,184**	**37,216**

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

Level 1: Measurement based on quoted prices

Level 2: Measurement based on quoted prices for similar instruments on the basis of measurement models based on inputs that are observable on markets.

Level 3: Measurement based on inputs for assets and liabilities not representing observable market data

The assessment as to whether a transfer has occurred between the levels of the fair-value hierarchy with regard to the assets and liabilities carried at fair value is conducted in each case at the end of the reporting period. No transfers occurred in the reporting period under review.

Contingencies and related-party disclosures

The contingencies and related-party relationships disclosed in the consolidated financial statements for 2013 were not subject to significant changes in the first half of 2014.

Government grants

In the first half of 2014, other operating income included government grants of EUR 2,544k. These grants were attributable primarily to development projects.

Dividend payment

In the second quarter of 2014, ElringKlinger AG distributed a total dividend of EUR 31,680k (EUR 0.50 per entitled share) to shareholders from its unappropriated retained earnings of 2013. The dividend payout took place on May 19, 2014.

Governing bodies of the company

As a replacement for Dr. Thomas Klinger-Lohr, who stepped down from the Supervisory Board as of December 31, 2013, 99.54% of the AGM (May 16, 2014) voted in favor of electing Gabriele Sons onto the Supervisory Board. She had already been appointed as a member of the Supervisory Board on a temporary basis until the AGM by the District Court. Ms. Sons is a member of the Management Board of ThyssenKrupp Elevator AG.

Events after the reporting period

Effective from July 1, 2014, ElringKlinger AG acquired 75% of the interests in New Enerday GmbH, based in Neubrandenburg, Germany.

In acquiring a 75% interest in the fuel cell specialist, ElringKlinger AG is looking to strengthen its business activities relating to high-temperature SOFCs (solid oxide fuel cells) and extend its own expertise centered around associated electronics, reformer technology and system integration. The acquisition has given ElringKlinger access to important industrial property rights.

The provisional purchase price is EUR 1,962k. The definitive purchase price will be calculated on the basis of the relevant completion accounts as of June 30, 2014. These calculations have yet to be concluded. Purchase price allocation will take place subsequent to the aforementioned calculations. Therefore, no further details can be presented at this moment in time.

There were no further 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 7, 2014

The Management Board

Dr. Stefan Wolf	Theo Becker	Karl Schmauder

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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.

This report was published on August 7, 2014, and is available in German and English. Only the German version shall be legally binding.

Corporate Calendar 2014

Financial Calendar

11/05/2014	Interim Report on the 3rd Quarter and First Nine Months of 2014
05/13/2015	110th Annual General Shareholders' Meeting, Stuttgart

Calendar Trade Fairs 2014

09/09 – 12	SMM, Shipbuilding Machinery & Marine Technology, Hamburg, Germany
09/16 – 20	Automechanika, Frankfurt/Main, Germany
09/23 – 26	InnoTrans, International Trade Fair for Transport Technology, Berlin, Germany
09/25 – 26	MEDTEC China, Trade show for medical technology, Shanghai, China
10/06 – 08	BATTERY+STORAGE, International trade fair for battery and energy storage technologies, Stuttgart, Germany
10/06 – 08	23rd Aachen Colloquium Automobile and Engine Technology, Aachen, Germany
10/14 – 18	23rd Fakuma, International trade fair for plastic processing, Friedrichshafen, Germany
10/27 – 30	MDA ASIA, Motion, Drive & Automation, Shanghai, China
11/13 – 14	4th Aachen Colloquium China, Automobile and Engine Technology, Beijing, China
12/09 – 10	13th International CTI Symposium, Automotive Transmissions, HEV and EV Drives, Berlin, Germany

For further events and trade fairs please visit our websites:
http://www.elringklinger.de/en/press-events
www.hug-eng.ch/en-index.html

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