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ElringKlinger AG Combined Management Report
for the Financial Year 2014

Overview of ElringKlinger's Activities and Structure

Profile

The ElringKlinger Group is a globally positioned automotive supplier whose company history spans some 135 years. Around 90% of Group revenue is generated through sales to the vehicle industry and in the independent aftermarket. As an independent development partner and original equipment manufacturer, ElringKlinger develops and manufactures cylinder-head and specialty gaskets, plastic housing modules, thermal and acoustic shielding parts for engine, transmission and exhaust tract applications, transmission control plates, complete exhaust gas purification systems and components for lithium-ion batteries* and fuel cell systems. This portfolio is complemented by products made of the high-performance plastic PTFE* supplied by ElringKlinger Kunststofftechnik GmbH. These are marketed to a wide range of industries, including those operating beyond the automotive sector. Additionally, the ElringKlinger Group supplies the independent aftermarket, the main focus being on flat metal-based gaskets and complete gasket sets.

Alongside the majority of vehicle and engine manufacturers around the globe, the Group's customer base includes numerous automotive suppliers, particularly in the field of turbochargers, exhaust technology and transmission engineering. Supplying high-tech components, primarily relating to the field of exhaust gas purification and fuel cells, ElringKlinger is also in the process of penetrating other promising segments of the market, such as the shipping industry. At the same time, it covers a broad range of applications in the area of energy supply.

As of December 31, 2014, around 7,300 people were employed by the ElringKlinger Group at 44 sites worldwide (cf. Employees, page 81 et seqq.).

Business model, core competencies and market position

ElringKlinger's product portfolio has been consistently aligned with market requirements, the aim being to address the core issues currently driving the automotive industry. Almost the entire range of products is centered around the reduction of emissions and fuel consumption as well as the development of alternative drive technologies. It is one of the few companies worldwide capable of supplying high-tech components for every type of drive system – from the traditional combustion engine to electric drives.

The ElringKlinger Group's core competencies lie in the combination of high-precision metal processing (stamping, embossing and forming) with coating technologies and plastics engineering. It applies its expertise in the field of tooling technology to metal working and complex plastic injection-molding processes. ElringKlinger designs and produces nearly all the tools it needs for manufacturing purposes in-house. Thanks to the specialist expertise it has acquired over many years in the field of materials processing and production, the Group has established a crucial competitive advantage at a technological level. Against this backdrop, the barriers to market entry for new competitors are extremely high.

ElringKlinger combines technology leadership with cost leadership in terms of production. The company's aim is to provide vehicle and engine manufacturers with high-volume, just-in-time supplies of consistently high-quality components. In the aftermarket business, delivery is often required within 24 hours. This calls for appropriate stock levels and a suitable logistics chain.

As a general principle, ElringKlinger aims to be one of the three biggest suppliers in each of its market segments. It is the global market leader in the field of Cylinder-head Gaskets. The Group is also ranked among the top three suppliers worldwide in the respective fields of Specialty Gaskets, Shielding Technology and Plastic Housing Modules.

In order to maintain its competitive position, ElringKlinger invests in research and development (R&D) (cf. Research and Development, page 55 et seqq.) at a rate that is above the industry average. The company has a firmly established culture of innovation and ensures that new ideas are given systematic backing and support. The company's ground-breaking portfolio includes brand new designs as well as new applications for existing technologies. At the same time, ElringKlinger makes a point of developing products for technologically sophisticated niche markets, e.g. in the field of turbochargers, high-performance automatic transmissions and thermal management.

Economic and legal factors

Demand for ElringKlinger components is dependent on the performance of international vehicle markets or global vehicle production in general. This, as experience has shown, is closely linked to the macroeconomic situation and employment levels in the respective sales markets. Benefiting from a broad customer base that spans the globe, ElringKlinger's dependence on specific markets is comparatively low. This usually allows ElringKlinger to compensate, at least in part, for temporary shortfalls in demand in individual regions by exploiting the more favorable performance of other sales markets.

At the same time, several of ElringKlinger's business divisions – in particular Specialty Gaskets, Plastic Housing Modules and Shielding Technology – are benefiting from structural growth. The company is supplying an increasingly large number of parts per vehicle. This provides a platform for sustained growth even when faced with a stagnant market environment. Furthermore, an increasingly large proportion of development projects is focused on new, highly promising market segments beyond the automotive industry. These activities include, for example, development projects in the field of exhaust gas purification technology for ships, construction machinery and power stations as well as for various industrial applications associated with fuel cell technology.

As 60.0% and 23.4% of the cost of sales are attributable to material costs and staff costs respectively, developments within the international commodity markets as well as in the area of salaries and wages have a substantial impact on cost structures.

With regard to the legislative environment, the main factor is environmental regulation to reduce emissions. Alongside strict limits on CO_2, the industry is seeing a global trend towards ever more demanding standards that aim to cut harmful emissions such as hydrocarbons, nitrogen oxides and particulates. Prominent examples include the Euro 6 standards for passenger cars and the Euro VI regulations for trucks* as well as the shipping regulations issued by the International Maritime Organization (IMO). As ElringKlinger has positioned itself, and its product portfolio, strategically in response to these developments, the company can benefit from emission laws such as those outlined above.

Group structure and organization

Headquartered in Dettingen/Erms/Germany, ElringKlinger AG as the parent company handles all the Group-wide management tasks and assumes responsibility for Group-wide functions, e.g. in the areas of purchasing, IT, communications, legal affairs and human resources. As of December 31, 2014, in addition to the parent company, the ElringKlinger Group included 38 fully consolidated subsidiaries as well as one investee (Codinox Beheer B.V., Enschede/Netherlands). In the majority of cases, ElringKlinger AG holds 100% of the interests in its subsidiaries (cf. Schedule of Shareholdings, page 135).

ElringKlinger AG is entered in the Commercial Register of the Stuttgart District Court under HRB 361242. The registered address is ElringKlinger AG, Max-Eyth-Straße 2, 72581 Dettingen/Erms/Germany. The applicable Articles of Association are those dated June 13, 2012. They can be accessed on the company's website at www.elringklinger.de.

Locations and markets

The ElringKlinger Group has established a global presence. At the end of 2014, it operated with 44 sites in 21 countries. Of these sites, 31 are production facilities, while nine are sales offices. There is also one company that operates solely within the area of aftermarket sales. The other locations belong to the Services and Industrial Parks segments.

The following table lists all the Group's operating companies together with their respective worldwide locations. The ten largest plants (on the basis of revenue) are printed in bold.

* Cf. glossary

ELRINGKLINGER INTERNATIONAL LOCATIONS

Company	Location	
Germany		
ElringKlinger AG	■ **Dettingen/Erms** ■ **Langenzenn** ■ **Runkel** ■ Idstein	■ Geretsried-Gelting ■ Lenningen ■ Thale
ElringKlinger Kunststofftechnik GmbH	■ **Bietigheim-Bissingen**	■ Heidenheim
Polytetra GmbH	■ Mönchengladbach	
Elring Klinger Motortechnik GmbH	■ Idstein	■ Bietigheim-Bissingen
ElringKlinger Logistic Service GmbH	■ Rottenburg/Neckar	
new enerday GmbH	■ Neubrandenburg	
Hug Engineering GmbH	■ Magdeburg	
Rest of Europe		
ElringKlinger Abschirmtechnik (Schweiz) AG	■ **Sevelen (Switzerland)**	
Hug Engineering AG	■ **Elsau (Switzerland)**	
Elring Klinger, S.A.U.	■ Reus (Spain)	
ElringKlinger Meillor SAS	■ Nantiat (France) ■ Poissy (France)	■ Chamborêt (France)
Elring Klinger (Great Britain) Ltd.	■ Redcar (Great Britain)	
Elring Parts Ltd.[1]	■ Gateshead (Great Britain)	
Technik-Park Heliport Kft.	■ Kecskemét-Kádafalva (Hungary)	
Hug Engineering S.p.A.	■ Milan (Italy)	
ElringKlinger Italia Srl	■ Settimo Torinese (Italy)	
Codinox Beheer B.V.[2]	■ Enschede (Netherlands)	
HURO Supermold S.R.L.	■ Timisoara (Romania)	
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	■ Bursa (Turkey)	
South America		
Elring Klinger do Brasil Ltda.	■ Piracicaba (Brazil)	
North Amerika		
ElringKlinger Canada, Inc.	■ Leamington (Canada)	
Elring Klinger México, S.A. de C.V.	■ **Toluca (Mexico)**	
ElringKlinger North America, Inc.	■ Plymouth/Michigan (USA)	
ElringKlinger USA, Inc.	■ **Buford/Georgia (USA)**	
Hug Engineering Inc.	■ Austin/Texas (USA)	
ElringKlinger Engineered Plastics North America	■ Buford/Georgia (USA)	
Asia		
Changchun ElringKlinger Ltd.	■ **Changchun (China)**	
ElringKlinger China, Ltd.	■ Suzhou (China)	
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.	■ Qingdao (China)	
ElringKlinger Automotive Components (India) Pvt. Ltd.	■ Ranjangaon (India)	
ElringKlinger Marusan Corporation	■ **Tokyo (Japan)**	■ Saitama (Japan)
ElringKlinger Korea Co., Ltd.	■ Gumi (South Korea)	■ Gwangmyeong (South Korea)
PT. ElringKlinger Indonesia	■ Karawang (Indonesia)	
ElringKlinger (Thailand) Co.	■ Bangkok (Thailand)	
Africa		
ElringKlinger South Africa (Pty) Ltd.	■ Johannesburg (South Africa)	

[1] Aftermarket sales
[2] Investee

■ production company ■ distribution/sales ■ services/industrial park
The sites of the ten plants generating the highest revenue are printed in bold

In addition to maintaining a presence in the established markets of Europe, North America and Japan, ElringKlinger is also represented in the emerging markets of Asia and South America with its own production facilities. ElringKlinger operates eight production sites in Asia alone, among them two production plants in China as well as one facility in South Korea that was opened in 2014. The Group is currently building a new state-of-the-art facility at its Chinese site in Suzhou, in the region of Shanghai, which spans an area of 26,000 square meters. Operations there are scheduled to commence in 2015. The rapidly expanding ASEAN market has been served by ElringKlinger since 2013 through a company-operated plant near Jakarta/Indonesia. In addition, ElringKlinger established a sales company in Thailand in 2013.

In 2014, around 70% of total Group revenue was generated outside Germany (cf. Sales and Earnings Performance, page 63). The Group's global production network allows it to remain in close proximity to its customers. In this context, Group companies compete with each other for individual projects. The final decision on where to produce specific components depends primarily on a range of factors including customer proximity, cost structures, internal value chains and the reduction of exposure to currency and other risks.

Segments and divisions

The Group's operating business is divided into five segments, as outlined below. These constitute the reportable segments under IFRS*.

ELRINGKLINGER GROUP SEGMENTS

Segment	Proportion of revenue	Main customer groups
Original Equipment	82.2%	Car, truck and engine manufacturers, automotive suppliers
Aftermarket	9.9%	Independent aftermarket business
Engineered Plastics	7.0%	Vehicle industry, mechanical engineering, medical technology
Services	0.6%	Vehicle manufacturers and suppliers
Industrial Parks	0.3%	Unspecified industries

The **Original Equipment** segment develops, produces and sells parts and assemblies for vehicle engines, transmission units and exhaust systems as well as components for lithium-ion batteries and fuel cells. The client base includes nearly all the world's vehicle and engine manufacturers. The Swiss subsidiary Hug Engineering AG, Elsau, which forms part of the Original Equipment segment, develops and manufactures complete exhaust gas purification systems, predominantly for applications in trucks, buses, ships, construction and agricultural machinery and power stations.

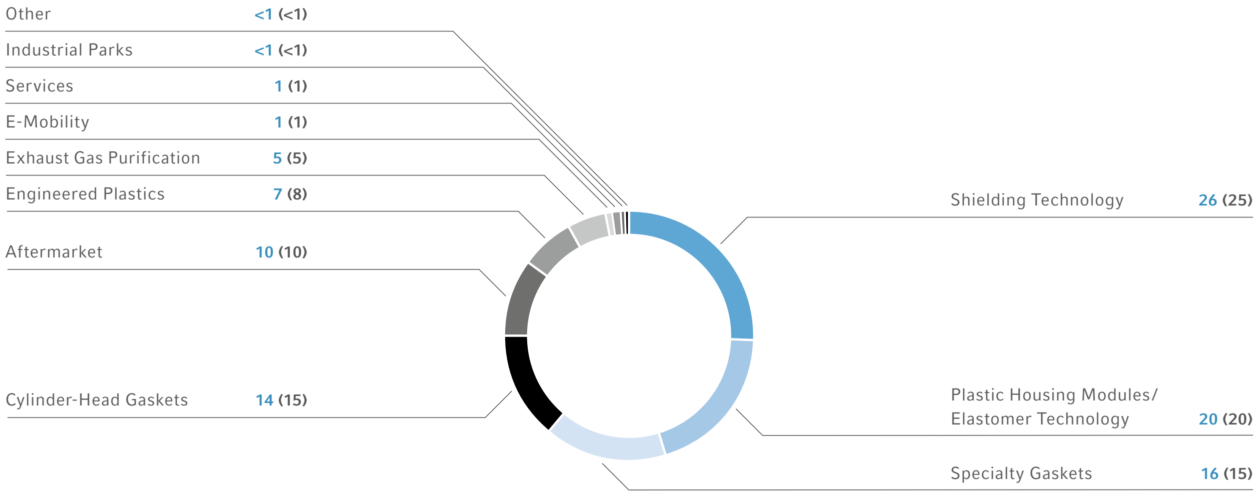
In the **Aftermarket** segment, ElringKlinger supplies a range of spare parts consisting mainly of cylinder-head gaskets and complete gasket sets. These are marketed under the "Elring – Das Original" brand. Supplied in OEM quality, the parts are used primarily for repairs to engines, gearboxes and exhaust systems. The Group's Aftermarket products are primarily sold in Western and Eastern Europe, the Middle East and North Africa. ElringKlinger is currently expanding its activities in North America and China. Additionally, this segment is in the process of extending its product portfolio within the French and Italian market for spare parts. Business within the Aftermarket segment is transacted primarily through a network of wholesalers and major group purchasing organizations.

Consolidated Financial Statements

* Cf. glossary

SALES REVENUE BY DIVISION IN 2014

(prior year) in %



The **Engineered Plastics** segment encompasses the subsidiary ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen/Germany, together with its subsidiaries, including Polytetra GmbH, Mönchengladbach/Germany, a company acquired in 2014. This segment develops, manufactures and sells products made of the high-performance plastic PTFE. Almost half of the Group's revenue from this segment is generated outside the automotive industry. Within Europe, ElringKlinger Kunststofftechnik has emerged as one of the leading suppliers of products for PTFE applications. China and the United States are served by local sales companies. The ElringKlinger manufacturing plants in these markets operate production lines for PTFE products.

The **Services** segment is made up of Elring Klinger Motortechnik GmbH, Idstein/Germany, as well as ElringKlinger Logistic Service GmbH, Ergenzingen/Germany, and KOCHWERK Catering GmbH, Dettingen/Erms/Germany. Elring Klinger Motortechnik GmbH provides development services for engines, transmissions and the exhaust tract using cutting-edge testing and measurement facilities. The segment's customer base includes both vehicle manufacturers and automotive suppliers. As a result, ElringKlinger has established close links with its customers' development units. ElringKlinger Logistic Service GmbH provides logistics services for the Aftermarket segment and for external customers. KOCHWERK Catering GmbH operates the restaurant at the principal site at Dettingen/Erms/Germany and provides catering services for external customers.

The **Industrial Parks** segment encompasses the Group's industrial parks in Idstein near Frankfurt/Germany, and in Kecskemét/Hungary. The purpose of the business is to lease and administer buildings.

The segments are further divided into a total of eleven divisions. Seven of these belong to the Original Equipment segment, which at roughly 80% contributes the largest share of total Group revenue. Each of the four remaining segments (Aftermarket, Engineered Plastics, Services and Industrial Parks) also constitutes a separate division.

ElringKlinger is the world's leading supplier of **cylinder-head gaskets**. The market is characterized by an oligopoly. ElringKlinger's two main competitors are US conglomerates that do not actually specialize in gasket solutions. Some of the local markets include smaller, regional competitors.

The **Specialty Gaskets** division focuses mainly on metal flat gaskets for high-temperature applications relating to engines, turbochargers, transmissions and exhaust systems. The competitive situation is very similar to that of the Cylinder-head Gaskets division. ElringKlinger is a leading player in the field of metal specialty gaskets and is ranked as one of the three largest suppliers worldwide. The Specialty Gaskets division has benefited from ever-higher demands on sealing technology and a growing number of potential applications.

The **Shielding Technology** division specializes in combined thermal and acoustic shielding solutions. ElringKlinger is one of the few suppliers in the world to offer complete shielding packages for both the engine as well as the underbody and the exhaust tract. Of all the Group's divisions, Shielding Technology accounts for the biggest share of total Group sales. Here, too, ElringKlinger is one of the world's top three suppliers. The Shielding Technology division also benefits from structural growth, since the number of shielding components required in each vehicle is set to rise over the coming years. The market is more differentiated than in the area of gaskets/seals. ElringKlinger's main competitor is a US company.

The **Plastic Housing Modules/Elastomer Technology** division develops and manufactures lightweight components made of polyamide plastics and fiber-reinforced organo sheets*, e.g. cam covers and oil suction pipe modules. The market is experiencing steady growth in the range of potential applications for plastics used in vehicles. Additionally, the truck industry, too, is seeing an ever-growing trend towards the use of lightweight plastic components to replace heavy metal parts. Other key products for this division include high-performance metal-elastomer gaskets for commercial vehicles. The market is more fragmented than in the case of other divisions.

The **E-Mobility** division focuses on cell contact systems* for lithium-ion batteries, which are used in both pure electric and hybrid vehicles. Serial production of this division's core product has been underway since 2011. The company's customer base in this specific area of business also includes two of Germany's premium car manufacturers. Growth within this division is heavily dependent on demand for electric vehicles. Cell contact systems are available only from a small group of suppliers.

The **Exhaust Gas Purification** division includes the Hug Group, a majority interest in which was acquired by ElringKlinger in 2011, and the production plant in Thale/Germany. Hug is one of the leading suppliers of exhaust gas purification systems for stationary engines and non-road applications, such as construction machinery, locomotives, ships and power plants. The division has established itself as the market leader in the Californian retrofit segment for diesel particulate filters fitted to trucks in excess of 6.34 metric tons.

Tooling Technology is one of the Group's core fields of expertise. Accordingly, ElringKlinger has established a dedicated division for these operations. This division encompasses internal tool manufacturing at the site in Dettingen/Erms/Germany as well as specialist plastic injection molding processes performed by Hummel-Formen, Lenningen/Germany, which was taken over in 2011 and has in the meantime been merged into ElringKlinger AG. The majority of services provided by this division are attributable to entities within the Group.

In general, new activities are transferred to dedicated divisions only once they generate their first contribution to revenue at series production level. Until that point, they are pooled under the heading **New Business Areas**. At present, this category mainly includes ongoing projects relating to fuel cell technology (cf. Research and Development, page 55 et seqq.).

Internal Control Criteria

The Management Board of the ElringKlinger Group primarily refers to financial control criteria for the purpose of governing the Group and as the basis for providing an overall assessment of developments within the group of companies. Additionally, it monitors non-financial performance indicators as well as company-specific leading indicators.

Financial control criteria

The financial control criteria are primarily based on the sales and earnings performance of ElringKlinger AG as well as the individual Group companies. The key indicators used as a basis for assessment are revenue, earnings before interest and taxes (EBIT)* and earnings before taxes (EBT). Furthermore, these internal control criteria are planned, calculated and continually monitored for the five segments reportable under IFRS as well as for individual business divisions.

* Cf. glossary

As of 2014, the control parameter EBIT is equivalent to the operating result. Therefore, foreign exchange gains and losses recognized under net finance cost/income are no longer included in EBIT.

Return on capital employed (ROCE) is considered to be of particular importance. ROCE measures a company's profitability and the efficiency with which its capital is employed. In this context, EBIT is divided by average capital employed. At ElringKlinger, capital employed includes shareholders' equity, financial liabilities, provisions for pensions and non-current provisions such as anniversary and partial-retirement provisions. The long-term target defined for the Group is to achieve a return on capital employed of at least 20% in the medium to long term. Variable remuneration for the managerial level directly below the Management Board is generally linked to the level of ROCE achieved.

FINANCIAL CONTROL CRITERIA OF THE ELRINGKLINGER GROUP

		Target 2014	Actual 2014	2013	2012	2011	2010	2009	2008
Significant financial control criteria:									
Sales revenue	*(in EUR million)*	1,258 to 1,282[1]	1,325.8	1,150.1	1,127.2	1,032.8	795.7	579.3	657.8
EBIT	*(in EUR million)*	160 to 165[2]	162.3[3]	149.8[3]	135.8	126.0[6]	106.7	63.3	71.5
Earnings before taxes	*(in EUR million)*	–	153.1	131.3[4]	123.6	113.9[6]	94.0	49.4	60.0
Return on capital employed (ROCE)		20%	12.4	14.4%[5]	13.3%	14.2%[6]	15.2%	8.8%	13.6%
Other, less significant financial control criteria:									
Net cash from operating activities	*(in EUR million)*	positive	149.9	119.0	112.3	74.5	126.2	148.8	98.2
Equity ratio		>40%	49.7	50.4%	50.6%	50.1%	52.7%	41.2%	37.7%

[1] incl. EUR 25.0 million in revenue from the full consolidation of ElringKlinger Marusan Corporation as from January 1, 2014
[2] adjusted for non-recurring exceptional items
[3] adjusted for non-recurring exceptional items, before purchase price allocation
[4] adjusted for one-time gain from full consolidation of ElringKlinger Marusan Corporation (EUR 17.6 million)
[5] incl. one-time gain from full consolidation of ElringKlinger Marusan Corporation (EUR 17.6 million)
[6] adjusted for one-time gain of EUR 22.7 million from sale of Ludwigsburg industrial park

In addition, ElringKlinger takes into account the following financial control criteria as part of its corporate governance efforts within the Group:

- Liquidity
- Potential market price risks from foreign exchange movements, interest rate changes and increases in material costs

Non-financial control criteria

In addition, ElringKlinger regularly monitors staff-related, environmental and quality indicators. They are considered less significant in the context of corporate governance and are used by management in support of its decision-making processes.

- Number of employees and change in headcount
- Average number of staff on sick leave
- Staff turnover rate
- Industrial accidents
- Energy consumption levels and emissions (especially CO_2)
- Quality indicators/assessments and reject rates

For specific data, please refer to the chapters entitled "Sustainability" (page 83) and "Employees" (page 81).

Company-specific leading indicators

Information relating to order intake and backlog is reported on a regular basis and provides reliable indications of likely capacity utilization and revenue performance for the months ahead. As a leading (i.e.

early) indicator that is specific to the company, this data is also seen as an important control parameter for management.

The Group's budgeting and forecasting are based on planned quantities requested by customers as part of their scheduling less a safety margin and respective agreed product prices. Additionally, the Management Board continuously tracks statistics and forecasts relating to global vehicle demand and production as well as the general economic situation. These leading indicators can provide important pointers regarding the plausibility of planning. In this way, any necessity for adjustments can be identified at an early stage and suitable measures can be implemented in good time.

Strategy: commitment to sustained and earnings-driven growth

ElringKlinger pursues a strategy of sustained forward momentum, with a focus on organic growth that is profitable over the long term. In this context, the company aims to achieve above-average profitability compared to the industry as a whole, measured on the basis of its EBIT margin.

ElringKlinger performs benchmark analyses on a regular basis for the purpose of assessing its own business performance in comparison with that of the industry as a whole. In this context, key indicators are compared to other, mostly listed, companies in the automotive supply sector and subsequently evaluated.

Research and Development

Increased spending on R&D – Growth again mainly driven by innovation

A strong culture of innovation across the ElringKlinger Group remains the most important factor in its long-term business success. The company aims to maintain its leading position in the technology stakes well into the future. To this end, ElringKlinger plans to maintain a consistent edge of several years over its competitors in terms of product development. As soon as newly developed products enter the market, they are classified internally as established products. From this point onwards the company works on concepts for the next generation of the product. It was this philosophy that in 2014 enabled ElringKlinger to strengthen its lead over its competitors in the race to innovate.

Focus on downsizing and lightweight construction

Within the Group, product innovation is geared towards the Euro standards on exhaust emissions reduction for cars and commercial vehicles with a particular emphasis on legislation designed to reduce levels of CO_2. The European Union, the United States and China have all set themselves extremely demanding targets for 2020. In Germany, average CO_2 emissions for the entire fleet of German-made vehicles stood at 131 g CO_2/km in October 2014. New vehicle emissions in Germany fell by around 3% in 2014, the lowest reduction in years. By 2020, emissions need to fall to the target figure of 95 g/km. This will require a tremendous effort. It is also worth noting the huge growth in SUV ownership. The average engine power rating for new vehicles sold in Germany has risen to 140 hp.

With this in mind, in 2014 automotive industry manufacturers continued to press ahead with their efforts to develop more efficient combustion engines and reduce fuel consumption with the help of downsized engines and lightweight vehicle components.

The main focus of ElringKlinger's research and development work is on optimization of combustion engines, new lightweight construction techniques and exhaust gas purification technology. In 2014, the company developed a whole raft of new applications within its traditional product groups (metal gaskets, shielding technology and plastic housing modules). Directly or indirectly, these help to reduce emissions of CO_2 and other pollutants such as hydrocarbons, particulates and nitrogen oxides.

Tremendous demands on development expertise: continued rise in R&D expenditure

Vehicle manufacturers are passing on more and more development work to their suppliers. As a result, the share of the total value added to vehicles by automotive suppliers rose to almost 80% in 2014. As a technology supplier, this trend is beneficial to ElringKlinger. However, it also means that the Group needed to boost its capacity levels in the area of research and development. In 2014, with a view to maintaining a long-term technological edge over its competitors, ElringKlinger again increased its spending on research and development (R&D). This is reflected in the Group's current product range. Around one-third of ElringKlinger's portfolio is less than three years old.

In order to deal with a host of new projects, the Group also increased the number of employees working in departments relating to its R&D activities. By December 31, 2014, the number of people employed in R&D areas had risen to 538 (498). Over the same period, ElringKlinger expanded its spending on R&D to EUR 57.3 (56.7) million. It should be noted that part of the R&D costs incurred have been capitalized and amortization of capitalized development costs has been accounted for in cost of sales. Including R&D costs capitalized in the 2014 financial year, R&D expense amounted to EUR 66.5 (65.7) million.

	2014	2013*	2012	2011	2010
R&D expenditure *(in EUR million)*	57.3	56.7	57.3	49.9	40.6
R&D ratio	4.3%	4.9%	5.1%	4.8%	5.1%
Capitalization ratio	16.0%	15.8%	14.7%	13.4%	14.1%

*Since 2013, amortization of capitalized R&D expenses has been recognized in cost of sales. R&D expenses for the 2013 financial year were adjusted in 2014 due to the first-time application of IFRS 11.

Taking capitalized development costs into account, the R&D ratio was 5.0% (5.7%). Thus, measured in relation to sales revenue, the ElringKlinger Group spent more than the majority of its competitors on research and development of new products.

As in previous years, most R&D spending in 2014 was directed at the company's core divisions (Cylinder-head Gaskets, Specialty Gaskets, Plastic Housing Modules and Shielding Technology) and at Exhaust Gas Purification. Spending on the development of new products and technologies was mainly concentrated at the site of the parent company in Dettingen/Erms/Germany.

Patent protection and centers of excellence structure help maintain technological edge

In order to maintain its competitive edge in terms of product development and process technology, ElringKlinger has set up a central internal patent department tasked with protecting the company's technological expertise and intellectual property rights. In 2014 alone, the patent department filed 94 (78) new German and international applications for industrial property rights.

There was a further increase in the trend for German vehicle manufacturers to build up local production capacity for vehicles and engines in the rapidly expanding emerging markets of Asia and in North America.

In response to this trend, the Group also began to establish new development capacity at its international subsidiaries, for example in China. Over the same period, ElringKlinger attracted several new local customers in Asia.

Nevertheless, the lion's share of Group research and development work was still concentrated at the sites in Germany operated by ElringKlinger AG and at Hug Engineering AG in Switzerland. This centralized structure allows ElringKlinger to substantially limit the risk of technology transfer, outflows of know-how and copying.

Integration of new materials and move into lightweight body construction help reduce vehicle weight

In 2014, the product development teams in the Plastic Housing Modules division came up with several new ideas for products based on the use of polyamide and other innovative composites. Using lightweight construction methods, these components and modules are often used to replace the heavy and expensive metal parts previously made by the company's competitors. This leads to a significant weight saving and therefore ultimately reduces the vehicle's overall CO_2 emissions.

Together with ElringKlinger's in-house tool expertise, these innovative materials underpinned the development of a wide-ranging portfolio of new parts for engines, transmissions and increasingly the vehicle body.

By combining fiber-reinforced composites such as glass, carbon, aramid and thermoplastics in so-called organo sheets*, it is possible to achieve a substantial improvement in resilience and rigidity. For the first time, this opens the way for numerous potential applications in structural areas of the vehicle previously made of metal-based components.

Another focal point in 2014 was to design new applications for lightweight components made of highly temperature-resistant materials for commercial vehicles. These components offer the prospect of a 30-50% weight saving. As well as new oil pan and cam cover modules, the company's development teams played a pioneering role in the design of plastic charge air ducts, airboxes and oil suction pipe modules.

Some very promising development projects were set up to design highly efficient oil separation systems for cars and mid-sized commercial vehicles as well as lightweight plastic resonators that reduce turbocharger noise.

In 2014, ElringKlinger made its first move into the market for lightweight body construction with a series of newly designed polymer-metal hybrid (PMH) components* for the cockpit and front-end. The company is working in partnership with a German premium segment car maker to implement this ground-breaking hydroform hybrid technology. ElringKlinger's main role has been to develop the complex tool technology required. A combination tool is used to link hydroforming* with plastic injection-molding so that complex and extremely lightweight components can be made in a single process. The new hybrid technology can be used to make cockpit cross-car beams, front-end carriers and front-end adapters. The process combines a high level of rigidity with a weight saving of around 25%. This means that it has considerable potential for a range of structural vehicle components with widely varying geometries.

Downsizing puts extra demands on metal gasket performance

Hybridization of the vehicle drive train and the trend toward downsized engines both increase yet again the demands made on combustion engines. The technical specifications for cylinder-head and specialty gaskets are becoming increasingly challenging. Development work in the Cylinder-head Gaskets division is marked by the need for greater resistance to more frequent load changes, higher temperatures and increased pressures. In terms of new products, the development agenda was increasingly dominated by projects for hybrids and for compact, highly turbocharged petrol engines with direct injection. Thanks to the further development of embossed topographical structures for the top layer of cylinder-head gaskets and the use of more stable elastomer coating materials, ElringKlinger was able to make a number of further improvements tailored to these engine operating conditions.

In 2014, the development teams in the company's Cylinder-head Gaskets division handled a record 305 (294) serial development projects. Asian manufacturers accounted for the biggest increase.

The search for technical solutions also drove development work in the Specialty Gaskets division. In response to the growing complexity of the exhaust tract, the widespread use of turbochargers and strong demand for highly efficient solutions in the field of exhaust gas recirculation (EGR), ElringKlinger worked on numerous projects for OEMs and in the Tier 1 field.

These resulted in some new and highly promising developments – with the potential of significant revenue flows in the coming years – in the fields of V-ring gaskets, high-temperature flat gaskets for turbochargers and complex EGR gaskets with an integrated screen fabric. Nearly two-thirds of all the company's current research and development projects concerned hot gas applications using super alloys that can resist temperatures of up to 1,000 °C.

The growing popularity of double-clutch and multi-stage automatic transmissions among ElringKlinger's customers pushed up demand for technical solutions in the field of transmission spacer plates. In 2014, ElringKlinger's novel design for a "sandwich" spacer plate won the company the Innovation Award from ZF Friedrichshafen AG, one of its biggest customers.

On the materials side, potential applications for highly temperature-resistant metal-ceramic coatings opened up a new area for development.

Shielding Technology: lightweight thermal and acoustic insulation

Development work in the Shielding Technology division was again dominated by thermal management issues in downsized engines and by the increasing complexity of exhaust gas purification systems. In terms

* Cf. glossary

of development capacity and process technology, ElringKlinger Abschirmtechnik (Schweiz) AG, Sevelen/Switzerland, has the expertise to design "total shielding" packages from the engine and underbody to the exhaust system. This is what sets it apart from most of the company's competitors.

At the same time, acoustic shielding also took on a much greater profile. There was a significant increase in the frequency of requests from customers for the development of noise and vibration damping systems. Currently, EU committees are discussing a substantial reduction in noise limit values to protect vehicle occupants. The aim is to make these binding for all new cars from 2019. In 2014, ElringKlinger worked on numerous projects to develop suitable shielding systems designed to cut noise levels inside the vehicle.

Weight reduction was also a key requirement of vehicle manufacturers in the field of shielding technology. In response, ElringKlinger devoted a great deal of effort in 2014 to the development of new material designs, with a particular focus on fiber technologies. These included lightweight components made of thermoformed plastics with glass and silicate fibers for underbody panels. The range of applications for non-wovens and specialty foils is also increasing. CW (i.e. drag coefficient) optimization was one of the key factors in terms of underbody design.

Others included direct encapsulation of the exhaust tract and thermal insulation systems located directly on the engine using fiber components and thermoplastic composites. The direct shielding of components cuts radiation losses by a significant margin. Among the various beneficiaries of faster warm-up times and higher operating temperatures are catalytic converters.

In 2014, many of the company's development orders involved a combination of thermal and acoustic shielding. Here, too, the objective was to save weight. With this in mind, ElringKlinger developed special organo materials, i.e. multilayer composite materials that incorporate heat-resistant glass or silicate fibers.

Exhaust Gas Purification: new combined systems for niche markets

With regard to development work on new exhaust purification systems, in 2014 the Exhaust Gas Purification division focused above all on applications for commercial vehicles, stationary engines, construction machinery and marine diesel engines. ElringKlinger's subsidiary Hug Engineering AG, which specializes in this field, develops and produces in-house all key components such as ceramic substrates, catalytic coatings and housings. To assist with soot burn-off, the filter substrates are catalytically coated, depending on the area of application, with ElringKlinger's CleanCoat™* coating material, which does not contain any precious or heavy metals.

In 2014, one of the key projects was to develop complete high-performance systems for stationary engines that combine a reduction in nitrogen oxides through SCR-DeNOx processes with a reduction in the level of soot particles.

The maritime industry also generated considerable demand for combined systems. With the introduction of IMO3 and EPA Tier IV (USA) pending, manufacturers of engines for vessels that use inland waterways as well as yachts and other maritime applications are now required to provide certification that their engines comply with the new regulations. In 2014, the development teams at Hug Engineering AG worked on a new exhaust gas purification system to implement the revised specifications. Given the compact nature of such vessels, any such integrated system needs to match the available space while performing a range of functions. Accordingly, one of the company's main development projects involved successfully combining a particulate filter with selective catalytic reduction (SCR), while also integrating suitable soundproofing. The combined filter module can be fitted even in a tight space. It is designed to filter and burn off soot (using a catalyst) as well as reducing nitrogen oxide emissions.

E-Mobility: battery cell contact systems for lithium-ion batteries

In the field of battery technology, ElringKlinger developed several new applications in 2014 for highly efficient and stable connectors designed for lithium-ion cells and modules in high-energy batteries. These are already in use with a plug-in hybrid platform launched by a German premium segment manufacturer.

ElringKlinger's battery technology developers also designed various concepts for products outside the company's traditional automotive market. The next few years should see some interesting niche applications for high-voltage batteries, e.g. in forklift trucks and other conveyor vehicles.

ElringKlinger is also working on the expansion of its e-mobility portfolio into cell housings. In 2014, the main focus of ongoing development work was on a functional cell lid with electric contacting and a PTFE seal, featuring particularly low-loss power transfer and integrated safety sensors.

Demand from buyers for battery-powered electric vehicles (BEV) remained weak. In Western Europe, this category accounted for less than 0.5% of total vehicle purchases in 2014. ElringKlinger has therefore decided for the time being not to expand its R&D capacity in the area of E-Mobility.

New Business Areas: first fuel cell systems now in practical use

ElringKlinger has been working for more than ten years on a series of mostly long-term fuel cell technology projects in the field of alternative drive systems. The company develops and produces bipolar plates and complete stacks for both PEM (Proton Exchange Membrane)* fuel cells and high-temperature SOFCs (Solid Oxide Fuel Cells)*.

With regard to so-called "hot fuel cells", the company's main focus in 2014 was on commercial vehicle applications. Lightweight SOFC stacks powered by liquid gas are at an advanced stage of development. These are designed to provide a decentralized source of energy that makes it possible to generate direct heat and electricity from fossil fuels for houses and apartment buildings. Various fossil fuels can be used as energy carriers, but natural gas is preferred. ElringKlinger's acquisition of the fuel cell system specialist new enerday GmbH, Neubrandenburg/Germany, in July 2014 strengthened its profile in the SOFC field and brought in new expertise in power electronics, reformer technology and system integration to complement its existing development know-how. Systems designed to provide on-board electrical power for boats, yachts and mobile homes offer excellent sales prospects. ElringKlinger produced a small number of grid network back-up systems that can be deployed in the event of power outages. 2014 saw the first sales of the company's liquid gas-based systems designed to provide a mobile source of electricity for traffic monitoring applications.

A purely hydrogen-based PEM fuel cell stack already made in small quantities and refined since its introduction in 2012 is already in practical operation in the energy cell of forklift trucks. In combination with a lithium-ion battery that functions as an output buffer, the stack creates an energy cell that provides a consistent 11 kW of power with no emissions whatsoever. ElringKlinger has joined forces with a consortium to develop new PEM systems. This consortium brings together the expertise of a power electronics specialist, a leading forklift manufacturer and a major international logistics group.

Macroeconomic Conditions and Sector Environment

Regional divergence in global economic performance

The world's major economies developed along radically different lines in 2014. After a sluggish start to the year, influenced in particular by unfavorable weather conditions, the US economy became increasingly dynamic over the ensuing months. By contrast, Europe's economy found it difficult to gain sufficient momentum.

Growth rates in China were less buoyant, although it should be noted that this slowdown occurred from a high base. This contrasted with Japan's economic performance, which was faced with recessionary trends despite the country's more expansive monetary policy. The emerging economies of Brazil and Russia, meanwhile, suffered a severe year-on-year dip in the rate of growth generated, as measured on the basis of their gross domestic product (GDP).

Sluggish recovery in Western Europe

Although the eurozone saw a slight upturn in its economic performance during 2014, the overall speed of recovery was anything but impressive when one considers the severity of the recession that had preceded this upturn. Lackluster demand from the emerging markets, structural problems in two of the eurozone's core countries, France and Italy, and trade sanctions imposed on Russia proved detrimental. Of the EU member states not operating within the eurozone, the United Kingdom put in a particularly strong performance, boasting significant growth in GDP.

* Cf. glossary

Germany's economy again developed at a more dynamic rate compared to the European average, having benefited from solid non-domestic demand and more expansive consumer spending.

The Russian economy came under pressure in the period under review. Sanctions imposed by the West in connection with the conflict in Ukraine, coupled with the first signs of capital flight and a sharp decline in the price of oil, had a visible impact on Russia's economic performance. Against this backdrop, GDP was significantly down on the figure originally anticipated at the beginning of the year – failing to expand beyond a meager 0.6% at the end of the year.

Booming US economy

The US economy recorded a very solid performance in 2014. After a weather-induced slump at the beginning of the year, the country's economic fortunes improved markedly in the ensuing months. Favorable conditions on the US job market and the concomitant rise in consumption levels, as well as a more buoyant property market, triggered substantial growth as the economy moved forward. With energy prices and interest rates remaining low, the country also reaped the rewards of a positive investment climate.

South America in crisis

By contrast, 2014 proved to be a crisis-laden year for Brazil's economy. There was a lack of impetus on the part of economic policymakers when it came to lifting productivity, improving competition and stimulating consumer spending. At the same time, the country's oil industry languished as the price of crude oil tumbled.

Asia-Pacific: Chinese growth decelerates slightly

Moving into 2014, China was unable to match the significant growth rates achieved in the previous years. At the end of the year GDP stood at 7.4%, thus falling just short of the figure of 7.5% targeted by the Chinese government. After years of stagnation, the change in government in India brought with it the prospect of economic reforms as well as growing confidence among consumers, thereby fueling hopes for an upturn in the domestic economy. Against this backdrop, the Indian economy grew by a respectable 5.8% in 2014.

Following an increase in value-added tax implemented in April 2014, the Japanese economy entered into a downward spiral. Despite the recovery package introduced by the government, complemented by an expansive monetary policy, growth in economic output was close to zero.

GDP GROWTH RATES

Year-on-year change *in %*	2013	2014
World	3.3	3.3
Germany	0.2	1.5
Eurozone	-0.5	0.8
USA	2.2	2.4
Brazil	2.5	0.1
China	7.8	7.4
India	5.0	5.8
Japan	1.6	0.1

Source: International Monetary Fund (January 2015)

Boom year for cars: global vehicle production expands further in 2014

Global car production reached a new high in 2014, although it should be noted that the individual vehicle markets have hardly ever been as divergent in their performance as they were in the year under review. Despite the severe slumps witnessed in Brazil and Russia, both vehicle sales and global vehicle production expanded by around 3%. As was the case a year ago, the two single largest markets – the United States and China – retained their position as growth drivers. At the same time, Western Europe saw a slight upturn in demand.

Western Europe on track for recovery

Western Europe saw the number of passenger cars sold rise by 4.8% to 12.1 million units, thus reversing a severe downward trend that had brought successive declines over a four-year period. Having said that, sales were still almost a fifth down on the pre-crisis level of 2007.

Whereas the United Kingdom and Spain recorded double-digit gains, the car market in France again failed to emerge from the doldrums in 2014. Both Germany and Italy also put in a below-average performance.

Continued lack of impetus shown by new registrations in Germany

Vehicle production in Germany benefited from a slight increase in the number of cars registered as well as buoyant exports that saw the volume of cars sold abroad exceed the record level of sales in 2013 by 2.4%. In total, 5.6 million or 3.2% more passenger cars rolled off the production lines in 2014 than in the preceding year.

Russia proves disappointing

Vehicle markets in Eastern Europe as a whole showed double-digit growth in sales over the course of 2014. After a sustained slump, the Russian car market contracted at a slower rate in December. Despite a government incentive scheme, however, the number of new registrations in 2014 was still down 10.3% on the previous year, which had already been lackluster.

US vehicle market on track for all-time high

The US auto market again expanded markedly in 2014. Sales totaled 16.5 million cars and light trucks, thus moving beyond the pre-crisis level of 2007 and falling just short of the all-time high of 17.4 million newly registered light vehicles. German car makers also benefited from this upward trend. At 1.4 million units, they sold more cars in the United States over the course of 2014 than ever before in their history.

Slump in Brazil's car market

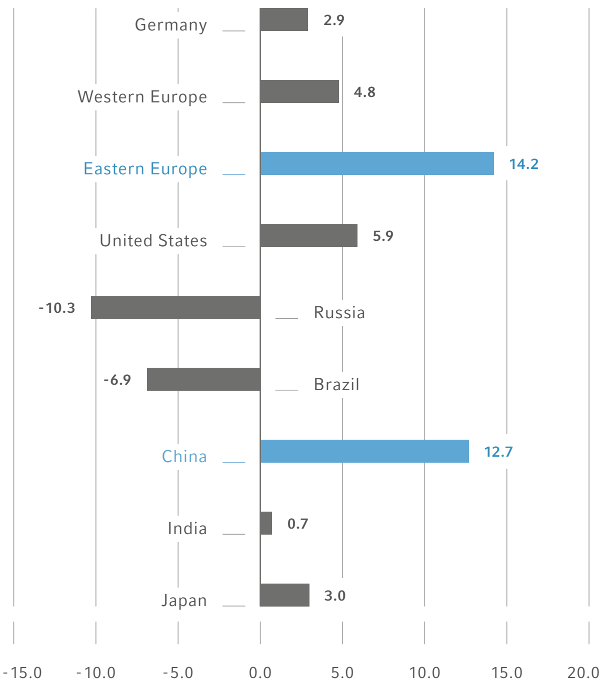
In contrast to the US, Brazil saw an out-and-out collapse in its car market. On the back of a inconsistent performance in 2013, car makers only managed to sell 3.3 million units in Brazil over the course of 2014, down 6.9% on the previous year's figure. Production output was equally disappointing, slumping by around 15%.

Chinese car market maintains impressive rate of growth

The world's largest vehicle market, China, remained on a trajectory of growth in 2014. Having touched record levels, the market showed signs of a loss in forward momentum in the second half of the year, calculated on the basis of vehicle sales.

NEW CAR REGISTRATIONS 2014

Year-on-year change (in %)



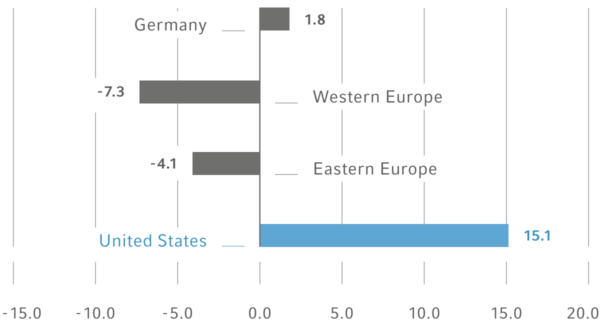
Source: VDA, ACEA, Automotive News Data Center (January 2015)

India's car market moved into positive territory as the year progressed. Car sales were up by 0.7% in 2014 as a whole.

The Japanese market proved to be less dynamic as regards new car registrations. Buoyed by purchases brought forward in anticipation of the rise in value-added tax, Japan's car market closed 2014 with an annual growth rate of 3.0%.

Benefiting from its local presence within vehicle markets around the globe, the ElringKlinger Group is able to reap the rewards of growth in the respective regions. The share of Group revenue generated by ElringKlinger directly in Asia, for instance, rose to 17.0% (14.3%) in 2014. Including exports to these regions, the ElringKlinger Group amassed more than 50% of its Original Equipment revenues in Asia and the NAFTA region. Additionally, the Group generated around 25% of its Original Equipment revenue from sales to German premium-class manufacturers and Tier 1 suppliers, who in turn have been benefiting in particular from buoyant demand in China and the United States. For further details of Group sales revenue by region, please refer to the chapter entitled "Sales and Earnings Performance" on page 63.

NEW REGISTRATIONS
OF MID-SIZED AND HEAVY TRUCKS 2014
Year-on-year change (in %)



Source: VDA, ACEA, Automotive News Data Center (January 2015)

US truck market with vibrant growth, while Europe struggles

As so often is the case, the direction taken by truck markets in 2014 was closely correlated with the prevailing economic performance in the respective regions. Therefore, it comes as no surprise that the commercial vehicle markets in the US and Europe, two key regions for this industry, developed along completely different lines in 2014. While truck sales in the United States surged forward at dynamic rates, the European market for heavy trucks remained in a state of malaise.

New registrations relating to mid-sized and heavy trucks declined in both Western Europe and the new EU member states over the course of 2014. It should be noted, however, that the introduction of the Euro VI emission standard effective from January 1, 2014, had prompted pre-emptive buying in the truck market a year earlier. After a year-end rally in the fourth quarter of 2013, the number of trucks sold in 2013 as a whole had been substantially higher than in the past. This was due to the fact that fleet operators had purchased Euro V vehicles, which were available at more favorable prices than the next generation of trucks.

The situation in the individual EU member states was anything but consistent in 2014. Among the core markets, France and the United Kingdom recorded a double-digit decline in percentage terms, while Italy at least managed to reach a level at which truck sales remained stagnant. Only Spain succeeded in generating substantial growth in new truck registrations. In Germany, the figure for new registrations of mid-sized and heavy trucks was up 1.8% on the previous year at 143,857 (141,348) units in 2014.

Economic recovery in the US was reflected in the performance of the domestic truck market. Many of the country's truck operators replaced parts of their vehicle fleet. In total, sales of mid-sized and heavy trucks rose by 15.1% in the United States to stand at 434,799 (377,681) units. By contrast, Brazil's truck market was adversely affected by the slump in the domestic economy. This was reflected in a double-digit decline in the number of new truck registrations.

Business within the area of commercial vehicles gained further importance for the ElringKlinger Group in 2014, with the share of revenue from truck components in total Original Equipment sales rising to 16.4% (14.8%). In this area, too, there was a growing trend towards lightweight engineering, with customers replacing an ever-greater proportion of truck parts previously manufactured from metal with lighter components made of plastic, such as cam covers, oil pans and charge air ducts.

Significant Events

A declared aim of ElringKlinger is to ensure sustainable growth for the company. Organic growth is complemented by acquisitions, which, for example, allow the company to expand its scope of operation by introducing new expertise.

Majority acquisition of fuel cell specialist New Enerday

In July 2014, ElringKlinger AG acquired a majority interest in new enerday GmbH, headquartered in Neubrandenburg/Germany. ElringKlinger purchased 75% of the interests in the fuel cell specialist from the consortium of existing owners. Inclusion in the scope of consolidation of the ElringKlinger Group occurred as of July 1, 2014. The other 25% ownership interest remains with the founder of the enterprise. The purchase price amounted to EUR 2.0 million. As of December 31, 2014, new enerday GmbH employed 13 people.

In acquiring a 75% interest in the fuel cell specialist, ElringKlinger AG strengthened its business activities relating to high-temperature SOFCs (solid oxide fuel cells)* and extended its own expertise centered around associated electronics, reformer technology and system integration. Additionally, the acquisition allowed ElringKlinger to secure important industrial property rights for itself.

ElringKlinger already has extensive know-how relating to high-temperature fuel cells. The division responsible for fuel cell technology develops and manufactures fuel cell stacks – i.e. key components of SOFC technology – including housings for the thermal insulation of the high-temperature core of the system.

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 electrical energy directly from fossil fuels such as natural gas, LPG, bioethanol or diesel. Promising areas of business include, in particular, the on-board power supply of boats and yachts as well as recreational vehicles. Additionally, the focus is on producing, in small-scale series, emergency standby power units to protect sensitive installations against the effects of power failures. The development pipeline also includes miniature LPG-fueled combined heat/power generation systems for domestic use in single-family houses and holiday homes.

ElringKlinger Kunststofftechnik acquires Polytetra GmbH

Another strategic acquisition occurred in October 2014 within the Engineered Plastics segment of the ElringKlinger Group. ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen/Germany, a subsidiary of ElringKlinger AG, acquired from the former owner all interests in Polytetra GmbH, based in Mönchengladbach/Germany. The purchase price amounted to EUR 4.0 million. The entity was included in the scope of consolidation of the ElringKlinger Group effective from October 1, 2014.

Serving markets outside the automotive industry, the acquiree's technological focus is on developing and producing polymer-based heat exchangers and electric heaters used in industrial applications. The company's product portfolio also includes tubing and finished parts made of fluoropolymers and high-performance plastics. The products are used primarily in the field of plant engineering, in the chemical industry, in the area of energy and power station technology as well as in the semiconductor industry. Product solutions centered around the generation of heat from surface waterbodies (geothermal energy), which can be used to supply houses, holiday homes and houseboats, are also considered promising from a commercial perspective.

In acquiring the company, ElringKlinger Kunststofftechnik GmbH has further strengthened its position in the industrial sectors outlined above, as well as securing additional growth opportunities relating to the production of modules and systems. In 2014 as a whole, Polytetra GmbH generated sales revenue of EUR 5.1 million. A total of 30 employees joined the ElringKlinger Group as a result of this acquisition.

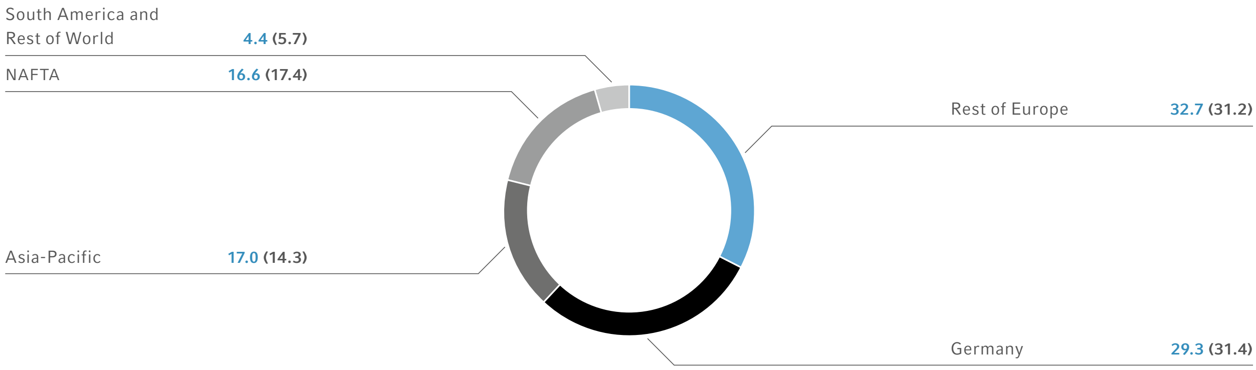
Sales and Earnings Performance

The ElringKlinger Group succeeded in expanding its sales revenue to EUR 1,325.8 (1,150.1) million in the 2014 financial year. This represents an increase of 15.3%. Organically, i.e. eliminating the effects of foreign currency translation and scope changes, sales revenue increased by 11.2%, despite the malaise afflicting vehicle markets in both Brazil and Russia.

ElringKlinger benefited from strong structural sales growth in many of its product groups aimed at CO_2 reduction and expanded at a percentage rate that was well in excess of growth in terms of global vehicle production (+3%). Revenue growth within the Group was also driven by the introduction of new products and buoyant demand from North America and Asia.

* Cf. glossary

GROUP SALES BY REGION IN 2014
(prior year) in %



Foreign currency translation, however, had a dampening effect on sales revenue in the financial year as a whole. If foreign exchange rates had remained stable, Group sales revenue would have been EUR 6.0 million higher in the period under review.

Due to the necessary retrospective application of IFRS 11 as regards the presentation of comparative prior-year figures, ElringKlinger Marusan Corporation, Tokyo/Japan, was no longer accounted for on a proportionate basis but rather in accordance with the equity method (cf. Notes, pages 132, 137 and 143). As a result, the Group revenue figure originally presented for 2013 was retrospectively reduced to EUR 1,150.1 million, the difference being attributable to the entity's revenue contribution formerly included at a proportionate rate of 50% (EUR 25.1 million). In the fourth quarter of 2013, Group revenue was thus reduced by EUR 5.6 million to EUR 285.5 million.

By contrast, ElringKlinger Marusan Corporation was fully consolidated as a result of the assumption of control completed as of December 31, 2013, and was included in the Group accounts for the 2014 financial year with its total revenue of EUR 46.2 million. Therefore, the additional revenue contribution was EUR 23.1 million. In the fourth quarter of 2014 total revenue generated by ElringKlinger Marusan Corporation amounted to EUR 10.8 million. The additional revenue contribution as a result of full consolidation stood at EUR 5.4 million.

Driven to some extent by substantial tool-related revenue, the rate of growth became more dynamic in the fourth quarter of 2014. Over this period, the ElringKlinger Group expanded its sales revenue by 19.4% to EUR 340.9 (285.5) million. On an organic basis, sales revenue increased by 12.7%.

Revenue target for 2014 well exceeded, adjusted EBIT within target corridor despite dilutive effects of E-Mobility business

The Group managed to exceed by far its annual target for 2014, which had been to lift Group sales revenue by between 5% and 7% organically (i.e. having eliminated the effects of foreign currency translation and scope changes) plus contributions by acquired entities.

According to the Group's forecast, earnings before interest and taxes (EBIT), adjusted for non-recurring items, were to be expanded to a total of EUR 160 to 165 million. In the period under review, however, earnings recorded by Elring Klinger do Brasil Ltda., Piracicaba/Brazil, were down by EUR 4.0 million compared to the original forecast, while the E-Mobility division saw earnings deviate by around EUR 5.0 million from the original EBIT target. Despite these circumstances, the Group managed to achieve EBIT of EUR 158.9 (148.5) million in total. Adjusted for non-recurring items, the EBIT margin fell from 12.9% to 12.0%.

Growth in revenue and earnings for Exhaust Gas Purification division

Buoyed up by persistently solid demand in its US retrofitting business for heavy trucks, by new projects for inland waterway vessels and by major contracts for exhaust gas purification systems used in natural gas power plants, sales at the Hug Group in 2014 rose to EUR 71.1 (57.6) million.

The pattern of business during the first two quarters of 2014 was dominated to a large extent by billings in connection with large-scale contracts. By contrast, the second half of the year saw a return to more normal levels of business. Between July and December 2014, Hug recorded revenue of EUR 30.9 million, compared with EUR 40.2 million in the first six months of 2014.

At present, Hug is working on several new projects, including the certification of retrofit solutions for off-road vehicles and SCR dosing systems for nitrogen oxide reduction in marine engines, which were developed in response to the IMO exhaust emission regulations coming into force in 2016. This is complemented by development projects relating to construction machinery, stationary engines and exhaust abatement systems for large vessels powered by heavy fuel oil.

The Hug Group saw a further improvement in its earnings performance, having targeted its business at niche markets and having benefited from higher capacity utilization in production. Before interest and taxes, Hug earned EUR 15.1 (13.6) million in the period under review. Given the strong focus on project-specific business, this entity's revenue and earnings performance is likely to remain susceptible to relatively pronounced fluctuation on a quarterly basis.

Business in Europe and North America as a regional growth driver

The gradual improvement seen in car markets throughout Western Europe was also reflected in the sales performance of the ElringKlinger Group. Rising by 20.9% to EUR 433.8 (358.7) million, the rate of revenue growth achieved in the region comprising the "Rest of Europe" was the highest within the Group. With a share in total Group sales revenue of around one-third (32.7%), this region constitutes the largest market for the Group.

By contrast, the domestic market continued to drop down the rankings in terms of its significance to the business. Revenue generated by the Group from sales within the domestic, i.e. German, market rose by 7.6% to EUR 388.1 (360.8) million. As a result, the share of domestic sales in total Group revenue declined to 29.3% (31.4%). In this context, it should be noted that some of the ElringKlinger components supplied to German customers in particular are fitted to vehicles or engines destined for foreign markets such as China and North America.

Supported by consistently strong demand by car buyers in North America, ElringKlinger managed to lift sales revenue in the NAFTA region by 10.0% to EUR 220.4 (200.3) million in the 2014 financial year. In total, 16.6% (17.4%) of the Group's sales revenue was generated in this region, which thus continues to be of similar importance to the Group as the Asian markets.

By contrast, revenue from sales generated by the ElringKlinger Group in "South America and the Rest of the World" shrank from EUR 65.7 million to EUR 57.9 million. The 11.9% decline was attributable primarily to the severe slump suffered by Brazil's car market. The ElringKlinger Group was also faced with a substantial year-on-year downturn in revenue generated from its business activities in Brazil. Additionally, the weakness of the Brazilian real had an adverse effect on Group revenue. Against this backdrop, the local subsidiary Elring Klinger do Brasil Ltda., Piracicaba/Brazil, saw its revenue fall by 18.1% to EUR 40.3 (49.2) million. Thus, the proportion of Group sales attributable to South America fell to 4.4% (5.7%).

The Asia-Pacific region saw Group revenue expand by 37.1% to EUR 225.6 (164.6) million in 2014. Having said that, the marked upturn compared to the previous year was dominated by full consolidation of ElringKlinger Marusan Corporation, Tokyo/Japan, as discussed earlier. Adjusted for these effects of consolidation, revenue in Asia would still have grown by 6.7%. It should also be noted that the depreciation of the Japanese yen against the euro had a dilutive effect on Group sales revenue.

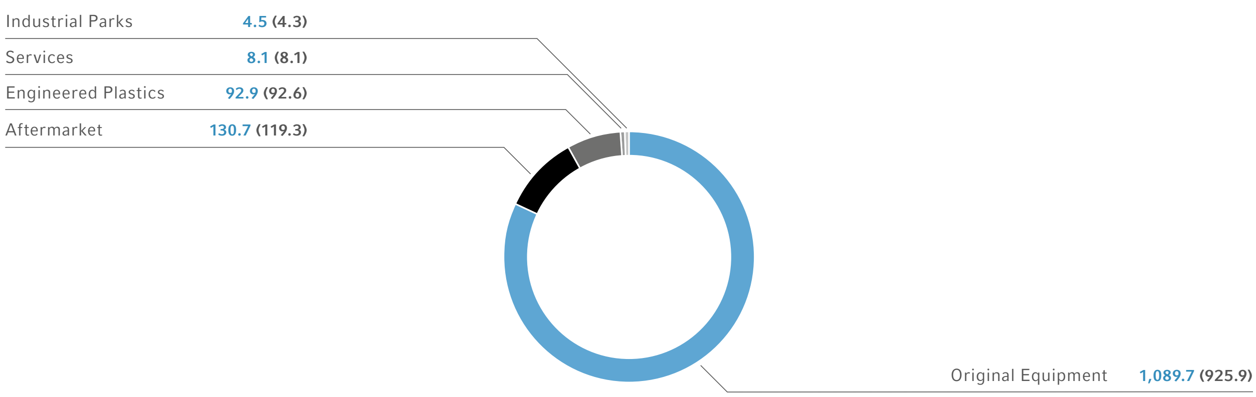
ElringKlinger remains focused on the growth markets of Asia. In the two preceding years, the company established new plants in both Indonesia and South Korea. ElringKlinger Marusan Corporation was included fully in the scope of consolidation of the Group following assumption of control. On this basis, Asia's share of business rose to 17.0% (14.3%) in 2014. However, factoring in revenue contributions associated with indirect exports by European vehicle and engine manufacturers from Europe to Asia, the share of Group revenue from Original Equipment business attributable to Asia would amount to roughly one-quarter.

Overall, business within the international markets continued to gain in importance, with the percentage share of foreign sales in relation to Group revenue growing to 70.7% (68.6%).

Growth at Group level driven by Original Equipment segment

In 2014, Original Equipment was again by far the strongest segment within the Group in terms of revenue. Growth was supported primarily by the strong performance of ElringKlinger's core business.

SALES REVENUE BY SEGMENT IN 2014
(prior year) in € million



Expanding by 17.7% to EUR 1,089.7 (925.9) million, Original Equipment saw its revenue grow at a much more pronounced rate than the Group's other reporting segments. Without the effects from the above-mentioned change to the consolidation method applied to ElringKlinger Marusan Corporation, i.e. if retaining the method of proportionate consolidation for this entity, the Original Equipment segment would have grown by 12.2%.

Consistently strong demand from the car markets of North America and Asia, but also the forward momentum shown by European vehicle markets, helped to propel revenue upwards in the Original Equipment segment. Above all, however, growth was stimulated by more expansive customer demand at a structural level for automatic transmission components, turbocharger gaskets, thermal-acoustic shielding parts and lightweight plastic modules. With the product portfolio in the divisions of the company's core business expanding, the number of ElringKlinger parts fitted per vehicle has risen. Additionally, this segment also reaped the rewards of product ramp-ups. Growth was particularly strong in the Specialty Gaskets and Plastic Housing Modules divisions.

In total, 82.2% (80.5%) of Group sales revenue was generated in the Original Equipment segment in 2014.

As regards earnings, it should be noted that the company's core business within the Original Equipment segment had to compensate for a number of adverse effects. Among the factors to exert downward pressure on the profit margin was the company's sluggish performance in Brazil and the losses incurred in the E-Mobility division. At the same time, earnings (including the effects of purchase price allocation) contributed by ElringKlinger Marusan Corporation, which was fully consolidated as from 2014 and provided revenue of EUR 46.2 million in 2014 as a whole, were in slightly negative territory. Due to the large number of ramp-ups still in the pipeline, revenue from tools was comparatively high in the 2014 financial year. Revenue amounted to EUR 91.2 million in this area, with a dilutive effect on the profit margin.

At EUR 111.2 (123.2), segment earnings before interest and taxes (EBIT) were lower than in the previous year. However, this was attributable entirely to the one-time gain recorded in the previous year from the assumption of control over ElringKlinger Marusan Corporation, Tokyo/Japan. Eliminating this exceptional item, EBIT within the Original Equipment segment rose by 5.3% from a base of EUR 105.6 million. Buoyed primarily by EUR 10.0 (-4.0) million in foreign exchange gains, earnings before taxes recorded in the Original Equipment segment developed more favorably than the operating result and grew by 1.8% to EUR 111.4 (109.4) million. Adjusted for the non-recurring income in 2013, as outlined above, segment earnings before taxes rose from EUR 91.8 million to EUR 111.4 million, up by 21.4%.

E-Mobility falls short of expectations

Alongside the Exhaust Gas Purification division mentioned earlier, the Original Equipment segment also includes the activities of the E-Mobility division.

In this area weak demand within the consumer market for battery-powered vehicles and plug-in hybrids had a dampening effect on business, which was compounded by the fact that diesel and gasoline prices trended substantially lower as the year progressed. In fact, the share held by purely battery-driven cars in new vehicle registrations for Western Europe was just 0.5% in 2014. Consequently, revenue generated by the E-Mobility division fell well short of expectations. Given the low level of capacity utilization of the fully automated production lines, the division was unable to achieve the improvement in earnings by at least EUR 5.0 million originally planned for 2014.

Sales revenue rose slightly from EUR 8.4 million to EUR 11.0 million. However, this revenue contribution, coupled with unfavorable effects relating to the product mix, was not sufficiently large for the division to reach its break-even threshold. Substantial fixed costs, up-front expenses attributable to development activities and higher-than-expected start-up costs associated with serial production projects launched in 2014 contributed to a loss of EUR 8.0 (-7.2) million before interest and taxes. Thus, the E-Mobility division diluted the overall EBIT margin of the Original Equipment segment by almost one percentage point.

Substantial growth in Aftermarket segment

Operating in a business environment that proved challenging for the industry as a whole, the Aftermarket segment was able to increase sales revenue by 9.6% to EUR 130.7 (119.3) million in 2014. ElringKlinger continued to generate the majority of these revenue flows in Western and Eastern Europe.

Due to the highly divergent economic performance of the respective sales regions, business in the Aftermarket segment also developed along different lines in the period under review. Geopolitical tensions in Russia, the Middle East and a number of North African countries had a dampening effect on sales.

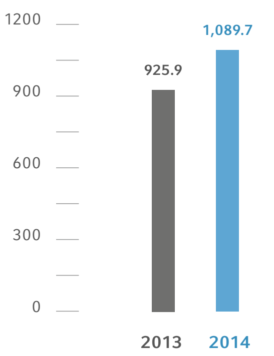
By contrast, business within the area of spare parts was encouraging at a domestic level. Building on its strong market position, ElringKlinger succeeded in capturing an additional share of the market and thus recorded sizeable gains in terms of revenue growth. The domestic aftermarket business accounted for around 15.0% of segment revenue.

The economic recovery in Southern and Western Europe had a positive impact on sales within ElringKlinger's Aftermarket segment. Car owners now went ahead with vehicle repair jobs previously postponed at the height of the financial crisis. Revenue growth was also fueled by more extensive market cultivation in countries such as Italy, France and Spain.

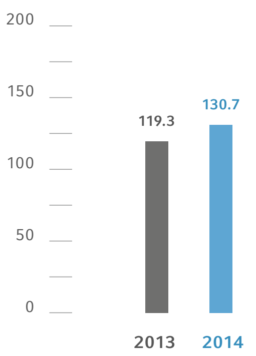
Despite the protracted conflict in Ukraine and the slowdown in business with Russia triggered by sanctions imposed by the European Union, the Aftermarket segment achieved encouraging growth in revenue in the Eastern European region. Weaker sales revenue in Russia and Ukraine was more than offset by substantial growth in the new member states of the European Union. ElringKlinger has benefited in particular from the sustained growth in ownership of German-made cars within the markets of Eastern Europe.

The difficult political and economic climate also took its toll on business in the crisis-plagued region of North Africa and the Middle East. Wholesalers were hampered by limited access to refinancing. At the same time, in many cases the local currencies depreciated sharply against the euro or US dollar. The combination of these factors led to subdued demand within the market. Regardless of these problems, ElringKlinger managed to lift its revenue further in the Middle East, albeit at a moderate pace.

SALES IN THE ORIGINAL EQUIPMENT SEGMENT
in € million



SALES IN THE AFTERMARKET SEGMENT
in € million



Consolidated Financial Statements

Starting from a low base, ElringKlinger recorded double-digit percentage growth in its Aftermarket business in both North America and Asia. In total, it generated sales revenue of more than EUR 8.0 million in these regions. As one of the leading suppliers in the area of original equipment, ElringKlinger is now looking to expand its aftermarket activities with greater vigor in these two markets, which are thought to hold tremendous potential for growth in the medium term.

Earnings before interest and taxes in the Aftermarket segment improved in line with revenue growth in 2014, taking the figure to EUR 25.1 (22.5) million. This segment earned 12.7% more before taxes than in the previous year. Thus, earnings before taxes rose at a faster pace than revenue, reaching EUR 23.9 (21.2) million.

Moderate increase in revenue for Engineered Plastics segment

In the Engineered Plastics segment ElringKlinger develops and manufactures products made of the high-performance plastic PTFE* (polytetrafluoroethylene). In 2014, the Engineered Plastics segment also supplied sectors not associated with the automotive industry, such as mechanical engineering, medical technology and telecommunications. While revenue from sales to the automobile industry expanded at a solid rate, business growth relating to customers operating in the general industry sector was relatively subdued in 2014. In total, the Engineered Plastics segment grew at 0.3% year on year, thus edging up only slightly to EUR 92.9 (92.6) million.

The Group pressed ahead in 2014 with efforts to internationalize its business, which had previously been focused heavily on Central Europe. While the Chinese subsidiary ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd, Qingdao/China, contributed a larger proportion to segment sales, ElringKlinger is currently still in the process of penetrating the US market, the world's largest commercial arena for PTFE. The company has already managed to secure interesting development projects in the North American region. Up-front costs associated with market cultivation, particularly for sales and development, had a dilutive effect on earnings in 2014.

As a result, earnings before interest and taxes for the Engineered Plastics segment slipped from EUR 16.1 million in the previous year to EUR 15.4 million in 2014, while the EBIT margin fell to 16.6% (17.4%). Segment earnings before taxes dipped to EUR 15.4 (15.9) million.

Industrial Parks

Rental income from premises at the Group's industrial parks in Idstein/Germany, and in particular Kecskemét-Kádafalva/Hungary, rose slightly to EUR 4.5 (4.3) million in 2014 as a result of high occupancy rates. At the same time, the Industrial Parks segment contributed slightly more to Group EBIT compared to the previous year, at EUR 0.4 (0.1) million. Segment earnings before taxes thus rose from EUR 0.1 million to EUR 0.5 million.

Stable revenue contribution by Services segment

In the Services segment, Elring Klinger Motortechnik GmbH, Idstein/Germany, provides engineering and testing services for vehicle manufacturers and other suppliers. The company's portfolio within this area includes SCR technology (Selective Catalytic Reduction) for the purpose of nitrogen oxide reduction as well as particle counting for diesel particulate filters.

ElringKlinger Logistic Service GmbH, Ergenzingen/Germany, another Group company in the Services segment, provides logistics services such as sorting and packaging both within the Group and to outside customers. It was instrumental in generating revenue growth for the segment in 2014. By contrast, Elring Klinger Motortechnik GmbH saw a year-on-year decline in both revenue and earnings.

After a sluggish start to the year, order intake gradually improved in the Services segment as the year progressed. At EUR 8.1 (8.1) million, sales revenue matched the figure recorded in the previous year.

EBIT, by contrast, dipped to EUR 1.9 (2.3) million. Correspondingly, earnings before taxes fell from EUR 2.3 million to EUR 1.9 million.

Gross profit margin slightly down on previous year

Despite downside factors such as the market slump in Brazil and lower than expected volumes requested by customers in the E-Mobility division, the financial performance of the ElringKlinger Group as a whole remained solid in 2014.

At EUR 967.4 (824.5) million, the total cost of sales at Group level rose by 17.3%, slightly faster than the rate of growth in sales revenue. Correspondingly, the gross profit margin came in lower at 27.0% (28.3%).

In this context, the above-mentioned changes to the method of consolidation in respect of ElringKlinger Marusan Corporation, Tokyo/Japan, had a dilutive effect, as this entity is still operating at profitability levels that are well below the Group average. Without the effect of consolidation, or retaining the former method of proportionate consolidation for this entity, the gross profit margin (before purchase price allocation) would only have decreased to 28.0% a year ago to 27.3% in the 2014 financial year.

Furthermore, the revenue contribution from tool-related billings was relatively large in 2014. Compared to serial production business, revenue associated with tools generates lower earnings for the Group.

The cost of materials rose by 14.7% to EUR 580.6 (506.3) million in the 2014 financial year, i.e. at a slightly slower rate than revenue. Prices for the majority of key commodities used by the ElringKlinger Group remained stable to a large extent. Due to existing framework agreements, the hike in market prices for aluminum seen over the course of the year had no major impact on ElringKlinger. By and large, high-grade steel was procured at prices comparable to those in the previous year. Purchase prices for polyamide granules fell slightly as the year progressed.

Lower proportion of cost of sales attributable to personnel expenses

Staff costs at Group level rose by 14.0% in the 2014 financial year. Compared to the previous year, the negative impact of wage increases for Group personnel employed in Germany under collective agreements, effective from July 1, 2013 (+3.4%), and May 1, 2014 (+2.2%), resulted in higher staff costs.

What is more, 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.

Additionally, several ElringKlinger plants expanded their staffing levels in 2014 in response to growth. In total, employee numbers rose by 8.0% to 7,255 (6,716) as of December 31, 2014. However, the percentage increase in staffing levels was less pronounced in relation to revenue growth achieved by the Group.

Despite these accretive effects, the proportion of cost of sales attributable to personnel expenses at Group level was lower in 2014 compared to the previous year. This figure was pushed down from 24.4% to 23.4% with the help of further automation as well as productivity gains.

Higher research and development costs

ElringKlinger's more expansive efforts in the field of research and development (R&D) were reflected in higher R&D expenses. They totaled EUR 57.3 (56.7) million in the 2014 financial year. Including capitalized development costs, ElringKlinger spent a total of EUR 66.5 (65.7) million on development projects, which corresponds to an R&D ratio of 5.0% (5.7%).

While capitalized development costs amounted to EUR 9.2 (9.0) million, scheduled amortization totaled EUR 7.6 (6.3) million. The resulting positive effect on earnings was equivalent to EUR 1.6 (2.7) million.

The ElringKlinger Group received a total of EUR 7.4 (7.3) million in government grants over the course of 2014. Most of these grants went to support projects in the areas of fuel cell technology, battery development and lightweight construction. In parallel, however, the company incurred project-related expenses at a comparable level for development work and prototyping.

Selling expenses rose to EUR 93.4 (81.5) million in the 2014 financial year. However, this increase – by 14.6% or EUR 11.9 million – was attributable partly to the change in consolidation of ElringKlinger Marusan Corporation. A total of EUR 2.2 million of selling expenses was attributable to these effects of consolidation. It should also be noted that a large proportion of the purchase price allocation associated with the assumption of control over ElringKlinger Marusan Corporation was related to selling expenses (EUR 1.8 million). Without these two factors, selling expenses would only have grown by 9.7%.

General and administrative expenses rose at a disproportionately large amount in 2014, up by EUR 15.4 million to EUR 61.4 (46.0) million. This year-on-year increase was also attributable to the change in the method of consolidation, which meant that administrative costs relating to ElringKlinger Marusan Corporation (EUR 3.3 million) were included for the first time. Additionally, the amendment of service contracts for Management Board members in 2014, among other factors, triggered a rise in bonus expenses by EUR 3.7 million compared to the previous year. Of this total, an amount of EUR 1.4 million – resulting from the long-term variable incentive components of compensation (LTI II) – was attributable in economic terms to the two prior-year periods.

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Other operating income amounted to EUR 18.7 (33.0) million in the financial year 2014. In the previous year, this item had included exceptional income from the assumption of control over ElringKlinger Marusan Corporation (EUR 17.6 million) as well as from the step acquisition of ElringKlinger Korea Co., Ltd., Gumi/South Korea (EUR 1.4 million).

Other operating expenses rose to EUR 11.1 (10.3) million in total. This increase was attributable mainly to derecognized receivables of EUR 1.5 million accounted for in connection with the definitive settlement of a warranty incident dating back to 2008 (cf. Notes, page 137).

Adjusted EBIT up 8%

Adjusted for non-recurring items, earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 6.9% to EUR 238.3 (222.9) million. This increase was fueled primarily by buoyant structural growth in revenue from sales in the Original Equipment segment as well as new serial production ramp-ups and improved earnings at Hug.

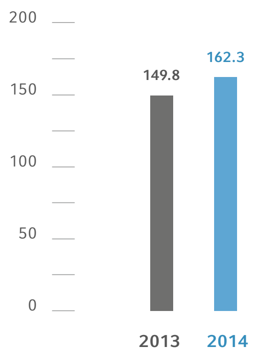
Due to current demand patterns, the new E-Mobility division, by contrast, fell well short of the original target and recorded a loss of EUR 8.0 (-7.2) million. Additionally, one-off exceptional charges of EUR 4.9 million in total had a dampening effect in the fourth quarter: as part of the plant relocation to the newly constructed site in Gumi, the subsidiary ElringKlinger Korea Co., Ltd. had to account for inventory corrections and impairments of EUR 2.0 million in total. A warranty incident attributable to the parent company, ElringKlinger AG, and dating back to 2008 was definitively settled in the reporting period. Although there are no longer any risks associated with this warranty incident, a total of EUR 1.5 million in receivables had to be derecognized, which was accounted for accordingly in profit/loss. Additionally, as part of the amendment of Management Board contracts of service in 2014, a one-time amount of EUR 1.4 million had to be allocated to provisions in respect of long-term variable incentive components of compensation (LTI II) that are attributable in economic terms to the two previous years.

In the previous year, by contrast, the Group had accounted for positive exceptional items of EUR 15.7 million in total, including among other things the above-mentioned exceptional gain of EUR 17.6 million from the assumption of control over ElringKlinger Marusan Corporation.

Including these exceptional items, EBITDA for the ElringKlinger Group amounted to EUR 233.4 (238.6) million in the 2014 financial year.

Depreciation and amortization rose by 6.7% in 2014, taking the figure to EUR 79.4 (74.4) million. While depreciation relating to tools fell yet again compared to the previous year, depreciation of property, plant and equipment and amortization of intangible assets (without tools) rose to EUR 67.4 (56.2) million in total. The amounts contained in write-downs with regard to hidden reserves realized as part of purchase price allocations totaled EUR 3.4 (1.3) million in total.

EBIT*
in € million



* Adjusted for non-recurring items, pre purchase price allocation

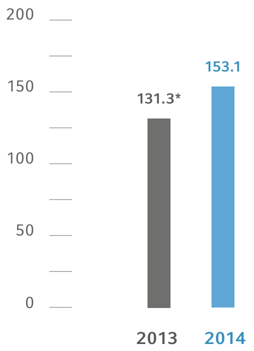
After adjusting for the above-mentioned exceptional items, Group EBIT before purchase price allocation stood at EUR 162.3 (149.8) million, an increase of 8.3%. The decline in the adjusted EBIT margin, before purchase price allocations, to 12.2% (13.0%) was attributable largely to demand-related losses in the E-Mobility division as well as a reduction in profit at the Brazilian subsidiary, which had to contend with a severe slump in the local vehicle market in 2014. Margins were also diluted by the large proportion of tool-related billings as well as the full consolidation of ElringKlinger Marusan Corporation, an entity whose margin is still considerably lower than that recorded by the Group (dilution of approx. 0.3 percentage points).

Reported EBIT for the ElringKlinger Group amounted to EUR 154.0 (164.2) million in the 2014 financial year.

Net finance costs down sharply due to foreign exchange effects

In 2014, net finance costs were scaled back from EUR 15.3 million to EUR 0.9 million. This was due largely to foreign exchange gains amounting to EUR 10.0 million in 2014, whereas the Group had recorded net foreign exchange losses of EUR 4.4 million in the previous year. The substantial foreign exchange gains were fueled mainly by the progressive depreciation of the euro, particularly against the US dollar but also in relation to the majority of Asian currencies. Despite higher net debt, net interest expenses fell to EUR 10.9 (-11.2) million as a result of falling interest rates in 2014.

EARNINGS BEFORE TAXES
in € million



* Adjusted for one-time gain from assumption of control of ElringKlinger Marusan Corporation as of December 31, 2013

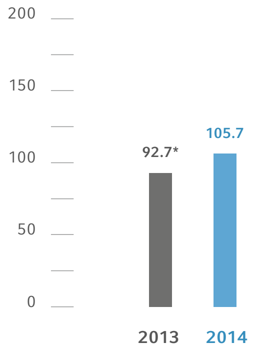
Earnings before taxes rose by 16.6% compared to the prior-year figure adjusted for the one-time gain from the assumption of control over Marusan, taking this figure to EUR 153.1 million (EUR 131.3 million, incl. one-time gain EUR 148.9 million).

Tax expenses rose at a more pronounced rate than earnings before taxes, up 12.7% to EUR 42.5 (37.7) million. Correspondingly, the ElringKlinger Group's tax rate increased to 27.8% (25.3%) in 2014. This was attributable partly to deferred taxes accounted for in connection with the warranty incident discussed above. In addition, the prior-year tax rate had benefited from the positive effects of assumption of control and the associated transition to full consolidation of ElringKlinger Marusan Corporation.

Net income up 12% before effects of consolidation

Net income generated by the ElringKlinger Group in 2014 remained largely unchanged at EUR 110.6 (111.2) million. However, after adjusting for the non-recurring contribution to earnings generated by the assumption of control at ElringKlinger Marusan Corporation in 2013, net income for the period was up 12.3% at EUR 110.6 (98.5) million.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF ELRINGKLINGER AG
in € million



* Adjusted for one-time gain from assumption of control of ElringKlinger Marusan Corporation as of December 31, 2013

Net income after non-controlling interests stood at EUR 105.7 (105.4) million. Excluding the above-mentioned exceptional income from the assumption of control at ElringKlinger Marusan Corporation, net income after non-controlling interests for the period was 14.0% higher at EUR 105.7 (92.7) million.

As a result, earnings per share for 2014 reached EUR 1.67 (1.66). After adjusting for the non-recurring effect of assumption of control, the figure comes to EUR 1.67 (1.46). As of December 31, 2014, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Proposed dividend to rise to EUR 0.55 per share

ElringKlinger AG is committed to a consistent dividend policy that reflects current earnings performance and allows shareholders to participate accordingly in the company's success. In keeping with this policy, the Management Board and Supervisory Board will propose to the Annual General Meeting on May 13, 2015, a dividend of EUR 0.55 (0.50) per share.

The proposed dividend corresponds to a year-on-year increase of 10.0%. The total dividend payout for fiscal 2014 will thus amount to EUR 34.8 million, up from EUR 31.7 million. Based on net income attributable to shareholders of ElringKlinger AG, the dividend payout ratio is 32.9%, compared with 30.1% in fiscal 2013.

Financial Position

With an equity ratio of 49.7% (50.4%), the ElringKlinger Group's financial position as of December 31, 2014, has remained solid.

Total assets grow to EUR 1,559 million

As of December 31, 2014, total ElringKlinger Group assets were up by 12.0% at EUR 1,558.8 (1,392.1) million. In aggregate, the effects of acquisition added around EUR 5.7 million to total assets. The largest proportion of that figure was attributable to the takeover of Polytetra GmbH, Mönchengladbach/Germany. Excluding the effects of consolidation, total assets rose by 11.6%.

The increase in total assets was mainly due to an expansion in property, plant and equipment following an increase in investments as well as higher working capital (inventories and trade receivables) in response to more dynamic business. Additionally, total assets grew as a result of foreign currency effects, primarily in connection with the year-on-year appreciation of the US dollar, the Chinese renminbi and the Swiss franc against the euro.

Investments in intangible assets and property, plant and equipment totaled EUR 163.1 (125.6) million and were well in excess of depreciation/amortization (less write-ups) of EUR 79.2 (74.4) million. As a result, property, plant and equipment expanded by 15.7% to EUR 708.0 (612.1) million and intangible assets by 4.9% to EUR 185.3 (176.7) million. The share of property, plant and equipment – by far the largest balance sheet item – in total assets rose from 44.0% to 45.4%.

In total, EUR 3.4 million of the increase in intangible assets was attributable to goodwill. This amount comprises additions in connection with the takeover of new enerday GmbH, Neubrandenburg/Germany, and Polytetra GmbH, Mönchengladbach/Germany.

Higher working capital

As of December 31, 2014, inventories amounted to EUR 290.1 (257.4) million. The 12.7% increase was attributable partly to higher inventories of tools, which increased by EUR 9.8 million and related mainly to production ramp-ups planned by the company. Excluding tools, capital tied up in inventories would have increased by 11.7%, i.e. at a slower rate relative to revenue growth. A large proportion of the increase in inventories was attributable to the subsidiaries, while improved stock management proved successful at the parent company. As of December 31, 2014, the share of inventories in total assets remained almost unchanged at 18.6% (18.5%).

By contrast, the percentage increase in trade receivables was slightly more pronounced than that of sales revenue compared to the previous year, up by 18.1% to EUR 245.1 (207.5) million. Here too, however, progress made in optimizing the Group's working capital became apparent over the course of the year. In the fourth quarter receivables were scaled back by EUR 14.8 million.

The reduction in other current assets to EUR 26.9 (40.8) million was mainly the result of an insurance payout of EUR 8.5 million relating to the warranty incident discussed earlier.

In total, current assets rose to EUR 635.2 (572.6) million.

Equity ratio remains high at just under 50%

As of December 31, 2014, equity accounted for by the ElringKlinger Group rose to EUR 775.2 (701.3) million. The equity ratio amounted to 49.7% (50.4%), thus remaining at a solid level. The increase in equity is attributable primarily to an expansion in revenue reserves by EUR 74.1 million as a result of higher appropriations from net income. By contrast, other reserves fell to EUR -10.8 (-5.9) million in total. This was caused partly by actuarial losses of EUR 21.9 million from pension obligations, which were recognized in other comprehensive income. A contrary effect came from foreign exchange translation differences of EUR 17.9 million, which were also accounted for in other comprehensive income.

Low interest rates prompt increase in pension provisions

Owing to much lower interest rates as of December 31, 2014, compared to a year earlier, the actuarial interest rate used in the measurement of pension provisions was adjusted. The actuarial losses resulting from this adjustment led to an increase in pension provisions to EUR 124.1 (92.3) million. This adjustment had no impact on earnings performance, as it was accounted for in equity via other comprehensive income.

Net debt at EUR 348 million

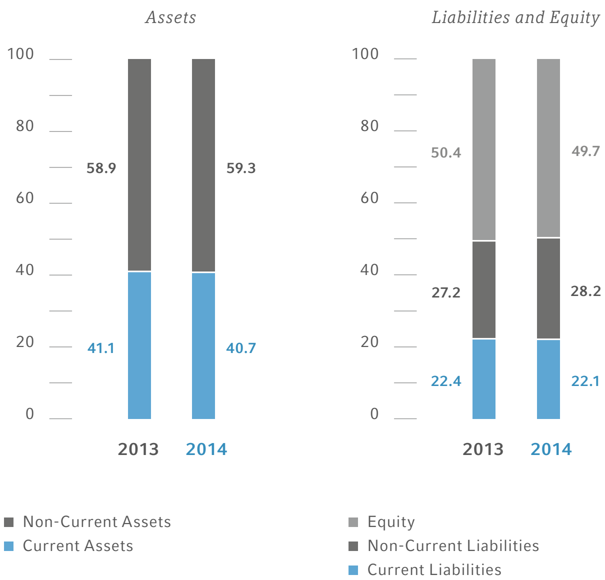
The Group's financing requirements were covered in part by cash flow from operating activities and beyond that by taking on bank borrowings and other loans. Thus, current and non-current financial liabilities rose by EUR 58.8 million to EUR 417.0 (358.2) million in total. More specifically, non-current financial liabilities increased to EUR 268.5 (237.3) million, while current financial liabilities were expanded to EUR 148.5 (120.9) million.

As a result, the Group's net debt (non-current and current financial liabilities less cash) rose to EUR 348.3 (295.3) million.

There were no significant year-on-year changes to the other liability items as of December 31, 2014. Despite the significant expansion of sales revenue, trade payables remained largely unchanged at EUR 68.8 (68.6) million, while other current liabilities increased to EUR 93.7 (88.1) million.

Overall, liabilities amounted to EUR 783.6 (690.7) million, which corresponds to 50.3% (49.6%) of total equity and liabilities.

BALANCE SHEET STRUCTURE ELRINGKLINGER GROUP
in % of Balance Sheet Total



Cash Flows

Cash flow from operating activities up 26% on previous year

In 2014, the ElringKlinger Group was able to increase net cash from operating activities by a substantial 26.0% to EUR 149.9 (119.0) million. Relative to sales revenue, this corresponds to a rate of 11.3% (10.3%). The improvement in operating cash flow was attributable primarily to the lower additional absorption of funds in working capital.

Earnings before taxes, which in 2013 had included an exceptional non-cash item (equivalent to EUR 17.6 million) from the assumption of control over the Japanese entity ElringKlinger Marusan Corporation, rose to EUR 153.1 (148.9) million. This prior-year exceptional item as well as the positive non-cash foreign exchange effects attributable to the reporting period were eliminated in the line item comprising "Other non-cash expenses and income". Correspondingly, non-cash expenses and income produced a net sum of EUR - 13.7 (- 14.3) million.

Higher depreciation/amortization, up by EUR 4.8 million (EUR 79.2 million compared to EUR 74.4 million), had a positive effect on operating cash flow. It should be noted that write-downs relating to tools were again lower, whereas depreciation/amortization of property, plant and equipment as well as intangible assets rose by 19.9% to EUR 67.4 (56.2) million.

During the 2014 financial year, the ElringKlinger Group increased provisions by a net amount of EUR 1.3 million, having utilized or reversed EUR 1.2 million in provisions over the course of 2013.

By contrast, the Group saw an increase in funds committed to working capital (inventories and trade receivables) as a result of more expansive business, which had a negative impact on cash flow. In total, the change in inventories, trade receivables and other assets not attributable to investing or financing activities and the change in trade payables and other liabilities not attributable to investing or financing activities produced a cash outflow of EUR 30.8 (53.9) million. Thus, the negative impact of an increase in working capital in 2014 was less severe than a year ago. In total, the net sum from the change in inventories, trade receivables and other assets not attributable to investing or financing activities on the one hand and the change in trade payables and other liabilities not attributable to investing or financing activities on the other produced a cash inflow of EUR 15.9 (- 12.7) million in the fourth quarter of 2014. This positive trend was driven not only by improvements in working capital management but also by an insurance payment of EUR 8.5 million, related to the warranty case already mentioned.

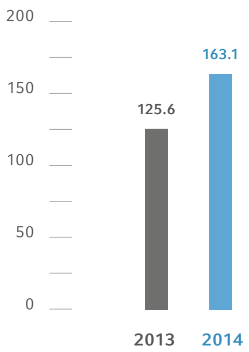
Income tax payments resulted in a cash outflow of EUR 42.5 (37.2) million, which was due in part to higher earnings before taxes.

Further increase in investment expenditure

Payments made in connection with investments in property, plant and equipment as well as investment property totaled EUR 147.0 million in 2014, thus exceeding the prior-year figure of EUR 114.0 million. The original target set for 2014 had been around EUR 100 to 110 million, with additional investments of up to EUR 20 million for entry into the market for lightweight body and chassis components. This investment target was exceeded in the 2014 financial year. This was attributable partly to the fact that investments originally planned for 2015 were brought forward in reaction to strong demand for products supplied by the ElringKlinger Group. At EUR 53.6 (39.9) million, an above-average proportion of investments in property, plant and equipment as well as investment property was attributable to the fourth quarter. Including investments in intangible assets amounting to EUR 16.1 (11.6) million, investments totaled EUR 163.1 (125.6) million in 2014.

The majority of payments relating to investments (including payments for investments in intangible assets) made in 2014 were attributable to the Original Equipment segment, totaling EUR 145.1 (114.2) million. In this segment, investments were directed at the establishment or expansion of manufacturing capacity in preparation for new series production ramp-ups, primarily in the Shielding Technology and Plastic Housing Modules/Elastomer Technology divisions. From a regional perspective, the focus was on the sites of ElringKlinger AG as well as expansion measures at the subsidiaries in Asia and North America.

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



In China, investments were directed mainly at construction work on a new plant and the procurement of additional production machinery in Suzhou. This is to be seen in the context of preparations for production ramp-ups – this project is advancing as planned – relating to new lightweight components based on hybrid polymer-metal technology. Additionally, the company pressed ahead with investments aimed at the fast-track expansion of Plastic Housing Modules in Asia.

The site in Changchun also saw further investments in the area of capacity expansion, including extensions to buildings and a new press.

At ElringKlinger Canada Inc., Leamington/Canada, too, the focus of investing activities was on preparing for new product ramp-ups, particularly in the area of lightweight polymer-metal components. At ElringKlinger USA Inc., Buford/USA, the expansion of capacity levels mainly included the purchase of new forming presses and die-cutting machines.

In response to buoyant growth at ElringKlinger (Great Britain) Ltd., Redcar/United Kingdom, production capacity was also expanded at the British subsidiary over the course of the financial year. This included a factory extension as well as the purchase of new presses and assembly machinery for the production of specialty gaskets.

At ElringKlinger Abschirmtechnik (Schweiz) AG, Sevelen/Switzerland, investments were channeled into facility extensions as well as the purchase of new hydraulic presses for sizeable new projects relating to thermal-acoustic shielding components.

At the site in Dettingen/Erms/Germany, ElringKlinger AG built a new logistics center for reusable packaging and purchased stamping presses for the Cylinder-head Gaskets division. A coating line for specialty gaskets was purchased at the Runkel/Germany plant.

The Engineered Plastics segment accounted for investment spending of EUR 11.5 (5.2) million. ElringKlinger Kunststofftechnik GmbH in Bietigheim-Bissingen/Germany progressed in expanding local production capacity. Construction work on the new production premises, including an extruder tower, and the purchase of additional production machinery accounted for part the of investments made during the period under review. The additional production capacity at this site is to be used primarily for new projects in the area of automotive, mechanical engineering and medical engineering.

Furthermore, ElringKlinger AG made an additional land purchase for the subsidiary ElringKlinger Logistic Service GmbH in Ergenzingen/Germany. The entity is assigned to the Services segment, which accounted for a total of EUR 3.6 (4.0) million in payments relating to investing activities.

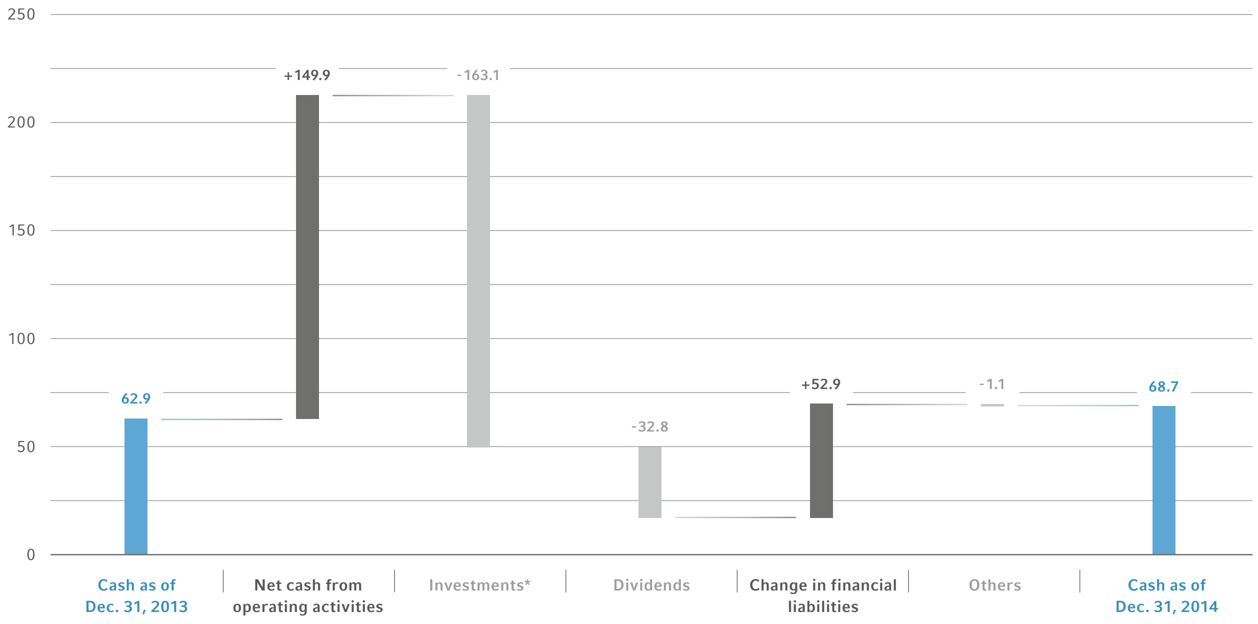
Payments for investments within the Aftermarket segment totaled EUR 2.8 (2.0) million in 2014. The Industrial Parks segment accounted for EUR 0.1 (0.2) million.

Payments for the purchase of subsidiaries (less cash) amounted to EUR 5.7 (3.2) million in total and were attributable to the acquisitions of new enerday GmbH, Neubrandenburg/Germany, and Polytetra GmbH, Mönchengladbach/Germany.

In total, net cash used in investing activities amounted to EUR 168.0 (126.4) million in 2014. Therefore, the ElringKlinger Group had a negative operating free cash flow (cash flow from operating activities less cash flow from investing activities, adjusted for payments in respect of acquisitions) of EUR 12.4 (-4.2) million.

CHANGES IN CASH 2014

in € million



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

EUR 20 million in net cash from financing activities

Distributions to shareholders and non-controlling interests rose to EUR 32.8 (29.7) million in 2014, driven primarily by the higher dividend payment of EUR 0.50 (0.45) per share by ElringKlinger AG.

In the previous year, the acquisition of additional interests in Swiss exhaust gas specialist Hug as well as the full takeover of ElringKlinger South Africa (Pty) Ltd., Johannesburg/South Africa, and Elring Parts Ltd., Gateshead/United Kingdom, had produced an outflow of EUR 5.9 million with regard to payments made to non-controlling interests. There were no such transactions in the 2014 financial year.

The ElringKlinger Group took on financial liabilities that resulted in a cash inflow of EUR 99.8 (151.9) million. By contrast, loan repayments of EUR 46.9 (101.7) million were made in the period under review. In net terms, therefore, financial liabilities rose by EUR 52.9 (50.2) million.

Net cash from financing activities amounted to EUR 20.1 (14.7) million.

As of December 31, 2014, cash held by the ElringKlinger Group totaled EUR 68.7 (62.9) million.

Overall, the Management Board considers the financial position, sales and earnings performance as well as cash flows of both the parent company ElringKlinger AG and the Group as very solid in respect of the 2014 financial year. Business performance has generally benefited from a broad customer base, the sustained introduction of new products and continued growth in global vehicle production.

With an equity ratio of 49.7% and substantial earnings power at an operating level, the Group is very solidly positioned not only with regard to its asset structure but also in respect of profitability.

Cash flow from operating activities sustainably exceeds payments made with regard to property, plant and equipment, as a result of which the Group's organic growth can be covered by existing funds available from internal financing. Benefiting among other things from optimized working capital management, ElringKlinger sees scope for a higher return on capital employed within the Group.

Viewed as a whole, the ElringKlinger Group has the necessary financial foundations to pursue its pioneering technological route and realize its growth targets for revenue and earnings, and to maintain this momentum in the long term.

Financial Performance, Net Assets and Cash Flows of ElringKlinger AG

As in the previous year, the Group management report and the management report of ElringKlinger AG have been brought together in a combined format. The business performance for ElringKlinger AG, as outlined below, is based on its annual financial statements, which have been prepared in accordance with the provisions set out in the Commercial Code (Handelsgesetzbuch) and the additional requirements of the Stock Corporation Act (Aktiengesetz).

Sales and Earnings Performance of ElringKlinger AG

Revenue growth remains dynamic

Sales at ElringKlinger AG rose visibly in 2014 as global vehicle production gathered pace and a number of new products were introduced to the market. Sales revenue increased by 12.3% to EUR 570.9 (508.4) million. This stands in contrast to 4.6% growth in car production within the region of Western Europe, which is by far the most important sales market for ElringKlinger AG. In the period under review the company again enjoyed the benefits of its broad customer base and the high proportion of sales it derives from supplying German premium car makers, with their strong record of exports.

For 2014, ElringKlinger AG had targeted revenue growth of 5% to 10%. Thus, the company managed to exceed the upper limit of this corridor.

Growth supported by domestic business and strong export-driven demand

While growth in previous years had been underpinned primarily by business in the domestic market, revenue growth in the period under review was also driven to an increasing extent by demand from overseas. In its domestic market, ElringKlinger AG generated sales revenue of EUR 218.4 (198.2) million in 2014, up 10.2% on the previous year. Thus, the percentage share of domestic sales stood at 38.3% (39.0%). In this context, it should be noted that ElringKlinger AG's domestic business also includes revenues associated with the shipment of components for vehicles and engines that are manufactured in Germany but subsequently exported to Asia and North America. Therefore, ElringKlinger AG is able to benefit from the buoyant growth of these markets, despite the fact that the company itself is only represented to a small extent in these markets.

Foreign sales rose by 13.6% to EUR 352.5 (310.2) million. Thus, the percentage share of foreign sales in relation to total revenue grew to 61.7% (61.0%). Europe (excluding Germany) retained its position as the key sales market with revenue expanding by 12.8% to EUR 238.2 (211.1) million. The most pronounced growth rates were achieved in the NAFTA region (22.6%), followed by Asia (19.1%).

Original Equipment remains growth driver

The lion's share of revenue growth at ElringKlinger AG in 2014 was attributable to Original Equipment. Sales revenue in this segment increased by 13.2% to EUR 450.8 (398.3) million. Correspondingly, in relation to total revenue the share of Original Equipment sales rose to 79.0% (78.3%). Growth within this area was attributable mainly to new product roll-outs and positive business development in the area of commercial vehicles.

With the exception of Shielding Technology, all the divisions within the Original Equipment segment recorded an increase in sales revenue in 2014. The Plastic Housing Modules/Elastomer Technology division recorded double-digit growth rates, as did – from a lower base – the relatively new E-Mobility and Housings (Exhaust Gas Purification) divisions.

Forward momentum in Aftermarket segment

After a moderate increase in sales revenue a year ago, the Aftermarket segment was more vibrant in 2014. Sales revenue increased by 9.1% to EUR 119.6 (109.6) million in the period under review. The share of segment sales in total revenue generated by ElringKlinger AG fell slightly to 20.9% (21.6%).

Benefiting from more extensive efforts to develop the market, the company recorded its highest growth rates in Asia and North America, albeit from a low base. Despite the conflict in Ukraine and challenging conditions in Russia, the level of growth achieved in Eastern Europe was encouraging. By contrast, the crisis-plagued regions of Northern Africa and the Middle East produced a below-average performance as regards sales.

Slight changes in inventories in the period under review

Inventories of finished goods and work in progress fell slightly by EUR 0.5 million in the period under review, compared with an increase of EUR 15.1 million recorded in the previous financial year. The build-up of inventories a year ago was attributable primarily to a large volume of tools.

Disproportionately large increase in personnel expenses

Over the course of 2014 the number of people employed at ElringKlinger AG rose by 187 or 8.1% to 2,488 as business became more expansive. The annual average headcount increased by 8.7% to 2,435 (2,240).

Personnel expenses rose by 15.5% to EUR 160.8 (139.2) million. This was attributable not only to higher staffing levels but also, in particular, to the wage increase of 2.2% that came into effect in May 2014 in respect of workers covered by collective pay agreements. This led to a corresponding increase in costs at the sites operated by ElringKlinger AG.

The staff profit-sharing bonus agreed for the 2013 financial year, amounting to EUR 1,450 (1,300) per employee, resulted in additional expenses of EUR 3.7 (2.9) million.

Higher expenses attributable to Management Board bonuses of EUR 6.0 (2.3) million in total were another contributing factor. Of this total, EUR 1.4 million was due to long-term variable components of compensation. This one-off sum was the result of the complete revision of the service contracts for Management Board members.

Cost of materials increases at a slower rate than sales revenue

The cost of materials increased at a slower rate in relation to sales revenue, up 9.1% to EUR 266.8 (244.5) million. The slower rate of expansion compared to the preceding year is attributable to inventory changes. While 2013 had seen positive inventory changes of EUR 15.1 million (primarily tools), the change in inventories in 2014 was negative at EUR -0.5 million.

Depreciation and amortization again down on previous year

The volume of investments in property, plant and equipment and intangible assets stood at EUR 53.5 (39.8) million. The investment ratio (investments in relation to sales revenue) rose to 9.4 (7.8)%.

In total, amortization and depreciation of intangible fixed assets and tangible fixed assets fell by 8.2% to EUR 29.0 (31.6) million. This was attributable mainly to lower depreciation relating to tools. By contrast, amortization and depreciation of intangible fixed assets and tangible fixed assets increased by 10.9% to EUR 23.4 (21.1) million. This was attributable first and foremost to the investment-induced increase in fixed assets.

Other operating income substantially lower

Other operating income declined to EUR 35.1 (37.8) million in 2014. Write-ups associated with financial assets, which are included in the aforementioned figure, fell to EUR 7.4 (9.0) million. In the 2014 financial year, write-ups were recognized for the subsidiaries ElringKlinger Meillor SAS, Nantiat/France, as well as Hug Engineering AG, Elsau/Switzerland. In the previous year they had been attributable to the subsidiary Elring Klinger (Great Britain) Ltd., Redcar/United Kingdom.

Additionally, other operating income includes grants from government-funded programs amounting to EUR 6.7 (7.0) million, which were attributable primarily to ongoing research and development projects in the E-Mobility division. In parallel with this inflow of funds, the company incurred expenses for research and development activities.

The previous year had also included substantial income from insurance compensation of EUR 4.5 million, which was counterbalanced by corresponding expenses relating to warranties. In the 2014 financial year, income from insurance compensation amounted to just EUR 1.7 million.

Foreign exchange gains amounted to EUR 3.6 (1.1) million.

Other operating expenses influenced by warranty incident

Other operating expenses rose to EUR 79.0 (76.6) million. The year-on-year increase in other operating expenses was attributable mainly to expenses associated with the settlement of a legal dispute relating to a warranty incident. Based on the definitive agreement with the insurers involved in the case, ElringKlinger AG was faced with bad debt of EUR 5.9 million. Excluding this effect, other operating expenses for 2014 would have been lower than in the preceding year.

Foreign exchange losses amounted to EUR 0.9 (2.3) million.

Operating result before non-recurring exceptional items up 6%

The operating result of ElringKlinger AG (not including the write-ups on financial assets accounted for in other operating income) rose by 3.6% to EUR 63.1 (60.9) million in 2014.

Non-recurring items amounted to EUR -4.6 (-2.7) million in the 2014 financial year. Alongside bad debt of EUR 5.9 million, these items also include EUR 1.4 million in Management Board bonuses attributable in economic terms to prior-year periods. The positive result of currency translation, equivalent to EUR 2.7 million, had a contrary effect. In the previous year, the effects of currency translation had been equivalent to EUR -1.2 million. Additionally, the company had recorded expenses of EUR 1.5 million associated with market cultivation in the aftermarket business.

Adjusted for these non-recurring factors, the operating result of ElringKlinger AG rose by 6.4% to EUR 67.7 (63.6) million. This corresponds to an adjusted margin of 11.9% (12.5%). The year-on-year decline is attributable primarily to the disproportionately large increase in personnel expenses and the contraction in other operating income.

Return on capital employed (ROCE) of ElringKlinger AG stood at 9.7 (11.5)% in the 2014 financial year. The decline in ROCE in 2014 was attributable mainly to the bad debt described earlier and lower income from equity investments.

Income from equity investments down on previous year

Current income from subsidiaries fell to EUR 12.4 (16.9) million. Write-ups on financial assets, which are accounted for in other operating income, were also lower at EUR 7.4 (9.0) million. In 2014, they included write-ups relating to the subsidiaries ElringKlinger Meillor SAS, Nantiat/France, and Hug Engineering AG, Elsau/Switzerland.

Write-downs relating to financial assets amounted to EUR 0.6 (1.2) million. On balance, write-downs and write-ups produced a positive earnings effect of EUR 6.8 (7.8) million.

In total, income from equity investments thus fell by 22.3% year on year to EUR 19.2 (24.7) million.

Further improvement in net interest result

Despite net debt rising to EUR 286.6 (250.6) million, lower interest rates led to a reduction in interest expenses, down to EUR 8.9 (9.2) million. In total, the net interest result improved to EUR -6.2 (-6.7) million.

Adjusted income from ordinary activities down by 1%

Despite an improved operating result, income from ordinary activities fell by 3.5% to EUR 76.1 (78.9) million. Adjusted for the non-recurring effects outlined above, income from ordinary activities was down by 1.1% in 2014 at EUR 80.7 (81.6) million.

ElringKlinger AG had originally planned to expand its income from ordinary activities at a slightly faster rate than revenue in 2014. Due to lower income from long-term equity investments and a disproportionately large increase in personnel expenses, income from ordinary activities was slightly lower than in the previous year.

Net income at EUR 59 million

Income taxes fell from EUR 18.4 million to EUR 16.9 million. Correspondingly, the tax rate for 2014 (income taxes in relation to income from ordinary activities) stood at 22.2% (23.3%). The lower tax rate in the period under review is attributable to higher deferred tax expenses than in the previous year.

Due to the lower tax rate, the decline in net income was less pronounced than in the case of income from ordinary activities. Net income fell by 2.2% to EUR 58.9 (60.2) million.

Dividend up by 10%

After allocating EUR 24.0 (28.5) million to other revenue reserves, the net retained earnings (i.e. distributable profit) of ElringKlinger AG, from which dividend payments are distributed, amounted to EUR 34.8 (31.7) million.

The Management Board and the Supervisory Board will propose to the Annual General Meeting on May 13, 2015, a dividend of EUR 0.55 (0.50) per share for the 2014 financial year, which represents a year-on-year increase of 10.0%. The total dividend payout for fiscal 2014 stands at EUR 34.8 million, up from EUR 31.7 million. Calculated on the basis of net income of ElringKlinger AG, the dividend ratio is 59.1% (52.7%).

Net Assets of ElringKlinger AG

With an equity ratio of more than 50% and positive net cash from operating activities, ElringKlinger AG remained solid in terms of its financial position and cash flows as of December 31, 2014.

Total assets up 7%

The increase in total assets by 6.9% or EUR 62.5 million to EUR 974.9 (912.4) million reflects the level of forward momentum generated by ElringKlinger AG. This increase in total assets was driven mainly by more expansive financial and tangible fixed assets. In contrast to the previous years, the increase in working capital contributed only slightly to the expansion in total assets.

Investments drive up fixed assets

Tangible fixed assets grew to EUR 281.0 (260.7) million in 2014. This was attributable to substantially higher investments of EUR 48.0 (37.7) million in tangible fixed assets, which were well in excess of the corresponding write-downs of EUR 27.2 (30.3) million. The majority of investments in tangible fixed assets went into land and buildings as well as technical equipment and machinery.

The company recorded an even more significant increase in financial assets, which rose to EUR 406.6 (374.0) million in the 2014 financial year. This was due on the one hand to the acquisition of new enerday GmbH, Neubrandenburg/Germany, and on the other hand to the increase in capital at ElringKlinger China, Ltd., Suzhou/China. Write-ups relating to the investment carrying amounts for ElringKlinger Meillor SAS, Nantiat/France, and Hug Engineering AG, Elsau/Switzerland, were another contributory factor.

Loans to affiliated companies were also scaled up in the period under review, a measure taken in response to more pronounced capital expenditure planned for a number of the subsidiaries.

The increase in intangible assets by EUR 3.7 million is due to the capitalization of supply rights associated with tools.

In total, fixed assets rose by 8.8% to EUR 697.4 (640.8) million as of December 31, 2014.

Working capital expands slower than revenue

Inventories were up by just 1.9% to EUR 114.7 (112.6) million at the end of 2014, which was well below the percentage growth in revenue. This, however, was driven to some extent by tool inventories, which were down at the end of the reporting period.

Receivables and other assets also rose by a marginal 2.1% and stood at EUR 161.7 (158.3) million as of December 31, 2014. This was attributable largely to the derecognition of a claim against an insurer in connection with the warranty incident outlined above. By contrast, the company's trade receivables rose by 12.1% to EUR 79.8 (71.2) million, which is largely comparable to the rate of revenue growth. Receivables from affiliated companies increased by 18.0% to EUR 72.9 (61.8) million.

Funds tied up in current assets increased by just 2.1% to EUR 276.7 (271.1) million as of December 31, 2014. Correspondingly, the share of current assets in total assets fell to 28.4% (29.7%).

Solid equity ratio

Following an allocation of EUR 24.0 (28.5) million from net income generated by ElringKlinger AG, revenue reserves increased to EUR 293.1 (269.1) million in 2014. Net retained earnings amounted to EUR 34.8 million in the period under review, compared to EUR 31.7 million in the previous year. In total, shareholders' equity rose to EUR 512.2 (485.0) million. The equity ratio fell slightly to 52.5% (53.2%) but still remained at a solid level.

Higher provisions

Fueled mainly by higher other provisions, provisions as a whole increased to EUR 103.7 (93.7) million. This was attributable in part to the recognition of Management Board bonuses.

Further increase in liabilities

Liabilities were up as of December 31, 2014, at EUR 350.0 (323.8) million. This corresponds to 35.9% (35.5%) of total equity and liabilities.

The year-on-year increase was mainly due to a rise in liabilities to banks to EUR 286.8 (250.8) million. This was attributable primarily to the growth-induced expansion of investments made in tangible fixed assets and financial assets.

Cash Flows of ElringKlinger AG

Large improvement in cash flow from operating activities

Despite a slight downturn in net income, cash flow from operating activities improved significantly to EUR 67.2 (39.4) million. This is attributable to the much slower increase in funds tied up in current assets compared to the previous year. At the same time, for the most part the reduction in profit in 2014 was associated with non-cash transactions, such as bad debt and provisioning in connection with Management Board bonuses.

Additionally, payments received from the company's insurers in respect of the above-mentioned warranty incident produced a cash inflow of EUR 8.5 million in the period under review.

Substantial increase in net cash used in investing activities

Net cash used in investing activities totaled EUR 78.4 (50.4) million in 2014. This was dominated by more expansive investments in tangible fixed assets, taking the figure to EUR 48.0 (37.7) million.

The focus during 2014 was on investments in new equipment and machinery, including two stamping presses in Dettingen/Erms, a coating machine in Runkel and a complete system for shielding components in Langenzenn. Additionally, investments were directed at land and buildings for the subsidiary ElringKlinger Logistic Service GmbH.

Payments for investments in financial assets amounted to EUR 27.6 (25.2) million and were attributable to the acquisition of new enerday GmbH, Neubrandenburg/Germany, the capital increase at ElringKlinger China, Ltd., Suzhou/China, and the increase in loans to affiliated companies.

In the previous year, cash flow from investing activities had also benefited from proceeds from the disposal of financial assets totaling EUR 12.6 million. This was mainly attributable to the repayment of a loan granted to ElringKlinger Abschirmtechnik (Schweiz) AG, Elsau/Switzerland. In the period under review, proceeds from the disposal of financial assets produced a cash inflow of just EUR 1.8 million.

Improvement in cash flow from financing activities

Due to the higher dividend of EUR 0.50 (0.45) per share for the 2013 financial year, the total amount distributed to shareholders of ElringKlinger AG rose to EUR 31.7 (28.5) million in the period under review.

In 2014, the company recorded an inflow of EUR 61.4 million with regard to short-term bank borrowings, after an outflow of EUR 38.6 million in the previous year. By contrast, the net amount of principal repayments for long-term loans repaid by the company was EUR 20.5 million. In the previous year, the company had taken on a net amount of EUR 62.1 million in long-term loans.

The borrowing and repayment of loans and time deposits relating to affiliated companies produced a net inflow of EUR 1.9 (12.6) million.

Thus, cash flow from financing activities increased from EUR 7.7 million a year ago to EUR 11.2 million in the 2014 financial year.

Employees

Against the backdrop of an increase in the overall volume of business, the Group also expanded its HR capacity during 2014. As of December 31, 2014, the ElringKlinger Group employed 7,255 (6,716) people, i.e. 8.0% more than in the previous financial year. The increase in staffing levels was less pronounced than the rate of organic growth in sales revenue (11.2%).

In total, the Group's headcount rose by 539 compared with the year-end figure posted for the 2013 financial year. The first-time consolidation of the subsidiaries new enerday GmbH, Neubrandenburg/Germany, and Polytetra GmbH, Mönchengladbach/Germany, both acquired in 2014, added 43 staff members to the workforce. Excluding the addition of personnel as a result of the aforementioned acquisitions, the headcount would have been up by 7.4%.

The ElringKlinger Group's annual average headcount was 7,081 (6,543).

Western Europe accounts for biggest expansion in HR base – 45% of jobs located in Germany

Fueled by growing demand for new cars in Western Europe and substantial export-driven domestic production levels on the part of vehicle manufacturers, coupled with the concomitant rise in planned quantities requested by ElringKlinger customers as part of their scheduling, the majority of new jobs were created in Germany and at some of ElringKlinger's European subsidiaries.

The headcount at German sites within the ElringKlinger Group grew by 9.4% to 3,342 (3,055) as of December 31, 2014. As of December 31, 2014, 2,488 (2,301) staff members were employed at the sites of parent company ElringKlinger AG in Dettingen/Erms, Gelting, Runkel, Langenzenn, Lenningen and Thale. At the end of 2014, 639 (602) people worked for ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, the company's largest subsidiary in Germany. As of December 31, 2014, Germany accounted for 46.1% (45.5%) of the Group headcount. Adjusted for the additional number of personnel attributable to the aforementioned acquisitions, Germany's share of the overall headcount would have remained largely unchanged at 45.7%.

Therefore, as in the past, almost half of the people working for the Group in 2014 were employed in Germany. By contrast, only around 30% (31%) of Group sales revenue was generated in Germany.

Of all the European companies, the UK subsidiary in Redcar as well as the two Swiss companies Hug Engineering AG, Elsau, and ElringKlinger Abschirmtechnik (Schweiz) AG, Sevelen, recorded the most pronounced increase in staffing levels, which was attributable to higher production output.

Expanding workforce at Asian plants

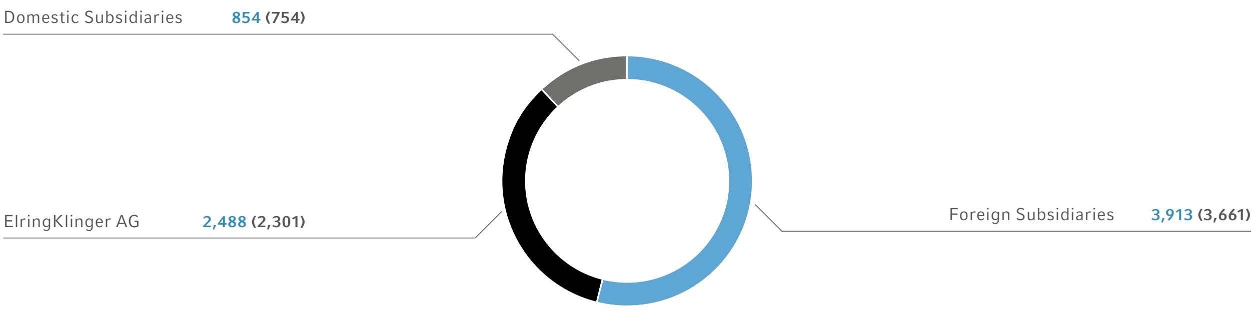
In response to dynamic market-driven growth in sales, ElringKlinger's Asian plants also expanded their HR capacity levels in 2014. The number of people employed at ElringKlinger sites in Asia rose by 15.2% to 1,144 (993) in 2014. Alongside higher staffing levels at the Chinese production site in Changchun, the headcount was also expanded in particular by the plants in India and South Korea.

By contrast, the slump in Brazil's domestic vehicle market necessitated staff downsizing at the local site, with around 100 jobs cut during the first half of 2014.

In total, employee numbers abroad rose to 3,913 (3,661) as of December 31, 2014, i.e. by 6.9%. This corresponds to a share of 53.9% (54.5%) of the Group headcount.

For more information on staff development and the HR policy of the ElringKlinger Group, with relevant key indicators, please refer to the following "Sustainability" section.

ELRINGKLINGER GROUP EMPLOYEES WORLDWIDE
as at December 31, 2014 (prior year)



Sustainability

Sustainability is an important part of the corporate strategy of the ElringKlinger Group. Alongside its pursuit of financial goals, the ElringKlinger Group also assumes responsibility for environmental and social issues. This involves adopting a responsible attitude towards employees, the environment and society as a whole.

ElringKlinger details its commitment to social and environmental issues in a separate CSR (Corporate Social Responsibility) report. Published in December 2014, the company's third report on its social responsibility is entitled "A future built on sustainability". The report, published in German and English, is available in a printed edition and in an electronic format. The latter can be accessed at www.elringklinger.de/en/sustainability/csr-report. The company's website contains further detailed information on the topic of sustainability.

Green investment increasingly important for capital markets

In recent years it has become evident that sustainability is a focus of attention for a growing number of investors, and companies are increasingly expected to deliver on this issue. Investors are more and more interested in sustainable, forward-looking business models as well as non-financial key performance indicators. Ratings given by various international rating agencies are also a point of reference.

In 2007, ElringKlinger was one of the first automotive suppliers to sign up to the Carbon Disclosure Project (CDP). This not-for-profit organization compiles environmental data and is supported by 767 institutional investors with assets of around USD 92 trillion. The ElringKlinger Group was given a rating of 84D in 2014. In addition, the company has been listed in the DAXglobal Sarasin Sustainability Germany Index for some years. ElringKlinger also received a quality mark for sustainability from DZ Bank in 2014 in response to the fact that the company did not infringe any exemption criteria. Overall, the company achieved 62 points out of a possible 100, which is above the current cross-sector sustainability limit of 44 and the sector-specific threshold of 52. Within the "Auto Components" segment, ElringKlinger is presently 4th out of 30 companies under review. The rating agency Sustainalytics has meanwhile placed the Group 5th out of 64 in its "Automotive Components" ranking. As was the case last year, sustainability agency Oekom Research gave the ElringKlinger Group "prime" investment status (C+) in 2014. This puts the company above the industry average once again and in the top 25%.

The ElringKlinger product portfolio: a future built on sustainability

As a supplier to the vehicle industry, ElringKlinger focuses its efforts on developing sustainable technologies for the future. To do this, the Group takes responsibility for delivering environmentally friendly mobility and conducts research and development into reducing CO_2 and harmful pollutants. The ElringKlinger Group's product portfolio likewise reflects such considerations.

Compliance with quality standards is very important to customers. In order to satisfy expectations and to maximize the resource efficiency of the production process, all the ElringKlinger Group's production sites (with the exception of the plant in Indonesia) are certified in accordance with the automotive industry's TS 16969 quality management standard and/or ISO 9001. Additionally, all major production sites worldwide have implemented an environmental management system and are audited and certified as meeting the requirements of ISO 14001. This certification is also to follow for smaller sites.

Goal achieved: reduction in relative CO_2 emissions

Emissions from gas, heating oil, engine test stands, etc. as well as those caused by the company's own vehicle fleet are used to determine the emissions caused directly by the company (scope 1 emissions). Indirect emissions (scope 2 or 3 emissions) encompass emissions attributable to electricity consumption as well as air travel.

The ElringKlinger Group had set itself the target of cutting its relative CO_2 emissions by a percentage figure at the lower end of the single-digit range in the 2014 financial year. Total direct and indirect CO_2 emissions stood at 90,840 metric tons in 2014, exceeding the figure for the previous year (88,300 metric tons) by 2.9%. On the basis of sales revenue (CO_2 emissions in metric tons per EUR 1 million in sales), however, relative CO_2 emissions were down by 6.6 percentage points. The ElringKlinger Group thus achieved the goal it had originally set itself. In the reporting year, direct CO_2 emissions fell by 4.6% to 22,240 (23,300) metric tons, which was attributable to particularly high temperatures in 2014 compared to the normal average. Indirect emissions rose by 5.5% and thus at a lower rate than the growth in sales. Environmental data concerning the subsidiary ElringKlinger Marusan Corporation, Tokyo/Japan, have been incorporated fully in the figures for the reporting year (previous year: 50%).

ElringKlinger will start in 2015 to have all its European production companies certified according to the ISO 50001 energy management standard. The introduction of this energy management system will allow the company to boost its energy efficiency, improve its energy footprint and thereby save on energy costs.

In September 2014, the construction of a wind power installation was completed at the Group's Redcar site in the UK. Its proximity to the coast makes the site ideal for generating electricity by means of a wind turbine. The turbine has been operational since December 2014 and, given an average wind speed of 6.1 m/s, produces approximately 1,400 MWh of green electricity. This translates into an annual saving of 600 metric tons of CO_2.

Another combined heat and power (CHP) plant began operation in the middle of the year at the company's headquarters in Dettingen/Erms. There are now four CHP plants improving the company's energy performance. The CHP units are linked to an absorption cooling system that allows waste heat to be used for cooling purposes in the summer months. As a result, most of the heat produced can be utilized all year round.

The company purchased new machines and new equipment in 2014. The issue of efficiency is an important criterion when purchasing machinery and equipment. The new machines consume up to 20% less energy than the previous models.

In 2014, there was again a fall in average CO_2 emissions for the company's vehicle fleet to 144 (145) g/km. One factor behind this improvement is the addition of two all-electric cars to the fleet in mid-2014. These vehicles are used for journeys within a radius of up to 50 km as well as between plants. ElringKlinger has installed the necessary infrastructure, including two recharging points at the main entrance to the Dettingen/Erms site. Visitors also have access to the rapid-charging stations. From 2015 the public will also be allowed to use the recharging points.

As in the previous year, water consumption rose by a smaller proportion relative to revenue growth. Total waste increased in proportion to sales in the 2014 financial year. Metal waste once again accounts for a very high amount of this at 83% and mainly arises from stamping processes used in production. This waste material is then sold. A specially accredited company removes all waste for either recycling or disposal.

THE ELRINGKLINGER GROUP – KEY ENVIRONMENTAL INDICATORS

	2014[1]	2013
Total direct and indirect CO_2 emissions in metric tons	90,840	88,300
CO_2 emissions in metric tons per EUR 1 million in sales	68.5	75.1
Total direct CO_2 emissions in metric tons	22,240	23,300
Of which direct CO_2 emissions from gas, oil, engine test stands, etc. in metric tons	21,400	22,600
Of which CO_2 emissions for vehicle fleet[2] in metric tons	840	660
Total indirect CO_2 emissions in metric tons	68,600	65,000
Of which indirect CO_2 emissions from electricity in metric tons	65,300	62,000
Of which indirect CO_2 emissions from flights[3] in metric tons	3,300	3,000
Absolute energy consumption (electricity, gas and other energy sources) in MWh	249,700	240,000
Absolute energy consumption per EUR 1 million in sales in MWh	188.3	204.2
Of which electricity consumption in MWh[4]	155,700	144,200
Electricity consumption per EUR 1 million in sales in MWh	117.4	122.7
Water consumption in m^3	173,200	163,400
Solvents in metric tons	990	1,060
Total waste in metric tons	49,500	43,700
Of which metal waste in metric tons	41,100	36,200

[1] 2014 figures do not include the subsidiaries Polytetra GmbH and new enerday GmbH
[2] Vehicle fleet of ElringKlinger sites in Germany – Dettingen/Erms, Gelting, Langenzenn, Runkel, Thale, Lenningen and (since 2014) Bietigheim-Bissingen, Idstein, Magdeburg and Rottenburg
[3] Air travel attributable to sites in Germany, Switzerland and France as well as centrally recorded flights relating to sites in the UK and US
[4] Excluding output from in-house CHP units

2015: Ongoing improvement in relative CO_2 emissions

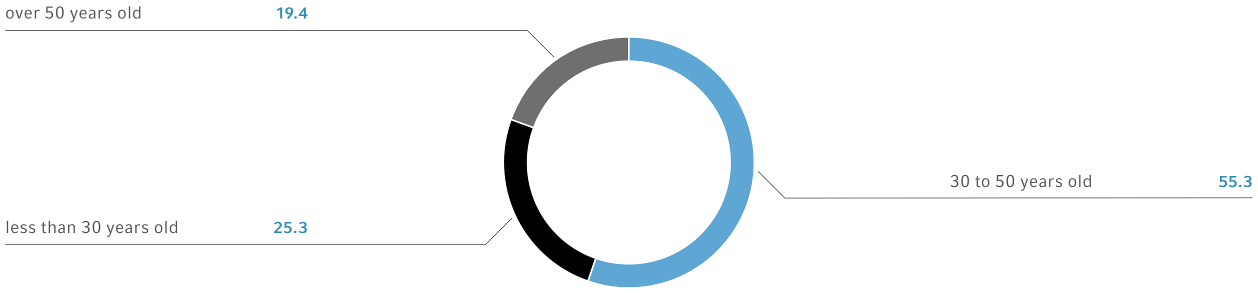
ElringKlinger will continue to extend its innovative product portfolio over the coming years and make a contribution to sustainable developments in the industry. For the coming years, the automotive supplier has set itself the target of cutting its relative CO_2 emissions further. For 2015, the Group will be looking to achieve a reduction in the region of 2% to 3%.

Well-motivated and committed employees are vital to the company’s long-term success

ElringKlinger AG has drawn up binding rules of conduct based on its corporate values. These must be applied by all employees worldwide without exception. The rules take the form of specially written codes and guidelines, which can be accessed online at www.elringklinger.de/en/sustainability/guiding-principles. Specifically these include the company’s Vision & Mission, Code of Conduct, Code of Ethics, Management Principles, Corporate Governance Code, Quality and Environmental Policy and Safety at Work Policy.

The Code of Conduct was rewritten and adopted in 2013. Long-term success is based on customers and shareholders having confidence in the company’s competencies, capacity to innovate and, ultimately, its integrity. This trust, which the company’s reputation reflects, crucially depends on all employees being committed to ElringKlinger’s values and goals, and then acting accordingly in their own area of responsibility. The Code of Conduct is binding for all employees within the ElringKlinger Group. It serves as both a guide and a benchmark on issues such as corruption, conflicts of interest, fair competition, data protection and discrimination.

AGE STRUCTURE OF ELRINGKLINGER GROUP EMPLOYEES 2014
in %



The age groups represented are very balanced across the ElringKlinger Group. Almost a third of employees are women.

In the 2014 financial year, the staff turnover rate increased slightly from 5.2% to 5.6%. It must be borne in mind that staff turnover tends to be higher when the employment situation is good in key markets. The decisive factor here was strong growth in the number of employees at sites in Asia. Because the automotive sector in China is booming, the churn rate there is higher by comparison with Europe.

In 2014, HR activities at ElringKlinger once again focused on preparing talented employees for future leadership roles and offering training opportunities. Providing individual support for employees is a must. As well as specialist training such as language or software courses, we also offer individual staff development programs. Events are held several times a year for new employees to find out about specific ElringKlinger products. Worldwide, the Group spent a total of EUR 1.3 (1.0) million on training and professional development in 2014.

Revised and extended in 2012, the concept of nurturing in-house talent remained popular. The high potential program prepares talented employees for futher leadership roles on both the technical and managerial side. This work also involves social projects.

For several decades, the ElringKlinger Group has taken on young people as technical and commercial apprentices. The company also recruits students each year who are completing dual work/study programs at university in close cooperation with the company. Internships are available worldwide, as well as opportunities to write a Bachelor's or Master's thesis with a practical focus relevant to the company. In 2014, the company hosted a total of 69 (51) students and interns at various sites in Germany.

THE ELRINGKLINGER GROUP – KEY HR INDICATORS

	as of Dec. 31, 2014	as of Dec. 31, 2013
Absolute number of employees	7,255	6,716
Of which men	70.7%	70.1%
Of which women	29.3%	29.9%
Average number of employees	7,081	6,543
Breakdown by age group		
Less than 30 years old	25.3%	24.9%
30 to 50 years old	55.3%	56.0%
Over 50 years old	19.4%	19.2%
Vocational training ratio[1]	4.0%	3.9%
Interns and thesis students[1]	69	51
Staff turnover rate	5.4%	5.2%
Average number of sick days per employee	9.6	9.1
Employees covered by collective agreements	4,913	4,728
Number of qualification interviews conducted	5,648	5,379
Percentage of part-time employees	4.6%	4.7%
Employees on permanent contracts	5,834	5,577
Number of employees with disabilities	192	189
Number of employees in management positions	565	525
Of which women	76	64
Of which local nationals	515	476
Work-related accidents leading to more than 3 days off work	253	292
Work-related fatalities	0	0
Absolute number of employees		
In partial retirement[1]	72	76
On maternity leave[1]	6	8
On parental leave[1]	32	24
Number of improvement suggestions submitted[1]	364	289
Improvement suggestions successfully implemented[1]	74	98
Improvement suggestions rejected[1]	105	148

[1] Figures based on German sites only

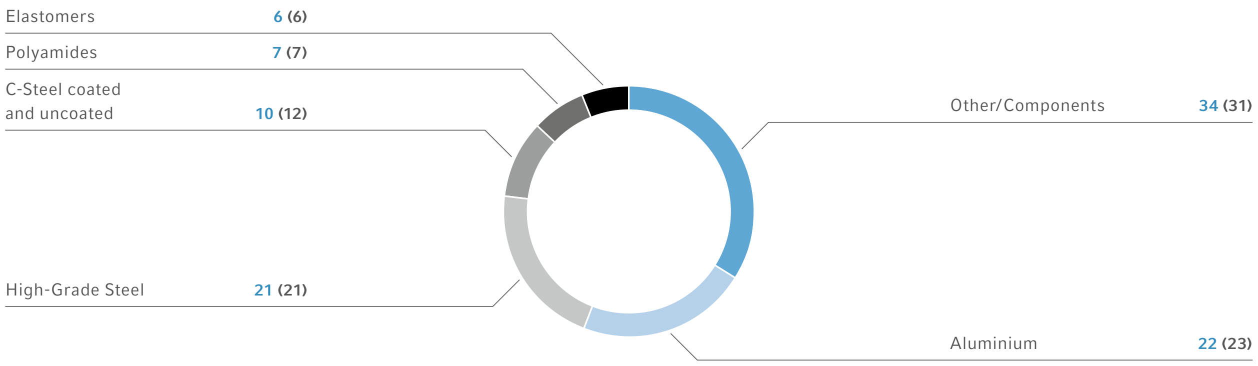
Procurement

Purchasing management remained a significant factor in the profitability of the ElringKlinger Group. Materials accounted for 60.0% of the Group's cost of sales in 2014. The cost-of-materials ratio stood at 43.8%.

In 2014, the Group's centralized purchasing department in Dettingen/Erms/Germany, focused its efforts predominantly on global optimization of the supplier network in order to secure continuous, timely procurement of materials and as favorable purchasing prices as possible.

The primary raw materials used within the ElringKlinger Group include alloyed high-grade steels (nickel alloys, in particular), aluminum, carbon steel, polyamide-based plastic granulates, rubber and, in the Engineered Plastics segment, polytetrafluoroethylene (PTFE)*. In addition, the procurement of components needed to manufacture complete systems, such as those used by the Plastic Housing Modules or Shielding Technology divisions, is becoming increasingly significant. The proportions of individual raw materials or materials categories applicable to the Group's overall raw materials usage were as follows in 2014:

BREAKDOWN OF RAW MATERIALS USED IN 2014
(prior year) in %



Revenue growth and investments lead to strong increase in purchasing volume

In addition to raw materials, the Group's purchasing volume comprises consumables and supplies as well as merchandise for the Group's aftermarket business, energy supply contracts, external services and investments in land, property, plant and equipment, and buildings.

The ElringKlinger Group's 2014 purchasing volume reflects strong revenue growth and investments in the expansion of production capacity. It rose by 24.8% to EUR 882.5 (707.3) million. This increase was attributable in part to the more pronounced (relative to growth in sales revenue) volume of investments in land and property, plant and equipment in 2014, up by 28.9% to EUR 147.0 (114.0) million. In addition, ElringKlinger Marusan Corporation, Tokyo/Japan, was fully accounted for in 2014. This entity had not been included in the prior-year figure due to retrospective changes in the method of consolidation in 2014. Adjusted for these two factors, the purchasing volume in the 2014 financial year would have increased by 15.7%. The Group's cost of materials increased by 14.7% to EUR 580.6 (506.3) million. This increase was primarily attributable to increased outputs.

Framework agreements secure Group-wide supply

International framework agreements for the most significant groups of material are used for the purpose of securing supply for individual manufacturing companies throughout the Group. This applies particularly to steel and aluminum. Ultimately, this also limits translational exchange rate risks. In most cases, ElringKlinger enters into contracts of one year or more with its materials suppliers in order to limit the risk of purchase prices increasing within the year. Contractual terms have generally become shorter within the market as a whole for plastic granulates and C-steel.

Based on previous experience, the alloy surcharges traded on commodities exchanges take several months to be reflected in purchase prices. As the alloy surcharges for high-grade steel cannot be fixed in framework agreements in advance, ElringKlinger secures a portion of the required volumes with the help of a rolling system and uses commodity-based derivatives for this purpose. The Group can thereby ensure a largely fixed basis for calculation, including that for high-grade steel, for the entire financial year. The alloy surcharges as such cannot be contractually fixed.

Commodity prices predominantly stable in 2014

Price movements for the key commodities required by ElringKlinger developed along divergent lines in 2014. While the price of C-steel showed a slight upward tendency during the second half of the year, the purchase prices for high-grade steel remained largely unchanged year on year.

The high-grade steels primarily used in the manufacture of cylinder-head and specialty gaskets contain nickel, the surcharges for which contribute substantially to the price of high-grade steel. The mid-year price of nickel was approximately 50% above the price at the start of the year. The average price, however, remained largely unchanged compared to 2014. In addition, heightened competition amongst manufacturers of the precision strip high-grade steel required by ElringKlinger prompted a downward trend in prices within this area.

Due to the early conclusion of framework agreements with aluminum suppliers, procurement management was able to counter the noticeable price rises seen over the course of 2014.

Engineering plastics benefited only marginally from the gradual slump in oil prices witnessed in particular towards the end of the year. Purchase prices for the premium-grade polyamide granulates used in the Group's Plastic Housing Modules division only fell slightly during the year.

The price situation in 2014 for bought-in components proved variable. Due to the diversity of these specialized installation parts, procurement activities require a high level of coordination and processing. In future, regional purchasing managers in the Asia and Western Hemisphere (Europe and Americas) regions will be deployed for the purpose of pressing ahead with the task of qualifying local suppliers in the respective countries.

ElringKlinger sells metal waste created as part of die-cutting processes during production. The ElringKlinger Group has an active metal waste management for the purpose of maximizing revenues. Proceeds from the sale of waste metal in 2014 totaled EUR 24.7 (24.2) million.

Energy costs rise at a slower rate than revenue

Although ElringKlinger is not considered an energy-intensive enterprise, energy costs represented quite a substantial proportion of the cost of sales in 2014. Energy costs accounted for 2.2% (2.4%) of the cost of sales. ElringKlinger has entered into long-term contracts for the majority of the supply of gas and electricity it needs. In 2014, contracts with existing suppliers were agreed for a term up to and including 2016 (gas) and 2017 (electricity). As part of these contracts, the company is in a position to satisfy its energy needs in tranches and flexibly, depending on prevailing market prices.

ElringKlinger covers a portion of its electricity requirements with its own gas-fueled, combined heat and power plant. The four power plants located at the Dettingen/Erms/Germany site generated 4,338 MWh in 2014.

Introduction of a worldwide purchasing network

In order to position procurement management more effectively and to streamline existing costs, ElringKlinger restructured Group Purchasing in 2014. A special group dedicated exclusively to purchasing for serial production activities was formed. Another unit focuses on purchasing all those goods not determined for use in serial production, such as indirect materials or investments. Three purchasing managers appointed to the regions ensure improved management and pooling of the requirements of all Group companies with the aim of coordinating the increasing volumes relating to individual ElringKlinger production facilities and providing both strategic and operational support for the regional entities when it comes to the procurement of serial production materials.

Implementation of standardized, stringent global quality standards

Due to the rising demand for materials by the various international sites in the growth regions of China and North America, the Group continuously audits and certifies new local suppliers, particularly those outside the eurozone. This reduces logistics costs while also limiting any currency misalignments between purchasing volumes and revenues. A Chinese supplier has now become one of the ElringKlinger Group's

Consolidated Financial Statements

largest aluminum suppliers. Local PTFE requirements are increasingly being sourced from China and India.

As a matter of policy, new suppliers are audited and certified in accordance with international ISO standards. They are required to meet the Group's stringent quality and environmental regulations and to follow the exacting ElringKlinger Code of Ethics (www.elringklinger.de/en/sustainability/guiding-principles/code-of-ethics). For existing suppliers, the central purchasing department conducts regular quality and cost analyses. Prices are determined and controlled according to process stages with the help of cost-break-down analyses. ElringKlinger is committed to minimizing its dependency on individual suppliers to the largest extent possible. In 2014, the Group's top 30 suppliers accounted for around 20% (20%) of its total volume of purchases within the group of companies.

Every year, with the aim of promoting collaborative partnerships with its suppliers, ElringKlinger honors one supplier for outstanding service. This assessment includes product quality, reliability of delivery or an especially high level of customer service. The 2014 prize was awarded to H.D. Lenzen Bandverzinkung GmbH & Co KG – the second year in a row that this company won. Based in Hagen in North Rhine-Westphalia, this supplier manufactures electrolytically galvanized steel sheets used by ElringKlinger in the production of specialty gaskets.

Outlook: material prices in 2015

Supported by the framework agreements for high-grade steels concluded for 2015, ElringKlinger was able to keep the prices for required quantities, as covered by these agreements, stable to a large extent. In the longer term, the company anticipates price increases for additional quantities (i.e. in excess of the volumes covered) potentially required during the course of the year.

Aluminum prices are expected to increase in 2015 due to high demand and increases in warehousing surcharges.

On the other hand, polyamide – an engineering plastic –, which ElringKlinger needs in increasing quantities for the production of lightweight plastic modules, should be available at predominantly stable prices in 2015. If the price of oil remains low over an extended period, prices for the coming quarters should fall moderately.

Report on Opportunities and Risks

Risk management system

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

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

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

Alongside regular reporting, internal audits are an important control mechanism and thus an essential element of the risk management system. Audits are carried out in the business and service divisions of ElringKlinger AG as well as at the Group companies. These audits are conducted by accountancy firms and/or suitably qualified companies commissioned by ElringKlinger AG. The rationale behind the appointment of external specialists is to ensure that risks are identified, statutory requirements are met, internal processes are reviewed and potential for improvement is recognized. The findings of such audits are compiled in reports, which are directed in particular at the Management Board and the Chairperson of the Audit Committee within the Supervisory Board. The reports are evaluated, whereupon necessary measures are initiated. Execution of these measures is controlled by the Management Board member whose remit covers this area. All relevant findings are discussed with the areas concerned in order to bring about improvements or rectify any weaknesses. In the 2014 financial year, audits were conducted at the subsidiaries in China, in South Korea and at Hug Engineering AG in Switzerland as well as within business and service divisions of ElringKlinger AG. None of the audits conducted within this context gave rise to any significant objections. Both statutory regulations and internal requirements were consistently met. The recommendations submitted with regard to potential areas for optimization have been put in place or are currently being implemented.

Back in the 2012 financial year, a specialized auditing and consulting firm was commissioned by the Management Board to prepare a compliance risk profile for ElringKlinger, on the basis of which suitable measures were to be defined with regard to the compliance system. The analysis revealed in particular that ElringKlinger presents no specific risk potential. Based on this analysis and other reviews conducted in respect of compliance, together with experience gained within this area, the company introduced a compliance system in 2013, which includes a Chief Compliance Officer who reports directly to the CEO. Additional Compliance Officers were appointed for the individual regions in which ElringKlinger is active. They report to the Chief Compliance Officer. The code of conduct forms an important part of the compliance system. It sets out binding rules for all employees of the ElringKlinger Group. Among other aspects, the code covers issues such as fair competition, corruption, discrimination and the protection of confidential data. The code is distributed to all employees in the language of the country in which they are based. Staff members, and particularly management personnel, receive training relating to these issues. As part of training events conducted over the course of 2014 employees from Sales and Purchasing were instructed extensively on the legal requirements relating to the granting and acceptance of gifts/gratuities as well as on competition and anti-trust laws. These events will also be held in 2015. The Chief Compliance Officer responded to all indications of compliance-related infringements in order to investigate the circumstances and initiate requisite measures. Where evidence suggested that an infringement may have occurred, the Management Board was informed accordingly. However, no significant infringements were reportable for 2014.

In order to reduce the liability risk from potential damage cases and any associated losses, the company has taken out appropriate insurance policies. The suitability of these policies, which also cover the Group companies, is subjected to regular review with regard to the actual risks covered and the level of cover provided. Where necessary, the policies are then amended.

Control and risk management system with regard to accounting

With regard to accounting and external financial reporting within the Group, the internal control and risk management system may be described with reference to the following basic characteristics. The system is geared toward the identification, analysis, valuation, risk control and monitoring of these activities. The structuring of the system in line with the specific requirements of the company is the responsibility of the Management Board and Supervisory Board. In accordance with the distribution of responsibilities within the company, the Finance department, which is in charge of accounting, comes under the remit of the Chairman of the Management Board. This department, which also includes Corporate Investment Management, controls accounting within the Group and ElringKlinger AG and compiles the information required for the preparation of the consolidated financial statements and the separate financial statements of ElringKlinger AG. Corporate Investment Management is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. The Group companies report to the Head of Finance, who in turn reports to the Chairman of the Management Board.

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

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

All Group companies are obliged to comply with a pre-defined schedule for preparation of the Group financial statements. The same applies to the separate financial statements of ElringKlinger AG. Each Group company is responsible for drawing up its separate financial statements in accordance with local accounting rules and IFRS, with the exception of the German Group companies, whose financial statements are prepared by the Accounts department at ElringKlinger AG. A reconciliation of balances is conducted in respect of internal Group clearing accounts. Financial reporting by the Group companies is conducted via a separate database containing not only financial data but also information that is of importance to the notes to the consolidated financial statements and the combined management report of the ElringKlinger Group and ElringKlinger AG. The data and information are checked prior to release and consolidation in the respective centralized departments.

SAP is used by the German as well as some of the foreign subsidiaries within the ElringKlinger Group. As for the other companies, various IT systems are currently in use. SAP is to be introduced at other key companies within the Group. All implemented systems feature hierarchical access systems. All clearances are documented in the system. For companies that use SAP, access rights are managed centrally according to established rules. Access decisions are made by the Head of Finance. Local management makes decisions on access in those companies that use other systems.

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

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

As is the case with the other areas and functions of the company, accounting is also subject to the investigations conducted as part of internal auditing. These are performed by two accountancy firms. Accounting processes and procedures at ElringKlinger AG and its Group companies are reviewed in the course of regular internal audits. The findings are then used to make further developments and improvements. For more information, please refer to the description of the risk management system.

Report on Opportunities and Risks

The following table presents an overview of material risks and key opportunities relating to the ElringKlinger Group. Both the risks and the opportunities were graded according to the probability of occurrence and the potential financial impact. A probability of occurrence of less than 30% is considered "low", while one in excess of 60% is deemed to be "high". The potential financial impact is categorized on the basis of qualitative criteria, ranging from "insignificant" to "significant". These factors are identified as gross risks, i.e. prior to possible measures aimed at risk mitigation. The same principle applies to opportunities. In this context, in the event of occurrence "insignificant" refers to a potential impact on Group earnings before taxes of less than 5%, "moderate" between 5 and 10% and "significant" in excess of 10%. Overall risk or the overall potential attributable to opportunities in relation to the respective category is derived from the combination of probability of occurrence and potential financial impact.

OPPORTUNITY AND RISK PROFILE OF THE ELRINGKLINGER GROUP

	Probability of occurrence			Potential financial impact		
Type of risk	low	medium	high	insignificant	moderate	significant
Economic risks						
Economic and industry risks	x					x
Political risks		x			x	
General internal risks						
Work-related accidents, fire	x				x	
Operational risks						
Price-related pressure/Competition			x		x	
Material risks/Supplier risks	x				x	
Customer risks	x				x	
Labor cost risks		x			x	
Personnel risks		x		x		
IT risks	x			x		
Quality/Warranty risks		x			x	
Legal and compliance risks	x				x	
Strategic risks						
Technology risks	x					x
External growth/Acquisitions	x				x	
Financial risks						
Bad debt loss	x				x	
Liquidity and financing risks	x			x		
Currency risks			x		x	
Interest-rate risk	x				x	
Use of derivative financial instruments	x			x		
Opportunities						
Climate change/Emission laws			x			x
Technology trends			x			x
Extension of product and service portfolio			x			x
New sales markets			x			x
Industry consolidation/M&A		x			x	

Economic risks

Economic and market risks

The global vehicle markets tend to perform in line with prevailing economic trends. This applies to the truck segment even more so than to that of passenger cars. A substantial downturn in the economy represents a risk to demand for new cars and, ultimately, also to vehicle production. This, in turn, could result in lower demand for ElringKlinger components (cf. Overview of ElringKlinger's Activities and Structure, page 48).

Based on the latest assessment, risks relating to economic performance continue to be present in some of the markets of Southern Europe as well as in the vehicle markets of Brazil and Russia, which are considered not entirely insignificant to the industry as a whole.

However, the International Monetary Fund has forecast global economic growth of 3.5% in 2015.

As regards the automobile industry, solid consumer demand in North America and throughout the Asian markets should provide a basis for sustained growth in global car production.

From today's perspective, at least, a severe slump in vehicle production – similar to the crisis seen in 2008/09 – can be ruled out. ElringKlinger anticipates that global vehicle production will expand by around 2% in 2015 (cf. Report on Expected Developments, page 112).

ElringKlinger has established a global presence. Benefiting from a broad customer base, it is not dependent on specific markets or individual manufacturers. Thanks to this solid positioning, the effects of an economic slump in a particular region can be offset at least in part. Due to its flexible cost structures, ElringKlinger would be able to respond immediately to market conditions in the event of more severe economic turbulence. Instruments available to the company include flexitime accounts and flexible shift models as well as the option of issuing an application for short-time work. Furthermore, the company can react to changing market conditions by adjusting its staffing levels to demand patterns and by pooling the production quantities of individual plants. The central purchasing department would work in close cooperation with suppliers for the purpose of assessing and adjusting procurement volumes in a timely manner.

ElringKlinger factors in economic risks to an appropriate extent at the forward planning stage. When drawing up budgets, ElringKlinger takes a cautious view of the underlying macroeconomic scenario.

Political risks

Political decisions taken by national or European lawmakers have the potential to impact significantly on current technology trends and ultimately also – both favorably and unfavorably – on business performance at ElringKlinger. To an increasing extent, however, risks now also emanate from the escalating crises afflicting some of the sales regions around the globe.

These include the Ukraine conflict and the associated sanctions imposed on Russia by the West as well as the mounting crises enveloping large parts of the Middle East and North Africa. While these regions are of no strong direct relevance to Original Equipment, they do harbor the risk of revenue shortfalls in the Aftermarket segment. In total, annual sales revenue generated in the aforementioned regions amounts to a figure towards the lower end of the double-digit million range.

As sales in these regions are usually billed in US dollars or euros, customers' restricted access to foreign currency could result in delayed payments or, in the worst-case scenario, to default on such payments.

General internal risks

Among the general risks that are not connected directly to the business model of the ElringKlinger Group are work-related accidents. The Group endeavors to prevent such accidents to the largest extent possible not least by means of accident prevention regulations implemented throughout the Group as well as regular training. Where accidents do occur, the reasons and circumstances are investigated in depth and existing accident prevention regulations are adjusted accordingly in order to ensure the best possible level of protection.

The risk of a fire occurring at operating sites is considered to be comparatively low. However, it cannot be ruled out entirely. Alongside the risk of personal injury, a fire – with the associated downtime of operations over an extended period – poses the risk of substantial damage to property and significant costs for the repurchase of machinery and equipment. Disruption to the supply of customers, however, can be ruled out to a large extent, as the Group is able to draw on its international manufacturing network for the purpose of offsetting a capacity shortfall through production at an alternative site or substituting such activities on a temporary basis.

The Group addresses the risk of fire well in advance and through appropriate fire protection insurance policies. Insurance appraisers compile fire protection reports at all of the Group's operating plants. The suggestions included in the reports with regard to fire protection improvements are subsequently analyzed and implemented.

Operational risks

Price-related pressure/Competition

As a supplier to the automotive industry, ElringKlinger operates in a business environment that is generally considered to be highly competitive. Customers regularly make demands for price reductions.

This constitutes one of the prominent individual risks to which the Group is exposed. Owing to its strong technological position, ElringKlinger is comparatively well placed to address such issues. Having said that, the company is not completely immune to such price demands. With an eye to relieving price-related pressures, ElringKlinger develops products with unique technological selling points and focuses on niche markets. The remaining downward pressure on prices has to be offset, to the largest extent possible, by efficiency gains in production.

The barriers to entry for new competitors are high, as the business model applied by the ElringKlinger Group is based on a number of special core competencies relating to materials, tooling and process expertise (cf. Overview of ElringKlinger's Activities and Structure, page 48). Additionally, substantial investments would be needed to introduce the requisite production systems.

To be financially viable, it is essential that plants produce large volumes. Experience has shown, however, that initial orders placed with new suppliers tend to be relatively small in scale. These volumes are not sufficiently high to cover costs. What is more, the manufacturing technology deployed by ElringKlinger is often designed according to company specifications, i.e. it is not available as standardized solutions within the marketplace.

In some cases, a precondition made by manufacturers prior to awarding a contract to the ElringKlinger Group is that the products in question should be supplied from Eastern Europe. In this context, pricing and/or shorter distances to production sites play a key role. ElringKlinger does not have its own serial production operations in Eastern Europe, with the exception of HURO Supermold S.R.L., Timisoara/Romania, which specializes in tool construction. However, through its international manufacturing network the Group is able at any time to supply from plants with lower proportions of labor cost such as Brazil, India, Mexico or Turkey to the extent that this is required in view of product composition or is requested by the customer.

Material risks/Supplier risks

Materials constitute the single biggest cost area within the ElringKlinger Group. Therefore, the direction taken by material prices is of particular significance to the company.

The raw materials primarily used within the ElringKlinger Group include alloyed high-grade steels, C-steel, aluminum and, increasingly, polymer granules (Procurement, page 88). At times, prices associated with alloy surcharges (nickel, chromium, molybdenum) develop along dynamic lines and are subject to extreme volatility. They are added to the price of high-grade steel and cannot be fixed by contractual agreements.

In its negotiations with raw material suppliers ElringKlinger generally concludes agreements that are as long term as possible. Any additional quantities required are subsequently procured at prevailing market prices.

ElringKlinger works continuously on optimized product designs, improvements to production processes and the qualification of new suppliers in order to counteract possible increases in material prices.

On the whole, the risk of substantial increases in the price of materials can be considered manageable, particularly in view of the current commodity price trends and the fact that many raw material suppliers have seen an expansion in volumes.

In some cases, ElringKlinger negotiates cost escalation clauses with its customers. Where such clauses have not been negotiated in advance, upstream price rises that exceed cost estimates have to be passed on to customers. This involves a risk that higher purchase prices cannot be passed on in full or only with some delay.

ElringKlinger collects metal-based waste produced throughout the Group as part of its stamping processes and sells this waste via its own scrap metal trading unit. The proceeds from waste sold in this way can be used to offset, at least in part, any cost increases occurring in the area of procurement.

As part of a regular process of risk assessment, ElringKlinger monitors not only trends relating to material prices but also the actual availability of materials. In order to limit associated bottlenecks or non-deliveries to the largest extent possible, ElringKlinger relies on close collaboration with its suppliers over the long term. The Group makes a point of planning its material requirements well in advance and pursues a multi-supplier strategy. ElringKlinger is committed to qualifying and approving at least two suppliers for all significant types of material and bought-in parts. In doing so, the Group also safeguards continuity of supply for the various types of material needed. Medium-sized and smaller suppliers are thoroughly assessed and monitored with regard to their financial strength and insurance cover. They also have to undergo supplier audits in regular intervals. In 2014, the 30 principal suppliers used by the Group accounted for around 20% (20%) of its purchasing volume.

As regards energy supply, particularly at the German production sites, there is evidence to suggest a relatively high dependence of natural gas of Russian provenance. However, the possibilities for the company to put in place more extensive measures to counteract risk within this area are extremely limited.

Customer risks

A sudden slump in demand faced by a principal customer may pose the risk of a substantial reduction in this manufacturer's scheduled quantities of ElringKlinger components to be installed in its vehicles and/or engines. In order to limit the company's dependence on individual customers, but also with a view to alleviating potential pricing pressure, the ElringKlinger Group has continuously extended its customer base in recent years. A number of customers in Asia as well as other suppliers who manufacture engines, transmissions and exhaust systems have been added to this customer base. In 2014, the company's top three customers accounted for around 26% (30%) of Group revenue. The customer contributing the single largest share of sales accounted for 10.4% (12.0%) of Group revenue.

Labor cost risks

Alongside cost of materials, labor costs constitute the largest expense item for the ElringKlinger Group. They accounted for 23.4% (24.4%) of the cost of sales in 2014.

Almost half of the workforce of the globally positioned Group is still employed at sites based in Germany, whereas as much as approximately two-thirds of sales revenue is now generated outside of Germany. Therefore, further wage increases at a domestic level would have a tangibly negative impact on earnings performance. In this context, it should be taken into account that the IG Metall trade union has been able to negotiate relatively substantial collective wage agreements during the last few years. Therefore, as illustrated by the progression of staff cost ratios at German sites, the competitive position of ElringKlinger AG could deteriorate further in relation to its international peers.

After a wage increase of 3.4% agreed in July 2013 between employers and the trade union for those covered by collective pay arrangements and an additional 2.2% wage increase coming into effect from May 2014, the collective wage agreement for 2015 will lead to a further increase of 3.4% in wages and salaries as from April 1, 2015.

By contrast, the level of labor costs in emerging countries such as China, South Korea, India or Turkey, where almost 15% (15%) of the Group's workforce is employed, is well below the Group average. Another positive aspect is that both revenue and staffing levels in these regions are expanding at a faster rate than in Germany. In these markets too, however, the dynamics of wage development remain a latent risk to the Group's financial performance.

If customer demand were to decline sharply and unexpectedly, the staff cost ratio may increase dramatically. ElringKlinger has a number of instruments at its disposal (such as working time accounts, shift models and temporary employment contracts) that are aimed at providing greater flexibility, allowing it to respond rapidly in an emergency. Within the ElringKlinger Group, the proportion of employees with temporary contracts as of December 31, 2014, was 19.6% (16.6%).

Essentially, the direction taken by labor costs is to be seen as one of the principal risks to which the ElringKlinger Group is exposed. For the purpose of safeguarding international competitiveness and retaining jobs in the domestic market, higher wage costs have to be offset by substantial capital investment and by continuous measures aimed at raising efficiency levels in production.

Personnel risks

The success of the ElringKlinger Group is a testament largely to the skills and dedication of its employees.

It is of importance to the Group that any risk of losing expertise through staff exits is mitigated to the greatest extent possible. Staff turnover rates are to be kept at a low level by creating a socially balanced and motivating working environment.

The age structure of the Group's workforce reveals a healthy mix: more than 50% of employees are aged between 30 and 50, while approx. 25% are younger than 30. Therefore, the risk of overaging is small.

Wherever possible, specialist expertise and skills are developed within the respective teams, rather than concentrating such knowledge among individual staff members.

The growing lack of specialist staff within the labor market as a whole is also affecting ElringKlinger. Some of the sites operating within the Group are finding it increasingly difficult to attract qualified personnel with specialized skills. In order to address this issue in a proactive manner, ElringKlinger follows a systematic program of university/college marketing for the purpose of HR recruitment. The company attends career fairs, where it showcases itself as an attractive employer to graduates. It also meets the needs of university and college students by offering internships and thesis topics. In order to retain skilled and qualified employees within the company in the long term, ElringKlinger offers internal training programs and measures for personal advancement of skilled personnel and managerial staff.

IT risks

In the digital age, companies' IT infrastructure is constantly exposed to risks such as data loss, hacking or virus attacks. Any disruption to IT systems and application software can lead to tangible delays to individual processes – from the handling of purchase orders through to activities in the supply chain. This would have a negative impact on operations, which may also affect revenue and costs.

ElringKlinger ensures that such risks are minimized as far as possible. Particularly sensitive data that are of importance to operational processes are always stored twice or redundant systems are deployed. Additional backup systems or transitional solutions are used in order to rule out to the largest extent possible any potential risks that might jeopardize specific projects or processes.

The company's headquarters in Dettingen/Erms/Germany, has two data centers operating independently of each other. For security reasons these data centers are accommodated in different buildings, i.e. at two separate locations. This approach offers the best possible protection against system failure and data loss. All data pertaining to the international sites are backed up at a central location.

Staff access to confidential data is managed with the help of scalable access authorizations. Unauthorized access from external sources is prevented by up-to-date security software.

Quality and warranty risks

As a manufacturing company and supplier to the automotive industry, ElringKlinger is exposed to sector-specific warranty and liability risks. The supply of non-compliant components may necessitate an exchange or recall of such parts, with corresponding costs and claims for damages. In this context, the development of entirely new products for fields of application beyond the automobile industry or in the area of alternative drive technology is also associated with potential risks.

Appropriate quality assurance systems are in place to prevent and mitigate such risks. As part of the Group-wide risk management system, quality and warranty risks are covered to a large extent by insurance policies, e.g. product liability insurance. Insurance coverage is reviewed at least once a year and adjusted where necessary. Agreements on limitation of liability are concluded between ElringKlinger and the respective contracting parties on a case-by-case basis.

Legal risks/Compliance risks

Beyond the risks already discussed in the section dealing with warranty risks, the ElringKlinger Group is exposed to further legal risks attributable to its business model and the size of the company. These risks are covered to a large extent by insurance policies, which are an element of the risk management system. Furthermore, ElringKlinger addresses its exposure to legal risks by recognizing appropriate provisions in its annual accounts. Compared with the previous year, there were no other significant risks in the period under review. Likewise, ElringKlinger is at present not exposed to any significant litigation risks.

The structure of the compliance system was outlined earlier in the description of the risk management system. Risks can occur at both the parent company and the subsidiaries as a result of unlawful actions. In response to such potential exposure, ElringKlinger has drawn up an extensive Code of Conduct for the entire Group. Managers have been trained accordingly. Furthermore, up to twelve reviews are conducted each year. Against this background and in view of the ElringKlinger culture applied and embraced by the company, the probability of occurrence can be classified as low but cannot be ruled out entirely. The financial effects on Group earnings are difficult to specify. Depending on the respective case, they may reach a scale that could be considered significant. Based on its current assessment, however, ElringKlinger anticipates that the associated risk is relatively moderate.

Strategic risks

Technology risks

The business model of the ElringKlinger Group is based on a culture of excellence in innovation and technology leadership. The company's operations are tailored to the development of products that are technologically sophisticated and to the manufacture of such goods at a high level of productivity. Over the long term it has recorded growth rates that are above the industry average (cf. Overview of ElringKlinger's Activities and Structure, page 48).

If ElringKlinger were to fail to identify fundamental technological changes in good time, the Group may lose its vantage point as a pioneer. In the medium term, this could jeopardize its strong position as a development partner to the vehicle industry.

In turn, this would have a detrimental effect on the Group's sales and earnings performance in the medium to long term. ElringKlinger invests around 5% of its revenue in research and development each year. This figure is in excess of the industry average. Additionally, substantial investments have been channeled into the expansion of the Group's technology portfolio in the last five years. In order to combat to the largest extent possible the risk of damages caused by me-too products and imitations, ElringKlinger protects significant technologies and processes in the form of property rights and patents.

The company focuses its R&D activities firmly on areas that are of particular importance to the automotive industry, i.e. optimization of the conventional combustion engine and the development of alternative drive technologies. ElringKlinger is one of just a few suppliers to have taken the lead in positioning itself within the market early on and at great expense with a range of new products tailored to the requirements of e-mobility – be it in the area of battery or fuel cell technology – and exhaust gas purification. However, as the revenue contribution made by these new divisions is still low, rapid and extensive technological change within this area poses the risk of substantial loss of revenue in its classic areas of business and increased pressure on prices. The probability of occurrence is considered low. The possible financial impact, however, would be significant.

External growth/Acquisitions

Consolidation within the automotive supply industry is gaining momentum. Against this backdrop, ElringKlinger may be presented with an opportunity to buy in complementary technology or pursue targeted corporate takeovers in order to enter regional markets faster.

In the case of M&A transactions, ElringKlinger faces the risk that the acquired entities may fall short of specified targets or fail to meet them in the planned time frame. This may necessitate unforeseen restructuring expenditure, which – at least temporarily – could exert downward pressure on the Group's profit margin. In addition, the level of new investment required in this area may be higher than originally planned. This, in turn, would lead to more substantial funding requirements. Technology purchases pose the fundamental risk that the performance originally expected by the company may not be fully achievable or that the products may fail to meet the customer's expectations. As part of the annual impairment tests to be carried out in accordance with IFRS at the end of each year, it may be necessary to recognize impairment losses in connection with goodwill or investees, which would in turn adversely affect annual Group earnings.

Prior to an acquisition, as a matter of principle, ElringKlinger conducts extensive due diligence investigations. All projects are reviewed by a company team of experts. Financial plans and technological performance parameters are checked thoroughly for plausibility and are evaluated accordingly.

ElringKlinger AG only enters into an acquisition if it can ascertain that the entity acquired has the potential to reach the EBIT margin of the Group as a whole. At the same time, the overall financial risk of a transaction must in no way jeopardize ElringKlinger AG's ability to offer a dividend, even when factoring in the effects of an unfavorable scenario.

Financial risks

Bad debt losses

The risk of Original Equipment customers defaulting on payments is considered to be relatively low given the fact that the automotive market has slowly been picking up pace in Western Europe, too. The risk of substantial bad debt losses attributable to individual customers is mitigated by a broadly diversified customer base. In the, at present, unlikely event of an insolvency of one of the three single biggest customers, the default risk in respect of accounts receivable would have amounted to between EUR 13.4 and 21.8 million (between EUR 9.3 and 19.6 million) as of December 31, 2014.

Within the Aftermarket segment the risk of bad debt losses is considered to be higher than in the case of Original Equipment. However, this risk is also much more diversified due to the significant number of customers served in this segment.

Liquidity and financing risks

Since the financial crisis – and against the backdrop of more stringent directives governing capital requirements – lending practices adopted by banks have become more restrictive. At the same time, growth and the development of new technologies necessitate sizeable investments. Funding requirements within the industry as a whole are becoming more substantial. If rating agencies were to view the risk profile of the automotive industry as less favorable, credit terms for the sector and ultimately also for ElringKlinger may be adversely affected.

Despite greatly improved earnings in the industry as a whole and extremely low interest rates, the latent risks associated with financing remain. The risk of insolvencies, particularly with regard to smaller suppliers that are not operating at a global level, can not be ruled out entirely. At the same time, however, this holds opportunities for takeovers by ElringKlinger.

Thanks to a strong equity ratio of almost 50% (50.4%) and a level of debt (net debt in relation to EBITDA) of 1.5 (1.2), the ability of the ElringKlinger Group to refinance itself is considered to be non-critical. At EUR 149.9 (119.0) million, the Group generated cash flow from operating activities that covers to a large extent the company's financing requirements for higher working capital as well as for investments in property, plant and equipment. Additionally, the Group has access to undrawn lines of credit totaling EUR 87.7 (117.1) million.

As of December 31, 2014, all existing financial covenants were met. Based on the full range of information available at present, it can be assumed that the existing financial covenants will also be met in 2015. The company has identified no immediate risks that might jeopardize the financing of major projects planned by ElringKlinger or prevent the company from meeting its payment deadlines. From today's perspective, financing risks that might jeopardize the company's existence as a going concern can be ruled out.

Currency risks

The monetary policies adopted by the world's principal central banks and the divergence in economic performance within the respective regions have resulted in greater exchange rate volatility when viewed across an extended time frame. This applies to the exchange rate between the euro and the US dollar (USD) as well as between the euro and the majority of currencies of the emerging markets and the Swiss franc (CHF).

Compared with the industry as a whole, the ElringKlinger Group is exposed to limited currency risks relating to transactions. In almost all the company's sales regions, both costs and revenues are largely denominated in the same currency (natural hedging). As regards the Swiss subsidiary Hug Engineering AG, Elsau, foreign exchange effects attributable to the strength of the Swiss franc were scaled back in 2013 following the relocation of significant production volumes to the new plant in Thale, Germany, i.e. into the eurozone. Hug now generates a significant proportion of its sales revenue in USD.

Opportunities and risks associated with the movement in foreign exchange rates also exist when translating revenue, expenses and earnings of the international subsidiaries into the Group currency, i.e. the euro. Therefore, changes in the average exchange rates can have an accretive or dilutive effect on the Group's revenue and earnings. In 2014 as a whole, the negative effect of foreign currency translation on revenue was equivalent to EUR 4.2 million in total. However, the depreciation of the euro against many of the world's other currencies resulted in positive differences from currency translation from the third quarter of 2014 onwards. In the fourth quarter, Group revenue was EUR 7.4 million higher as a result of foreign currency translation. In total, the opportunities for more expansive revenues and earnings as a result of foreign currency translation should outweigh the downside risks in 2015.

Exchange rate movements also have an impact on the net finance costs. These factors are mainly associated with the funding of Group entities by the parent company as well as with the measurement of accounts receivable and payable. Owing to the significant depreciation of the euro against the USD and the majority of emerging-market currencies in the second half of the year, the Group was able to recognize, at the reporting date, foreign exchange gains of EUR 10.0 (-4.4) million as of December 31, 2014.

A summary of the quantitative impact of an appreciation or a depreciation of the euro against the key Group currencies can be found in the sensitivity analysis contained in the Group Notes (page 169).

The decision by the Swiss National Bank to abandon its CHF/EUR floor of 1.20 is not expected to pose any severe risks with regard to ElringKlinger's business. Up to 2013 the exchange rate of the euro against the Swiss franc was of particular significance. In 2008, ElringKlinger had financed the acquisition of the Swiss SEVEX Group in Swiss francs, and the changes in this liability as a result of currency translation were accounted for in the net finance costs. This loan was repaid in full in 2013, as a result of which it no longer constitutes an exposure to risk. The Group sees moderate risks as regards the valuation of receivables and payables of its Swiss subsidiaries.

As a result of the currency-related change in competitive factors underlying the Swiss operations of Hug Engineering AG, Elsau, as well as ElringKlinger Abschirmtechnik (Schweiz) AG, Sevelen, projects may alternatively have to be awarded to ElringKlinger Group sites located in the eurozone. However, as key competitors of ElringKlinger Abschirmtechnik (Schweiz) AG have production facilities in Switzerland, this risk is currently still considered to be negligible.

Interest-rate risk

The ElringKlinger Group funds itself through cash flow generated from operating activities as well as through borrowings from banks. A detailed overview of current and non-current financial liabilities categorized by maturity as of December 31, 2014, can be found in the Notes (page 167).

The current level of interest rates within the market is extremely low when viewed over an extended period of time. A marked increase in interest rates would feed into variable rate loans and would ultimately also have an impact on the net finance costs of the ElringKlinger Group. To protect the company against fluctuations in interest rates, ElringKlinger has entered into forward contracts. This has the effect of converting variable interest rates into predictable fixed rates. To a large extent, however, fixed interest rates have been agreed in respect of the financing liabilities of the ElringKlinger Group (cf. Notes: Derivative Financial Instruments, pages 149 and 175).

Please refer to the Group Notes (page 169) for a sensitivity analysis. It outlines the impact of a change in market interest rates on the earnings of the ElringKlinger Group.

Derivative financial instruments

ElringKlinger only makes use of derivative financial instruments in isolated cases, e.g. for the purpose of protecting the company against price fluctuations relating to high-grade steel alloys (nickel) or, as already discussed, in order to mitigate interest rate risks. Where hedging contracts are employed as a protective instrument against commodity price volatility, they are always based on the actual quantity of physical materials required by the company.

Operating on a rolling basis, ElringKlinger again hedged some of its requirements of alloyed high-grade steels in 2014. As of December 31, 2014, around 25% of required volumes computed by the company were hedged by means of nickel forward contracts.

Opportunities

Climate change/New emission standards

One of the key objectives still being pursued by the vehicle industry is to reduce the greenhouse gas CO_2 as well as other harmful emissions such as soot particles, hydrocarbons and nitrogen oxides. The European Union is known to have some of the strictest emission standards worldwide. According to legislation passed by the EU Commission, the level of CO_2 pollutants emitted by new vehicles will have to be reduced from 130 g/km at present to 95 g/km by 2021. These requirements will have to be met by 90% of each manufacturer's vehicle fleet as early as 2020. Looking ahead to 2025, the authorities in Brussels are discussing even lower thresholds of between 78 and 68 g/km. At the same time, the United States and emerging countries such as China have put in place legislation that prescribes a reduction in emissions by up to 30% in the coming years. Furthermore, many of the emerging countries tend to look at the strict Euro standards as a basis for their own policy making*.

For the ElringKlinger Group this legislative framework offers a good platform for additional revenue growth. The trend towards more fuel-efficient engines opens up additional sales opportunities and new markets for highly heat-resistant specialty gaskets and shielding components, such as those required for turbochargers and in exhaust systems but also within the area of lightweight construction. The sector is also seeing the emergence of new regional markets.

Plug-in hybrid vehicles*, i.e. the combination of a combustion engine and electric motor, have been gaining market share. Car makers are extending their product portfolio to include hybrids, the aim being to achieve the strict CO_2 limits applied to their vehicle fleets. For ElringKlinger hybrid concepts open up the opportunity to generate higher revenue per vehicle. Alongside components installed in combustion engines, plug-in hybrids provide the company with the chance to market pressure equalization modules or cell contact systems that are required in the battery unit of the powertrain.

As from 2016, stationary and marine engines as well as construction machinery will be subject to stricter emission regulations. These niche markets hold significant potential for the systems produced by ElringKlinger's Exhaust Gas Purification division.

The revenue and earnings potential associated with the issue of greenhouse gas reduction can be categorized as significant for the ElringKlinger Group. The potential of ElringKlinger exploiting these opportunities within the market in the medium term, at the latest, by drawing on its existing R&D expertise is considered highly probable.

Technology trends/New emission regulations

The technology trends outlined earlier are being driven, inevitably, by increasingly stringent international emission standards. The industry will have to focus on more efficient engines, lightweight engineering and the use of alternative drive technology if it is to have any chance of meeting the ambitious CO_2 targets set by policymakers.

Insofar as ElringKlinger continues to succeed in rolling out new solutions in response to these key topics by utilizing its existing expertise relating to materials and tooling as well as development and production processes, the Group's prospects for revenue and earnings growth can be categorized as significant.

Extension of product and service portfolio

The majority of the divisions within the Group are well placed to apply their existing expertise relating to materials and processes proactively for the purpose of complementing the range with new products and expanding the portfolio in a targeted manner.

The possibilities open to the Group have already been discussed extensively in the chapter on Research and Development. A prime example is the area of lightweight construction. Using new organo materials – a combination of plastics and special fibers – and hybrid plastic/metal lightweight engineering solutions, the Group is beginning to unlock opportunities for a wide spectrum of new product concepts.

In the field of emissions technology, the Exhaust Gas Purification division can look forward to pursuing a broad range of opportunities for filter systems used in construction machinery, stationary engines or marine engines. New emissions standards coming into force from 2016 onwards offer a solid platform for additional areas of application. Prospects are also good for the Engineered Plastics division and its PTFE components used in the industrial sector as a whole as well as in the area of medical technology.

All divisions within the Group are proactively working on the expansion of their product and service portfolios with the view to achieving the planned target of at least 5% organic revenue growth per annum.

* Cf. glossary

Consolidated Financial Statements

New sales markets

Moving into new regional sales markets with existing ElringKlinger products presents opportunities for significant revenue and earnings growth. In this context, the ASEAN region may be cited as a prime example. In the BRIC states, the Group has the opportunity to expand its sales volumes by manufacturing all product groups locally and selling them in the regional markets.

There are opportunities for further growth within the Aftermarket business by widening the product range, launching new products as well as by tapping new sales regions, e.g. in North America and in Asia.

Industry consolidation

Car industry growth, measured on the basis of production output, will be driven primarily by Asia and North America in the coming years. This poses significant challenges for many small and medium-sized enterprises that still have either an insufficient international presence or none whatsoever.

What is more, suppliers are having to take on responsibility for an increasingly large proportion of value creation relating to new vehicle production. As a result, they are faced with substantial investments in research and development, in addition to being exposed to more extensive financing risks. Against this backdrop, the market will be faced with the possible risk of insolvencies. In the coming years, therefore, the automotive supply industry will have to contend with a significant wave of consolidation.

For the ElringKlinger Group, this scenario offers additional opportunities to extend its technology portfolio through acquisitions or to establish a stronger competitive position through consolidation of individual product groups. At the same time, the increasingly important issue of managerial succession in family-run enterprises may present the Group with opportunities to acquire such entities on the basis of valuations that can still be considered acceptable. In some cases, competitors will also exit the market without the influence of consolidation processes. ElringKlinger will continue to monitor the market systematically in order to identify potential opportunities for acquisition as early as possible and pursue them where this is deemed appropriate and financially feasible.

The plan is for the ElringKlinger Group to continue to exploit growth opportunities through acquisitions. The associated financial impact is difficult to quantify in advance. It may range from insignificant to indeed significant when measured on the basis of revenue and earnings contributions for the Group.

Overall assessment of risks and opportunities

Fundamentally, the system deployed by ElringKlinger AG for the purpose of managing risks and opportunities has proven to be very effective in recent years. Its efficacy is illustrated by the company's success in handling the severe economic crisis of 2008/09. The company invested early on in promising areas of its business, such as E-Mobility or Exhaust Gas Purification.

The conclusion drawn from scrutinizing the opportunities and risks in their entirety is that the situation of the ElringKlinger Group in respect of risk exposure is, in essence, similar to that seen in the previous year. Risks of a geopolitical or external nature are beyond the scope of control of the ElringKlinger Group or can only be actively controlled to a limited extent.

When weighing the relevance of risk in respect of the possible impact on Group earnings, the three principal risks to which the ElringKlinger Group is exposed are a potentially severe global slump in the market, rapid technological change in drive systems and a dynamic surge in commodity prices.

The economic climate has improved throughout Western Europe and North America, but also in some of the emerging markets such as India. On the other hand, the risks emanating from the current political and economic situation in Russia and the economic malaise afflicting Brazil are much more pronounced than in the previous year. The strategic risks remain unchanged. There has been a trend towards more wide-ranging financial opportunities and risks attributable to exchange rate fluctuations.

Drawing on the risk management system outlined above and its flexible cost structure, if necessary the ElringKlinger Group is in a position to respond promptly to any risks that may arise by implementing the corresponding risk management arrangements. The entity makes a point of not exposing itself to risks that may jeopardize the fundamental ability of ElringKlinger AG to offer a dividend. The Group's solid financial position as reflected in an equity ratio of 49.7% (50.4%) provides a protective shield in respect of ElringKlinger and its business model even in the event of a protracted market crisis, of which, however, there are no indications at present.

There are currently no identifiable risks that might jeopardize the future existence of the company as a going concern, either in isolation or in conjunction with other factors. At the same time, the Group is well positioned to actively seize any opportunities arising from the long-term technology trends currently seen in the market and with industry consolidation. The principal opportunities relate to the issue of climate change and the associated technological trend towards more fuel-efficient engines. Benefiting from products centered around the issue of engine downsizing as well as a number of new concepts in the field of lightweight construction, the Group can look forward to opportunities for growth around the globe.

Against the backdrop of a manageable risk profile, the ElringKlinger Group remains well positioned to outpace global automobile production by 4 to 5 percentage points in the coming years.

Compensation Report

Compensation structure for members of the Management Board

Contracts for members of the Management Board are drawn up by the Personnel Committee of the Supervisory Board, negotiated with the respective members of the Management Board and concluded following approval by the entire Supervisory Board. The Personnel Committee reviews the level of compensation at predefined intervals and advises the Supervisory Board on appropriate adjustments. These recommendations are decided upon by the full Supervisory Board. The recommendations take into account the size and international operations of the company, its economic and financial situation, its prospects for the future, the level and structure of management board compensation offered by similar companies and the compensation structure in place in other areas of the company. In addition, the duties and performance of each member and of the entire Management Board are taken into consideration. Compensation is set at a level that ensures it is competitive within the market for highly qualified managers and provides an incentive for successful work in a corporate structure with a strong focus on performance and achievement. If requested by the company, the Management Board members also take on responsibilities in affiliated entities. The Management Board members receive no additional compensation for such activities.

Management Board compensation for the 2014 financial year is presented in accordance with the provisions set out in two different standards: first, as in the past, the applicable financial reporting standards (GAS 17) and secondly, for the first time, the German Corporate Governance Code in the version of June 24, 2014.

Compensation system up to December 31, 2013

The compensation system in place up to December 31, 2013, included fixed and variable components. The variable components were made up of an annual management bonus, which was determined on the basis of Group earnings before interest and taxes (Group EBIT), and a long-term component that was measured on the basis of share performance.

The annual management bonus was calculated as a percentage of the average Group earnings before interest and taxes of the last three years ended (Group EBIT). It was paid annually. The annual management bonus was limited to three annual fixed salaries.

As a component of long-term variable compensation, members of the Management Board were granted stock appreciation rights. Holders of stock appreciation rights were entitled to a cash-settled payment. Stock appreciation rights were not furnished with any entitlements to shares in ElringKlinger AG. On February 1 of each year – commencing in 2013 – 30,000 stock appreciation rights were to be allocated to each member of the Management Board. The grant price was computed as the arithmetic mean of the market price of ElringKlinger shares in the last sixty stock exchange trading days prior to the grant date. An essential precondition for the allocation of stock appreciation rights was the personal investment by the Management Board members of one-tenth of the overall number of stock appreciation rights in shares of ElringKlinger AG. The vesting period of the stock appreciation rights was four years. On completion of the vesting period, the Management Board member is entitled to request redemption of the stock appreciation rights within another two years. The redemption price is determined on the basis of the average market price of the ElringKlinger shares over the last sixty stock exchange trading days prior to the request for redemption. Redemption of the stock appreciation rights can only be requested if the redemption price is 25% higher than the grant price. The redemption price as a whole is limited per tranche to the amount of two fixed annual salaries at the time of redemption. Provisions are recognized in consideration of expected future obligations.

Up to February 1, 2013, the stock appreciation bonus encompassed the allocation of stock appreciation rights in five and four tranches respectively. For two of the Management Board members this allocation occurred in the period from February 1, 2008, to February 1, 2012. For one of the Management Board members it occurred in the period from January 1, 2009, to January 1, 2012. The grant price was computed as the arithmetic mean of the market price of ElringKlinger shares in the last sixty stock exchange trading days prior to the grant date. The number of stock appreciation rights was determined on the basis of fixed remuneration payable to the individual Management Board member as well as the level of the grant price (fixed compensation in relation to grant price = number of shares allocated). The amount to be remunerated was calculated on the basis of the difference between the redemption price, which was also calculated as an average of the last sixty stock exchange trading days, and the grant price. A payment is made only when the share price of ElringKlinger AG has increased more than the index in which ElringKlinger is listed (MDAX), but at least by 25%. Remuneration per tranche is limited to the amount of annual fixed salary payable. The vesting period is four years. On conclusion of the new Management Board service contracts the existing stock appreciation bonus came to an end. The tranches yet to be redeemed will remain in place until the vesting periods have ended.

Compensation system as from January 1, 2014

The compensation system applicable as from January 1, 2014, also includes fixed and variable components. It comprises:

1. Annual fixed salary
2. Long-term incentive I (LTI I)
3. Long-term incentive II (LTI II)
4. Fringe benefits
5. D&O insurance
6. Retirement pension

Fixed annual salary

The fixed annual salary is a cash payment in respect of the current financial year. It takes into account the area of responsibility of the Management Board member in question and is paid in twelve monthly installments.

Long-term incentive I (LTI I) (annual management bonus)

LTI I is a variable component of compensation that is based on the average Group EBIT (Group earnings before interest and taxes) of the last three financial years. The Management Board receives a percentage share of the three-year mean. The long-term incentive I corresponds to the principles previously applied to the annual management bonus and is granted as compensation for services performed in respect of one financial year. LTI I is limited to a maximum of three times the amount of fixed compensation in the financial year in question. Payment of LTI I for a financial year ended occurs on approval of the separate and consolidated financial statements by the Supervisory Board in the subsequent year. On termination of the appointment as a Board member either at the request of the Management Board member in question or for good cause, entitlements to the variable compensation components of LTI I shall lapse as soon as the termination of said Board appointment comes into legal effect.

ILLUSTRATIVE CALCULATION LTI I

		EBIT average	180,000.000
		Variable compensation	Cap Fixed salary 2014 x 3
Dr. Wolf	0.80%	**1,440,000.00**	**1,440,000.00**
Becker	0.60%	**1,080,000.00**	**1,116,000.00**
Schmauder	0.60%	**1,080,000.00**	**1,116,000.00**
Total		**3,600,000.00**	**3,672,000.00**

Long-term incentive II (LTI II)

The so-called Economic Value Added (EVA) bonus is granted to the Management Board as a constituent element of variable Management Board compensation that focuses on positive corporate performance over the long term. LTI II creates a long-term incentive for the Management Board to make a committed contribution to the success of the company. LTI II is a bonus based on the economic value added to the ElringKlinger Group. The Management Board receives a percentage of the economic value added calculated in respect of the company. The EVA bonus corresponds to the percentage of average economic value added in the current and the two preceding financial years. The annual economic value added is calculated according to the following formula:

EVA = (EBIT x (1 – T)) – (WACC x Capital Invested)

The first component is calculated on the basis of Group earnings before interest and taxes (Group EBIT) in respect of the financial year as well as the average Group tax rate.

The second component is computed by multiplying Group WACC by capital invested. The weighted average cost of capital (WACC) is calculated with the help of the basic interest rate, the market risk premium and the beta factor. The beta factor represents the individual risk of a share in relation to the market index. It is determined as an average value of all the peer group companies. The credit spread for borrowing costs, as the premium on the risk-free basic interest rate, was derived from a peer group rating. Capital invested is calculated on the basis of Group equity plus net financial liabilities (i.e. net debt) as of January 1 of the financial year. 90% of the LTI II amount is paid out to the member of the Management Board in question in the subsequent year. Using the remaining 10% of the LTI II amount, the company purchases shares in ElringKlinger AG on behalf and for account of the Management Board member in question. The Management Board member is prohibited from accessing these shares for a period of three years. Dividends and subscription rights are at the disposal of the Management Board member. The maximum amount granted from LTI II has been set at twice the amount of fixed compensation.

If a member of the Management Board enters the service of the company during the financial year and is not in employment for the company for a full twelve-month period, LTI II is reduced pro rata temporis.

On termination of a contract of service, the Management Board member in question may access the shares only after a period of twelve months subsequent to said termination. On termination of the appointment as a Board member either at the request of the Management Board member in question or for good cause, entitlements becoming applicable in the future in respect of the variable compensation components of LTI II shall lapse.

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ILLUSTRATIVE CALCULATION LTI II

		EVA mean value	76,800,000
			Cap Fixed salary 2014 x 2
Dr. Wolf	1.25%	**960,000**	**960,000.00**
Becker	1.00%	**744,000**	**744,000.00**
Schmauder	1.00%	**744,000**	**744,000.00**
Total		**2,448,000**	**2,448,000.00**

Fringe benefits

The taxable fringe benefits awarded to Management Board members mainly encompass the provision of a company car and mobile phone and communication devices as well as expense allowances and insurance benefits.

D&O insurance

The members of the Management Board are covered by the Group's existing directors' and officers' liability insurance (D&O insurance). The agreed deductible corresponds to the minimum deductible set out in Section 193 (2) sentence 3 AktG (German Stock Corporation Act) in the applicable version.

Retirement pension

The contracts of the Management Board members of ElringKlinger AG include commitments in respect of an annual retirement pension that is measured as a percentage of pensionable income. The entitlement to a retirement pension becomes applicable as soon as the contract of service has ended, but not before the individual has reached the age of 63 or not before the Management Board member has reached the age that entitles him to receive full statutory pension benefits as well as in the event of occupational disability. The percentage is dependent on the number of years of service as a Management Board member. Existing entitlements in respect of time spent as a salaried employee of the company are not factored in to this calculation and continue to apply. The percentage rate is 3% or 3.2% of the last monthly fixed salary prior to leaving the company in respect of each full year of service. This percentage rate can rise to a maximum of 45%.

If a member of the Management Board acts in a manner that is grossly negligent or displays gross negligence in his failure to act in specific instances and such actions or failures to act would result in significant damages to the Group, all entitlements to a retirement pension shall lapse. The same shall apply if the member of the Management Board enters the service of an entity that is in direct competition with the company.

The contracts include provisions governing surviving dependents' benefits. If a member of the Management Board dies during the period in which the employment contract is applicable or once the retirement benefits become due, his widow or dependent children shall receive a widow's or orphan's pension. The widow's pension amounts to 50% of the retirement pension of the deceased. The orphan's pension amounts to 20% to the extent that a widow's pension is payable simultaneously and 40% to the extent that no widow's pension is payable.

The widow's or orphan's pensions shall not exceed 60% of the amount to which the deceased would have been entitled if he had entered into retirement on the day of his death.

Review and adjustment of compensation

The salary components are to be reviewed by the company's Supervisory Board every two years. The next review will take place as of January 1, 2015.

The Supervisory Board has the right to grant the Management Board special remuneration for exceptional accomplishments. The Supervisory Board is also authorized to reduce the Management Board's total compensation to an appropriate level if the company's situation deteriorates to such an extent that continued payment of the former remuneration would be unreasonable.

Severance pay cap

In the event of premature termination of the contract of service without good cause any payments potentially to be agreed with the Management Board member shall not exceed the amount equivalent to two years' annual compensation ("severance pay cap") and the amount equivalent to compensation payable in respect of the remaining term of this contract of service.

In the event of a change of control any potential severance payment to be agreed by the parties shall not exceed 150% of the severance pay cap.

Loans to Management Board members

No advances or loans were granted to members of the Management Board of ElringKlinger AG in 2013 or 2014. Likewise, the company provided no guarantees or similar commitments.

Management Board compensation 2014

Management Board compensation for the 2014 financial year has been presented, as in the past, pursuant to the applicable financial reporting standards (GAS 17) as well as, for the first time, in accordance with the recommendations of the German Corporate Governance Code in the version dated June 24, 2014.

Management Board compensation 2014 pursuant to financial reporting standard GAS 17

Total Management Board compensation in accordance with Section 314 (1) no. 6a sentence 1 to 4 HGB (German Commercial Code) was allocated to the respective members of the Management Board as follows:

	Dr. Stefan Wolf		Theo Becker		Karl Schmauder		Total	
in EUR k	2013	2014	2013	2014	2013	2014	2013	2014
Short-term compensation								
Fixed compensation	504	526	382	392	379	390	1,265	1,308
Variable performance-related compensation	1,025	1,249	643	934	643	934	2,311	3,117
Total	**1,529**	**1,775**	**1,025**	**1,326**	**1,022**	**1,324**	**3,576**	**4,425**
Long-term compensation								
Long-term performance-related compensation	0	564	0	451	0	451	0	1,467
Variable share-based compensation	158	0	143	0	143	0	444	0
Total	**158**	**564**	**143**	**451**	**143**	**451**	**444**	**1,467**
Total compensation	**1,687**	**2,339**	**1,168**	**1,777**	**1,165**	**1,775**	**4,020**	**5,892**

Pension obligations

The current service cost as well as the present value (DBO) of the pension provisions are as follows:

	Dr. Stefan Wolf		Theo Becker		Karl Schmauder		Total	
in EUR k	2013	2014	2013	2014	2013	2014	2013	2014
Total compensation	167	236	121	155	104	130	392	521
Present value (DBO)	2,412	4,091	2,042	3,106	2,881	4,197	7,335	11,394

Management Board compensation pursuant to German Corporate Governance Code

The following presentation of compensation granted to and received by the Management Board members is based on the recommendations of the German Corporate Governance Code in the version dated June 24, 2014. The presentation uses the "model tables" recommended by the Code.

The following table presents benefits granted to the members of the Management Board in respect of the 2014 financial year, as disclosable under the provisions of the German Corporate Governance Code:

BENEFITS GRANTED (PURSUANT TO GCGC)

	Dr. Stefan Wolf			
in EUR k	2013	2014	Min. 2014	Max. 2014
Non-performance-based compensation				
Fixed annual salary	467	480	480	480
Fringe benefits	37	46	46	46
Total	**504**	**526**	**526**	**526**
Performance-based compensation				
One-year variable compensation	1,025	1,249	0	1,440
Multi-year variable share-based compensation 2013–2017	158	0	0	0
Multi-year variable compensation 2012–2014	0	565	0	960
Multi-year variable compensation 2013–2015	0	560	0	960
Multi-year variable compensation 2014–2016	0	552	0	960
Total	**1,183**	**2,926**	**0**	**4,320**
Service cost	167	236	236	236
Total compensation	**1,854**	**3,688**	**762**	**5,082**

Compared to the table presented pursuant to GAS 17, in addition to LTI II 2014 payable in the subsequent year, this table also lists LTI II for the years 2015 and 2016 that were granted in the reporting period as a result of the complete revision of contracts of service for the Management Board members in line with the German Corporate Governance Code. In addition, the minimum and maximum amounts achievable have been listed. The pension expense, which is presented in the form of the current service cost in the above table, has been included in total compensation.

The following table presents the allocation in/for the 2014 financial year. As regards fixed annual salary, fringe benefits, annual management bonus and LTI II 2014, the table presents the allocation for the 2014 financial year.

ALLOCATION PURSUANT TO GCGC

	Dr. Stefan Wolf	
in EUR k	2013	2014
Non-performance-based compensation		
Fixed annual salary	467	480
Fringe benefits	37	46
Total	**504**	**526**
Performance-based compensation		
One-year variable compensation	1,025	1,249
Multi-year variable compensation 2012–2014	0	565
Total	**1,025**	**1,814**
Service cost	167	236
Total compensation	**1,696**	**2,576**

Theo Becker				Karl Schmauder				Total			
2013	2014	Min. 2014	Max. 2014	2013	2014	Min. 2014	Max. 2014	2013	2014	Min. 2014	Max. 2014
363	372	372	372	362	372	372	372	1,192	1,224	1,224	1,224
19	20	20	20	17	18	18	18	73	84	84	84
382	**392**	**392**	**392**	**379**	**390**	**390**	**390**	**1,265**	**1,308**	**1,308**	**1,308**
643	934	0	1,116	643	934	0	1,116	2,311	3,117	0	3,672
143	0	0	0	143	0	0	0	444	0	0	0
0	451	0	744	0	451	0	744	0	1,467	0	2,448
0	447	0	744	0	447	0	744	0	1,454	0	2,448
0	443	0	744	0	443	0	744	0	1,438	0	2,448
786	**2,275**	**0**	**3,348**	**786**	**2,275**	**0**	**3,348**	**2,755**	**7,476**	**0**	**11,016**
121	155	155	155	104	130	130	130	392	521	521	521
1,289	**2,822**	**547**	**3,895**	**1,269**	**2,795**	**520**	**3,868**	**4,412**	**9,305**	**1,829**	**12,845**

Theo Becker		Karl Schmauder		Total	
2013	2014	2013	2014	2013	2014
363	372	362	372	1,192	1,224
19	20	17	18	73	84
382	**392**	**379**	**390**	**1,265**	**1,308**
643	934	643	934	2,311	3,117
0	451	0	451	0	1,467
643	**1,385**	**643**	**1,385**	**2,311**	**4,584**
121	155	104	130	392	521
1,146	**1,932**	**1,126**	**1,905**	**3,968**	**6,413**

Compensation structure for members of the Supervisory Board

Supervisory Board compensation is governed by the provisions set out in Section 13 of the Articles of Association of ElringKlinger AG. The compensation structure for Supervisory Board members remained unchanged compared with last year. The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on May 16, 2013. In accordance with the requirements of the German Corporate Governance Code, compensation is divided into a fixed component and a variable component. The members of the Supervisory Board receive fixed compensation of EUR 10k for each full financial year they have served on the Supervisory Board. Additionally, the members of the Supervisory Board receive a lump-sum payment of EUR 1k for each Supervisory Board meeting they attend as well as fixed compensation of EUR 4k for membership of a committee. The variable component of compensation is based on average IFRS Group earnings before taxes in respect of the last three financial years and is calculated as 0.02% of the aforementioned amount.

The role of the Supervisory Board Chairman and that of his Deputy are taken into consideration when determining the level of compensation. The Chairman of the Supervisory Board receives two times and the Deputy Chairman one-and-a-half times the compensation paid to other Supervisory Board members. Expenses incurred by the Supervisory Board members are reimbursed to an appropriate extent. Supervisory Board members who have not held the post for a full financial year receive a pro rata amount of fixed and variable compensation.

Supervisory Board compensation 2014

In the period under review total compensation for the Supervisory Board of ElringKlinger AG was EUR 608k (2013: EUR 619k). Additionally, travel expenses totaling EUR 2k (2013: EUR 2k) were reimbursed. Compensation payable to the individual members of the Supervisory Board was as follows:

	Fixed compensation		Variable compensation		Total compensation	
EUR k	2014	2013	2014	2013	2014	2013
Walter Herwarth Lechler	48	48	57	55	105	103
Markus Siegers	25	25	43	42	68	67
Gert Bauer	18	18	29	28	47	46
Armin Diez	18	18	29	28	47	46
Klaus Eberhardt	22	14	29	17	51	31
Pasquale Formisano	14	14	29	28	43	42
Dr. Margarete Haase	14	14	29	28	43	42
Karl Uwe van Husen	0	9	0	11	0	20
Dr. Thomas Klinger-Lohr	0	22	0	28	0	50
Paula Monteiro-Munz	18	18	29	28	47	46
Prof. Hans-Ulrich Sachs	13	14	29	28	42	42
Gabriele Sons	19	0	11	0	29	0
Manfred Strauß	14	14	29	28	43	42
Gerhard Wick	14	14	29	28	43	42
Total	**237**	**242**	**372**	**377**	**608**	**619**

Variable compensation presented above reflects accrued expense based on average IFRS Group earnings before taxes in the last three financial years.

Details according to Section 289 (4) and Section 315 (4) of the German Commercial Code (HGB), particularly with regard to share capital and disclosure of potential takeover obstacles

As of December 31, 2014, the share capital of ElringKlinger AG was EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's share capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

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

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2014, are as follows:

Walter H. Lechler, Stuttgart	Total of 22.12% (of which 10.01% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))

No shareholder is equipped with special rights constituting controlling powers.

ElringKlinger does not operate any employee profit-sharing schemes.

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

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

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

Details relating to authorized capital and the utilization of authorized capital are included in the Notes on page 162.

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

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

Corporate Governance Statement pursuant to Section 289a of the German Commercial Code

The Corporate Governance Statement pursuant to Section 289a of the German Commercial Code (Handelsgesetzbuch – HGB) is part of the combined management report and has been published on the ElringKlinger website at www.elringklinger.de/en/company/corporate-governance/declaration-of-conformity.

Report on Expected Developments

Outlook – Market and Sector

Moderate growth in global economy with strong regional divergence

Forecasts issued by the International Monetary Fund (IFM) again point to a mixed picture for the global economy in 2015. Led by the United States and markets in Asia, the world economy will continue to follow a path of subdued growth. As regards the eurozone, it would appear that the sluggish rate of growth seen here in recent years will pick up only slightly in 2015.

According to data released by the IMF, the global economy will expand marginally in 2015, with a projected rate of growth of 3.5% compared to 2014. Having said that, growth expectations were scaled back again as early as January 2015 – revised downwards by 0.3 percentage points – compared to the forecast issued in October 2014. The IMF has now taken a more skeptical view of the situation in China, Russia, the eurozone, Japan and some of the key oil-exporting countries.

The eurozone's economy should benefit from a tailwind as oil prices tumble and the euro depreciates against other currencies. However, there is hardly any chance of a fundamental economic recovery, particularly as the structural problems afflicting many countries in the eurozone remain unsolved. It remains to be seen whether the announcement by the European Central Bank (ECB) that it would buy up government bonds to counteract the possibility of deflation will in fact stimulate economic recovery.

The prospects for Germany's economy are set to improve, underpinned by the fact that a weak euro is making domestic companies involved in foreign trade more competitive in pricing terms. The German economy is also likely to be supported by the low price of oil and an ECB monetary policy that is essentially too loose in relation to Germany's economic performance. At the same time, however, as yet weak demand from the emerging markets and the euro area, but also measures aimed at rolling back recent labor market reforms, are expected to have a dampening effect.

The direction taken by the Russian economy is dependent to a large extent on when sanctions will finally be loosened and whether the painful downward spiral in oil prices can be reversed. The economy, however, is not expected to improve until 2016 at the earliest.

The US economy is likely to retain its leading position among the established economies in 2015. Declining energy prices, low unemployment and moderate inflationary trends provide a solid basis for a sustained economic upturn – even with the prospect of accelerated growth.

Brazil's economy, by contrast, continues to be burdened by a national budget that is in urgent need of repair, a situation compounded by high inflation and the slump in the price of commodities that are of vital importance to the country's income.

The outlook for Asia as a whole remains positive. China is expected to see a slight dip in the rate of growth, albeit from a comparatively high base. Having said that, measures by the government and central bank are proving successful. India, in the meantime, has recorded accelerated growth in its economy. Although Japan had, technically speaking, slipped into recession in the third quarter of 2014, the Japanese economy is expected to return to a path of slight growth in 2015 as a result of the expansive fiscal and monetary policy that remains in place there.

GDP GROWTH PROJECTIONS

Year-on-year change	2014	Projections 2015	Projections 2016
World	3.3%	3.5%	3.7%
Germany	1.5%	1.3%	1.5%
Eurozone	0.8%	1.2%	1.4%
USA	2.4%	3.6%	3.3%
Brazil	0.1%	0.3%	1.5%
China	7.4%	6.8%	6.3%
India	5.8%	6.3%	6.5%
Japan	0.1%	0.6%	0.8%

Source: International Monetary Fund (January 2015)

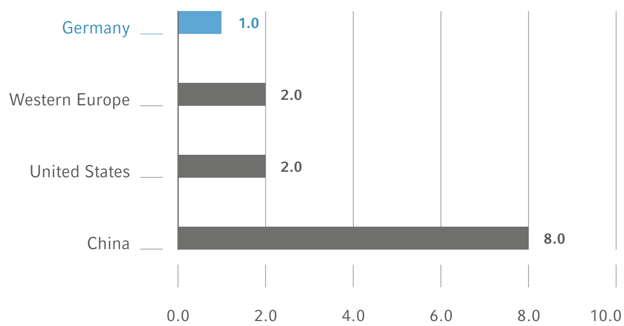
Sustained growth in global automobile markets in 2015

Despite a trend of uninterrupted growth since 2008, the global vehicle market is likely to set another new record – for the fifth time in succession – in 2015, as calculated on the basis of new registrations. According to projections, sales of cars and light trucks will rise by 2% to 4% worldwide. Global car production is expected to expand at a similar rate.

The ElringKlinger Group anticipates growth of around 2% with regard to worldwide automobile production. As regards Europe, the Group predicts that the vehicle market will grow at a relatively subdued rate in 2015, i.e. there is still unlikely to be a far-reaching recovery since the slump back in 2008. Once again, the main impetus for growth will come from China, or Asia as a whole, and North America, although it seems unlikely that 2015 will be as buoyant as the previous years when it comes to the rate of expansion. Against this backdrop, ElringKlinger anticipates slight gains in car sales for the US market and less pronounced growth of 5% to 8% for the Chinese auto market.

According to the majority of forecasts, the European car market as a whole is unlikely to see any pronounced upturn in 2015. Consumer behavior continues to be impacted by unresolved structural issues in many of the Southern European countries. Similarly, having remained stagnant for several years, the German vehicle market is only expected to generate slight growth of 1% to 2% in 2015. However, the sharp decline in fuel prices should at least help to provide some fresh impetus when it comes to car sales. Domestic vehicle manufacturers are again pinning their hopes on demand from overseas, boosted by the weaker euro. As German manufacturers are now producing more and more vehicles and engines at local facilities in Asia and North America, domestic car production in Germany – operating at record-breaking levels for many years – is only expected to expand marginally in 2015.

GROWTH PROJECTIONS FOR GLOBAL CAR SALES IN 2015
in %



Source: VDA, CAAM

With vehicle sales reaching 16.4 million units, the US market managed to edge its way up to pre-crisis levels of 2007. The market has already grown by more than half, when compared to the low recorded in 2009. Therefore, growth expectations for 2015 are slightly more tentative. Given the solid labor market situation and a strong economic performance, the US vehicle market should be in a position to expand by 2% to 3% in 2015. Supported by the low price of oil, demand is likely to shift more and more towards SUVs and light trucks.

By contrast, the outlook for Brazil – the principal vehicle market in South America – remains opaque. After severe downturns in 2014, at least 2015 is likely to see a return to greater stability for car sales.

Led by China, Asia continues to be the growth driver for the global automobile industry. Although forecasts for 2015 point to a slight loss in forward momentum with regard to domestic demand, China looks set to extend its leading position as the world's single largest vehicle market in 2015.

The ASEAN region is also expected to enjoy continued growth in vehicle sales. On the back of a visible increase in the number of cars sold during the second half of 2014, India's vehicle market is expected to remain on track for growth in 2015. The Japanese vehicle market, by contrast, is likely to be faced with a downturn in sales, having previously benefited from the positive effects of pre-emptive purchases in 2014 in anticipation of an imminent rise in domestic VAT.

The automotive sector will remain a growth industry in the long term. The particularly buoyant emerging countries are likely to grasp an ever larger share of new car registrations. In the years leading up to 2020, the average annual rate of growth relating to car sales in Asia is expected to be in excess of 5%, compared to just 2% in Western Europe. In China, only 73 out of 1,000 people own a car. By contrast, vehicle density in Germany currently stands at 610 cars per 1,000 inhabitants.

The ElringKlinger Group was quick off the mark when it came to responding to these trends and has positioned itself as a global player. In particular, it has been strengthening its presence in Asia substantially in recent years. Including exports, the Group now generates around one-quarter of its Original Equipment revenue from sales in Asia. This share of revenue is to expand further thanks to new product ramp-ups scheduled for the coming years (cf. Locations and Markets, page 49 et seqq.).

Moderate growth in truck demand in 2015 – Europe swings towards recovery

In recent years, ElringKlinger has expanded substantially its share of revenue generated from truck components within the Original Equipment segment to 16.4% (14.8%). In terms of sales by region, the focus has been on markets in Europe and North America. Having said that, customers from Asia assumed a more prominent position within the segment for midsized and heavy trucks in 2014.

ElringKlinger will be able to benefit directly from an increase in truck production output in the established markets of Europe, the US and Japan. Following the introduction of Euro VI models, revenue per vehicle tends to be higher due to additional sales associated with lightweight plastic housing modules. With this in mind, ElringKlinger anticipates that business relating to truck components will produce above-average growth rates in the coming years.

After challenging market conditions in 2014, truck demand in Europe is expected to pick up slightly in 2015. The gradual onset of economic recovery in Western Europe should have a positive impact on the market as a whole. Against this backdrop, new truck registrations are expected to grow by a moderate 2% to 3%. By contrast, the future direction taken by truck sales in Russia is difficult to predict and will remain a risk factor in 2015 too.

The economy is expected to put in a solid performance, which in turn should drive demand for commercial vehicles. To a large extent, this aspect is again likely to dictate the momentum of growth within the North American truck market in 2015. This positive outlook is underpinned by a continued rise in orders received by manufacturers of Class 8 trucks. Due to the high prior-year comparative base, however, it is anticipated that shipments of Class 8 trucks will only rise by 3% in 2015.

The prospects for Brazil's truck market are far less favorable in terms of the future pattern of demand for trucks. In view of the country's persistently weak economic performance, it is impossible to rule out entirely that local truck sales will decline by a further 5% to 10% in 2015.

Outlook – Group

Competitive climate remains challenging despite industry consolidation

The demands made on automotive suppliers are becoming increasingly complex. At present, suppliers account for around 75% of the value creation process associated with vehicles – and this trend is rising. Furthermore, with drive systems evolving in technological terms, the industry as a whole is having to contend with additional expenditure on the development of alternative propulsion concepts from battery technology through to fuel cells. At the same time, the intensity of R&D work relating to efforts aimed at optimizing the conventional combustion engine has also become more pronounced. The industry is pushing ahead with downsizing and lightweighting in order to be able to meet an extremely challenging CO_2 target set by the European Union of an average of 95 g/km by the year 2020.

Operating in this environment, ElringKlinger is regularly approached by customers with requests to reduce its prices and further improve productivity levels. Lower prices have to be offset by means of improved efficiency relating to production processes or through further automation, which in 2015 will again require an appropriate level of investment in streamlining measures.

Maintaining a level of research and development expenditure that is in excess of the industry average, ElringKlinger looks set to secure unique selling points relating to its products and manufacturing processes not only in 2015 but also in the years to come. Taking into account the capitalized research and development expenses, the Group again plans to operate with an R&D ratio of around 5% in the coming years.

Growth target underpinned by higher order intake

Looking ahead to 2015, the Group anticipates further organic revenue growth and an increase in adjusted earnings before interest and taxes.

This outlook is underpinned by the volume of incoming orders already recorded by ElringKlinger. As of December 31, 2014, the volume of orders held throughout the Group amounted to EUR 688.2 (595.4) million. This represents an increase of 15.6%.

Order intake rose by 10.5% year on year to EUR 1,418.6 (1,284.4) million in 2014 as a whole.

In the fourth quarter of 2014 alone, order intake increased to EUR 377.1 (298.3) million, i.e. 26.4% up on the figure recorded at the end of the final quarter of the previous year.

Group-wide cost streamlining

The ElringKlinger Group will again be making targeted investments in further automation within the area of production and will optimize existing manufacturing processes by introducing new intelligent process engineering methods for the purpose of cutting costs. The aim is to improve efficiency by at least 3.0% in 2015. In the coming years, around a third of the expenditure earmarked for investments will again be directed at streamlining measures.

Material and staff costs remain the largest expense items within the Group. Based on the supply contracts already concluded, prices for the majority of commodities and input products procured by ElringKlinger should remain largely stable. However, some of the commodities required by the Group, such as aluminum, may well become more expensive in future. If the price of oil remains at the much lower level seen towards the end of 2014, prices for polyamide-based granules used in the Plastic Housing Modules/Elastomer Technology division may dip slightly over the course of 2015. By contrast, it cannot be ruled out entirely that prices for specific materials, such as alloy surcharges for high-grade steels, will rise over the course of 2015. Sales prices associated with waste material from discarded cut-outs, which is sold by ElringKlinger for recycling, are expected to remain largely unchanged.

As the ElringKlinger Group continues to employ almost half of its workforce at sites in Germany, the direction taken by staff costs within the Group is heavily dependent on the extent of the collective bargaining agreement negotiated for the German metal-working industry. As from May 1, 2015, wages and salaries will rise yet again, up by 3.4%, with regard to those members of the workforce employed at the German sites of the ElringKlinger Group and covered by the aforementioned collective agreement. Additionally, costs will be pushed up by one-off payments of EUR 150 per employee agreed for the period of January to March 2015. This rise in staff costs will have to be offset by corresponding streamlining measures and cost savings.

Considering the level of revenue growth planned for 2015 and factoring in the first-time consolidation of M&W Manufacturing Company, Inc., Warren/USA (M&W), the Group anticipates a further increase in the number of people employed. Personnel levels will be expanded primarily at the international subsidiaries. However, the aim is to keep the percentage rate of human resources upsizing below that of revenue growth.

Administration costs are to be reined in by further centralizing administrative functions within the Group as well as by optimizing processes. In percentage terms, the increase attributable to administration cost is to be less pronounced than the rate of revenue growth at Group level.

Further revenue and earnings growth planned for 2015

ElringKlinger anticipates that global automobile production will expand by around 2% in 2015. Based on this assumption, the Group is targeting organic sales revenue growth of 5% to 7%, i.e. the aim is to grow well in excess of the market as a whole. Additionally, the consolidation of recently acquired M&W (in future "ElringKlinger Automotive Manufacturing Inc.") will contribute around EUR 30 million to Group revenue in the financial year as a whole.

Full consolidation of M&W as from February 2015 will initially have a slightly negative effect on the Group EBIT margin. Due to the greater relevance of acquired entities, adjusted EBIT will in future be presented before the effects of purchase price allocation. Adjusted for non-recurring items, EBIT before purchase price allocation is expected to be between EUR 170 and 180 million in 2015.

Due to current demand patterns and the as yet insufficient degree of capacity utilization in production, the E-Mobility division is not expected to see a fundamental improvement in its earnings performance in 2015. Given the plunge in fuel prices, plug-in hybrids and pure electric vehicles are less appealing to consumers when compared to cars equipped with conventional combustion engines. This situation has, in addition, made the process of predicting the volume of components requested by customers as part of their scheduling more difficult.

This is being counteracted by the company in the form of structural measures aimed at reducing costs in the E-Mobility division. In the medium term, the ElringKlinger Group expects to see a continued increase in the volume of products requested as part of customer scheduling – driven by much stricter CO_2 limits as from 2020. This will help to improve earnings performance in the E-Mobility division in the medium term.

The Group also anticipates further growth in earnings before taxes. Due to the influences of foreign exchange movements, this figure is subject to more noticeable fluctuations than EBIT. From a current perspective, ElringKlinger anticipates that earnings before taxes and purchase price allocation, adjusted for exceptional items, will grow at a slightly less pronounced rate than EBIT in percentage terms, depending on the future direction taken by foreign exchange rates.

Group targets higher ROCE

Return on capital employed (ROCE) at Group level is expected to improve in 2015. Non-current assets will expand further in response to growth and, most likely, due to the effects of foreign currencies. At the same time, however, the planned increase in adjusted Group EBIT as well as improvements envisaged for working capital will have a positive impact on ROCE. In total, the Group expects to improve ROCE slightly compared to the figure recorded in the 2014 financial year.

Sustained growth at parent company ElringKlinger AG

In 2014, ElringKlinger AG contributed a share of 37.4% (39.1%) to Group sales revenue. This percentage share contributed by the parent company is likely to decline in view of the more pronounced rate of growth achieved by the subsidiaries. Based on the current volume of orders, revenue is expected to grow by around 5% in 2015.

ElringKlinger AG is supported by a significant year-on-year increase in order backlog when it comes to achieving its targeted sales revenue. As of December 31, 2014, order backlog was up 9.5% on the comparative prior-year figure at EUR 308.2 (281.4) million. As regards order intake, ElringKlinger AG recorded an increase of 5.9% to EUR 597.7 (564.4) million.

The steady rise in order intake is a reflection of structural growth among many of the company's product groups as well as the general recovery in demand within the Western European car market. Therefore, revenue growth projected for ElringKlinger AG in 2015 will be attributable largely to the Original Equipment segment.

Compared to the substantial investments of EUR 53.5 million made in property, plant and equipment (including tools) and intangible assets in 2014, capital expenditure is expected to be slightly lower in 2015.

The sites operated by ElringKlinger AG are to receive investments of around EUR 50.0 (53.5) million in total over the course of 2015. The focus in 2015 will also be on improving the company's infrastructure. Among the investments planned are the construction of a new warehouse, a new administration building and a production facility at the site of ElringKlinger Logistic Service GmbH, Ergenzingen/Germany, as well as an additional logistics building and a new staff restaurant at the site in Dettingen/Erms/Germany. In 2015, a new administration building is to be erected at the site in Gelting/Germany.

An amount of around EUR 15.0 million has been earmarked for investments in new machinery and assembly lines in the Specialty Gaskets, Cylinder-head Gaskets and Plastic Housing Modules/Elastomer Technology divisions. These investments are aimed primarily at expanding existing production capacity.

Planned payments relating to investments are to be funded primarily from cash flow from operating activities and, in part, through lines of credit. If required, undrawn lines of credit totaling EUR 61.5 million are available to ElringKlinger AG to finance further growth.

Despite higher wage levels, ElringKlinger AG anticipates that income from ordinary activities and earnings before interest and taxes (EBIT) in 2015 will grow at a slightly faster rate compared to revenue growth targeted by the company. This is to be driven mainly by new product ramp-ups, efficiency gains in production and economies of scale. Correspondingly, ElringKlinger AG is expected to see an improvement in the return on capital employed (ROCE). In 2015, ROCE is to improve by around one percentage point compared to the figure recorded in the 2014 financial year (9.7%).

Group segment outlook: structural growth and new products in Original Equipment remain principal revenue drivers

In 2014, 82.2% of sales revenue generated by the Group as well as 72.2% of EBIT were attributable to the Original Equipment segment. In 2015, too, the lion's share of projected revenue and earnings growth within the ElringKlinger Group will be contributed by Original Equipment. It is likely to remain the segment with the highest growth rate in percentage terms.

Based on ElringKlinger's projection of a 2% increase in global vehicle production, structural growth in product groups such as turbocharger gaskets, control plates for automatic transmissions, shielding components and lightweight plastic modules will continue to be the most important supportive pillar for revenue increase planned for the Original Equipment segment. Additionally, the introduction of new products, e.g. new lightweight beams in a hybrid design, will contribute significantly to growth within this segment.

In total, ElringKlinger anticipates that Original Equipment will generate revenue growth of 5% to 7%.

Engineered Plastics segment

ElringKlinger anticipates that it will be able to achieve revenue growth comparable to the Group average, i.e. 5% to 7%, within the Engineered Plastics segment.

The company has seen a further upturn in demand with regard to applications in the automotive sector but also in the area of medical devices. In 2015, growth will be driven by more expansive unit sales of sealing rings and guides for diesel injection systems as well as turbocharger gaskets, complemented by newly launched plastic inserts for heat exchangers used in large power plants. Production ramp-ups in China and India will also generate forward momentum in sales. Efforts to develop the North American market, however, will necessitate additional upfront expenditure in the area of sales and development, which will weigh on earnings performance.

In total, EBIT within the Engineered Plastics segment is likely to develop in line with revenue growth.

International expansion of Aftermarket business

The Aftermarket segment will see a further expansion not only of its product range in 2015. Having succeeded in securing access to several major wholesale cooperations – e.g. in France, Europe's second-largest market for spare parts – ElringKlinger will also be looking to strengthen its sales activities in Western Europe. Demand in this region should benefit from a more buoyant economy and gradual improvements in the employment market. In recent years, the difficult economic situation in Europe had prompted many car owners to postpone vehicle servicing and repair work for as long as possible. This had an adverse effect on the sales situation within the Aftermarket segment.

In Germany, ElringKlinger may have the opportunity to reap the rewards of its strong brand positioning and capture an additional share of the aftermarket wholesale sector.

In Eastern Europe, by contrast, the best ElringKlinger can hope for in 2015 is stable growth, having achieved record sales on multiple occasions in recent years. Due to ongoing political uncertainty and the significant depreciation of the local currencies against both the euro and the US dollar, business in Russia and Ukraine carries the risk of declining sales revenue. By contrast, the increasing level of motorization and the growing pool of used German-made vehicles continue to provide a solid foundation for expansion within the Aftermarket segment in other Eastern European markets.

As a region, the Middle East and Africa – feeling the effects of numerous political crises and the slump in oil prices – also poses a risk. Viewed from the current perspective, ElringKlinger only expects to achieve slight gains in this region.

To date, sales revenues generated in the North American and Chinese markets have in each case been towards the lower end of the single-digit million euro range. The ElringKlinger Group is determined to profit from its leading position in the OE business and pursue a route aimed at propelling its retrofit business forward in the world's two single largest car markets. In the medium term, ElringKlinger sees revenue potential in the mid-double-digit million euro range in both markets.

On the whole, the Aftermarket segment is expected to generate revenue growth of at least 5% in 2015. EBIT is to increase at a similar rate in percentage terms.

Business model tailored to long-term growth

The ElringKlinger Group is favorably placed for 2015 and beyond, having positioned itself in technology niches undergoing structural growth and benefiting from the introduction of many new products. Additionally, it has established a very solid vantage point for sustained growth in the emerging economies. Based on the assumption that global automobile production will continue to expand at a moderate rate, ElringKlinger anticipates that it will be in a position to lift Group sales by 5% to 7% annually. In this context, adjusted earnings before interest and taxes are to increase, as much as possible, at a faster rate in percentage terms than sales revenue.

Investment ratio target of between 7% and 9%

In recent years the ElringKlinger Group has been investing substantial funds in the construction of several new production plants, particularly in Asia, as well as in major projects such as the logistics centre in Dettingen/Erms/Germany.

As a result of these measures, the Group's investment ratio (payments for property, plant and equipment and investment property relative to Group sales revenue) reached peaks in excess of 15%.

In 2015 and the subsequent years, payments in connection with investing activities is to be scaled back again to the Group's long-term investment level, which tends to be in the region of 7% to 9% of Group sales revenue. Additionally, in 2015 a non-recurring amount estimated at around EUR 10 million is likely to be invested in production technology in connection with the takeover of M&W Manufacturing Company, Inc., Warren/USA.

In Germany, close to EUR 12.0 million is to be invested by ElringKlinger Kunststofftechnik GmbH during 2015 in an additional plant in Bietigheim-Bissingen/Germany. As from 2016, new projects in the area of automotive and general industry applications in particular are to lead to a boost in growth within the Engineered Plastics segment.

Further growth in the pipeline for North America and Asia

In the years ahead, the highest growth rates in terms of global car sales are expected to occur in the Asian markets but also within the NAFTA region. With this in mind, the ElringKlinger Group will focus most of its investment budget earmarked for 2015 on Asia and North America.

The emphasis of planned capital expenditure in 2015 will again be on the Original Equipment segment. The Plastic Housing Modules/Elastomer Technology and Specialty Gaskets divisions in particular will have to coordinate a large number of product ramp-ups in 2015, which will require appropriate investments in machinery.

Following its successful penetration of the market for lightweight body and chassis components, ElringKlinger will move forward in 2015 towards serial production of new combined metal-plastic structural parts for front-end and cockpit applications. The majority of investments required for these activities were made in the 2014 financial year. However, specific investment tranches for equipment at the sites in Suzhou/China as well as Leamington/Canada will be paid out in 2015.

Growth within the automotive industry will be driven primarily by Asia in the coming years. With this in mind, business expansion in Asia will remain one of the focal points of investment spending in 2015. NAFTA will become increasingly attractive not only as a market but also as a production site, considering the lower cost of energy in that region. The ElringKlinger Group will thus direct a large proportion of investments planned for the 2015 financial year at the two aforementioned regions. First and foremost, these funds will be used to expand the size of plants and purchase new machinery and production equipment for product ramp-ups at the Asian and North American sites operated by the Group.

The issue of lightweight construction is also attracting greater interest among customers in China, which is having a favorable impact on orders. ElringKlinger China Ltd., Suzhou/China, is building a new plant primarily for newly introduced products in the Plastic Housing Modules/Elastomer Technology division as well as the lightweight beams mentioned earlier. A sum of around EUR 15 million has been budgeted for this project. The Chinese subsidiary in Changchun ElringKlinger Ltd., Changchun, in the north of China, is expanding its operations on its existing premises in preparation for planned sales growth. Investments earmarked for these measures in 2015 will be at the upper end of the single-digit million range. Elsewhere, additional production machinery is to be installed at the new site in Gumi/South Korea, as well as at ElringKlinger Marusan Corporation, Tokyo/Japan.

Among the larger investment projects is the construction of a new plant in Turkey. ElringKlinger TR Otomotiv Sanayi ve Ticaret A.S., Bursa, will invest around EUR 6 million in a new production and administration building so that it can accommodate new purchase orders for shielding products and specialty gaskets.

Sufficient scope for financing organic growth and acquisitions

The anticipated inflow of funds attributable to internal financing in 2015 is likely to exceed the projected payments relating to investments in property, plant and equipment and investment property. Thus, financing of the Group's future organic growth is safeguarded, as is funding of development activities relating to new technologies.

As regards the interim financing of its planned dividend payout in the first half of 2015 and the funding of acquisitions, ElringKlinger also intends to access external sources of capital.

ElringKlinger monitors the market on a continual basis for the purpose of identifying takeover opportunities that complement the Group from a technological perspective. If required, the Group is in a position to access lines of credit of around EUR 90.0 million, as agreed with several banks.

Thus, if favorable opportunities were to arise as a result of ongoing consolidation within the industry, ElringKlinger would have sufficient financial room for maneuver as regards acquisitions of the scope transacted by the Group to date.

Level of debt largely unchanged

In 2015, a sum of around EUR 35 million is likely to be required to finance the purchase price of the US-based entity M&W acquired in February 2015 and investments planned for the consolidation of local sites and the expansion of production capacity. Additionally, as regards entry into the market for lightweight components used in vehicle bodies some of the payments relating to investments planned for production machinery and tools in North America and China will be made in 2015.

Insofar as no capital is required for further corporate acquisitions, the Group anticipates that it will not – or only moderately – expand its gross debt (current and non-current financial liabilities), which rose to EUR 417.0 (358.2) million in 2014.

Therefore, at the end of 2015 the Group's net financial debt (financial liabilities less cash and cash equivalents) should be at a level largely comparable to that recorded at the end of 2014 (EUR 348.3 million).

Excluding potential acquisitions the ElringKlinger Group plans to gradually scale back net financial debt, before acquisitions, in the subsequent years.

Based on its current financial performance, financial position and cash flows, the ElringKlinger Group can consider itself favorably positioned to achieve the targets it has set itself.

Events after the Reporting Period

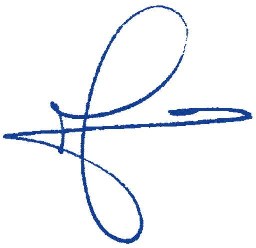
After the reporting period, ElringKlinger acquired 100% of the interests in US automotive supplier M&W Manufacturing Company, Inc., Warren/USA (M&W) from the former owner family. The sale to ElringKlinger AG was closed on February 12, 2015. The entity is to be included in the scope of consolidation of the ElringKlinger Group retrospectively as of February 1, 2015. It will be renamed ElringKlinger Automotive Manufacturing Inc.

In making the acquisition, ElringKlinger's Specialty Gaskets division has strengthened its regional presence in North America and its production activities in the US market. Together with US market leader M&W, ElringKlinger has advanced to become the premier supplier of transmission spacer plates. Operating from its US production base, M&W supplies not only the North American market but also, to an increasing extent, customers in China.

Expressed in euros, the target for fiscal 2015 is to generate sales revenue totaling around EUR 30 million, with a projected operating margin (adjusted EBIT before purchase price allocation) in high single figures.

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

Dettingen/Erms, March 23, 2015
The Management Board



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