ANNUAL REPORT 2015

pure *partners*

elringklinger

Key Figures
ElringKlinger Group at a glance

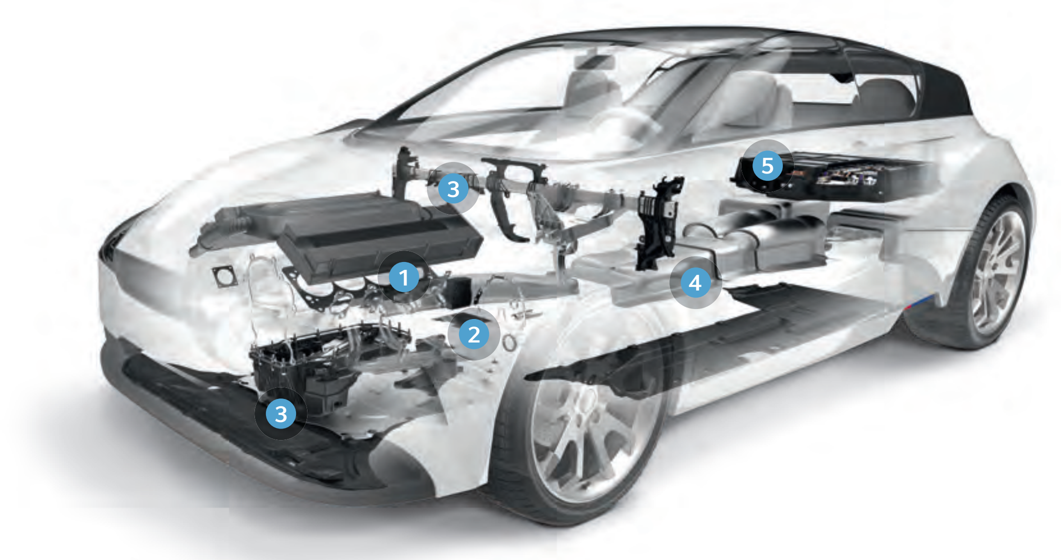
		2015	2014	2013	2012	2011	2010	2009
Order Situation								
Order intake	*€ million*	1,615.3	1,418.6	1,284.4	1,134.8	1,089.0	886.6	612.9
Order backlog	*€ million*	796.2	688.2	595.4	456.0	448.4	333.1	242.2
Sales/Earnings								
Sales revenue	*€ million*	1,507.3	1,325.8	1,150.1	1,127.2	1,032.8	795.7	579.3
Cost of sales	*€ million*	1,133.0	967.4	824.5	815.0	744.2	557.0	426.3
Gross profit margin		24.8%	27.0%	28.3%	27.7%	27.9%	30.0%	26.4%
EBITDA	*€ million*	222.8	233.4	238.6[4]	218.0	247.9[5]	198.2	134.5
EBIT/Operating result	*€ million*	135.2	154.0	164.2[4]	138.6	151.1[5]	116.0	63.3
EBIT margin		9.0%	11.6%	14.3%[4]	12.3%	14.6%[5]	14.6%	10.9%
Adjusted EBIT, pre ppa[1]	*€ million*	140.4	162.3	149.8	140.9	130.6	116.0	63.3
Adjusted EBIT margin, pre ppa[1]		9.3 %	12.2%	13.0 %	12.5 %	12.6 %	14.6 %	10.9 %
Earnings before taxes	*€ million*	128.8	153.1	148.9[4]	123.6	136.6[5]	94.0	49.4
Net income	*€ million*	95.8	110.6	111.2[4]	89.2	97.6[5]	68.6	34.8
Net income attributable to shareholders of ElringKlinger AG	*€ million*	91.6	105.7	105.4[4]	85.7	94.9[5]	65.6	33.2
Cashflow								
Net cash from operating activities	*€ million*	123.3	149.9	119.0	112.3	74.5	126.2	148.8
Net cash from investing activities	*€ million*	-212.7	-168.0	-126.4	-108.2	-147.4	-128.1	-93.6
Net cash from financing activities	*€ million*	65.3	20.1	14.7	-13.3	35.4	74.0	-49.3
Operating free cash flow[2]	*€ million*	-65.2	-12.4	-4.2	8.2	-10.5	-1.9	58.2
Balance Sheet								
Balance sheet total	*€ million*	1,765.8	1,558.8	1,392.1	1,268.6	1,217.6	991.3	772.3
Equity	*€ million*	855.7	775.2	701.3	642.2	610.1	522.3	318.3
Equity ratio		48.5%	49.7%	50.4%	50.6%	50.1%	52.7%	41.2%
Returns								
Return on equity after taxes		11.7%	15.0%	16.6%[4]	14.2%	17.2%[5]	16.3%	11.5%
Return on total assets after taxes		6.5%	8.2%	9.2%[4]	8.2%	9.9%[5]	9.2%	6.4%
Return on Capital Employed (ROCE)		9.5%	12.4%	14.4%[4]	13.3%	16.7%[5]	15.2%	8.8%
Human Resources								
Employees as of Dec. 31		7,912	7,255	6,716	6,263	6,075	4,676	4,171
Average number of employees		7,653	7,081	6,543	6,314	5,729	4,453	4,029
Stock								
Earnings per share	*€*	1.45	1.67	1.66[4]	1.35	1.50[5]	1.11	0.58
Dividends paid	*€ million*	34.8[3]	34.8	31.7	28.5	36.7	22.2	11.5
Dividend per share	*€*	0.55[3]	0.55	0.50	0.45	0.58	0.35	0.20

[1] EBIT adjusted for one-time effects and amortization resulting from purchase price allocation
[2] Net cash from operating activities minus net cash from investing activities (excluding acquisitions)
[2] Proposal to the Annual General Shareholders' Meeting 2016
[4] Including one-time gain from assumption of control of ElringKlinger Marusan Corporation (EUR 17.6 million before taxes; EUR 12.7 million after taxes)
[5] Including one-time gain from sale of Ludwigsburg industrial park (EUR 22.7 million before taxes; EUR 16.5 million after taxes)

Company
Portfolio

As an automotive supplier, ElringKlinger has focused its attention on one of the megatrends currently driving this industry: the reduction of emissions. The emphasis here is on developing pioneering green technology that is capable not only of reducing CO_2 emissions, but also of helping to scale back harmful nitrogen oxides, hydrocarbons, and soot particles. ElringKlinger is one of the few suppliers worldwide already equipped with the capabilities of developing and producing high-tech components for all types of drive systems. Among the prime examples are lightweight engineering concepts aimed at further reducing vehicle weight and thus also fuel consumption, solutions for conventional combustion engines optimized by means of downsizing, and systems for electric vehicles driven by batteries or fuel cells. The company's portfolio centered around emissions reduction also includes particulate filters and end-to-end exhaust gas purification systems used in ships, commercial vehicles, construction machinery, and stationary engines as well as in power stations. This is complemented by products made of the high-performance plastic PTFE supplied by ElringKlinger Kunststofftechnik, which are marketed to a wide range of industries – also to those operating beyond the vehicle manufacturing sector. Applying our abilities as an innovator, we are committed to sustainable mobility and earnings-driven growth. These efforts are supported by our dedicated workforce of more than 7,900 people at 45 ElringKlinger Group locations around the globe.

Key areas of business



Aftermarket

9%

1 Cylinder-head Gaskets

14%

2 Specialty Gaskets

17%

3 Plastic Housing Modules/ Elastomer Technology

21%

Engineered Plastics

6%

4 Shielding Technology

27%

5 E-Mobility

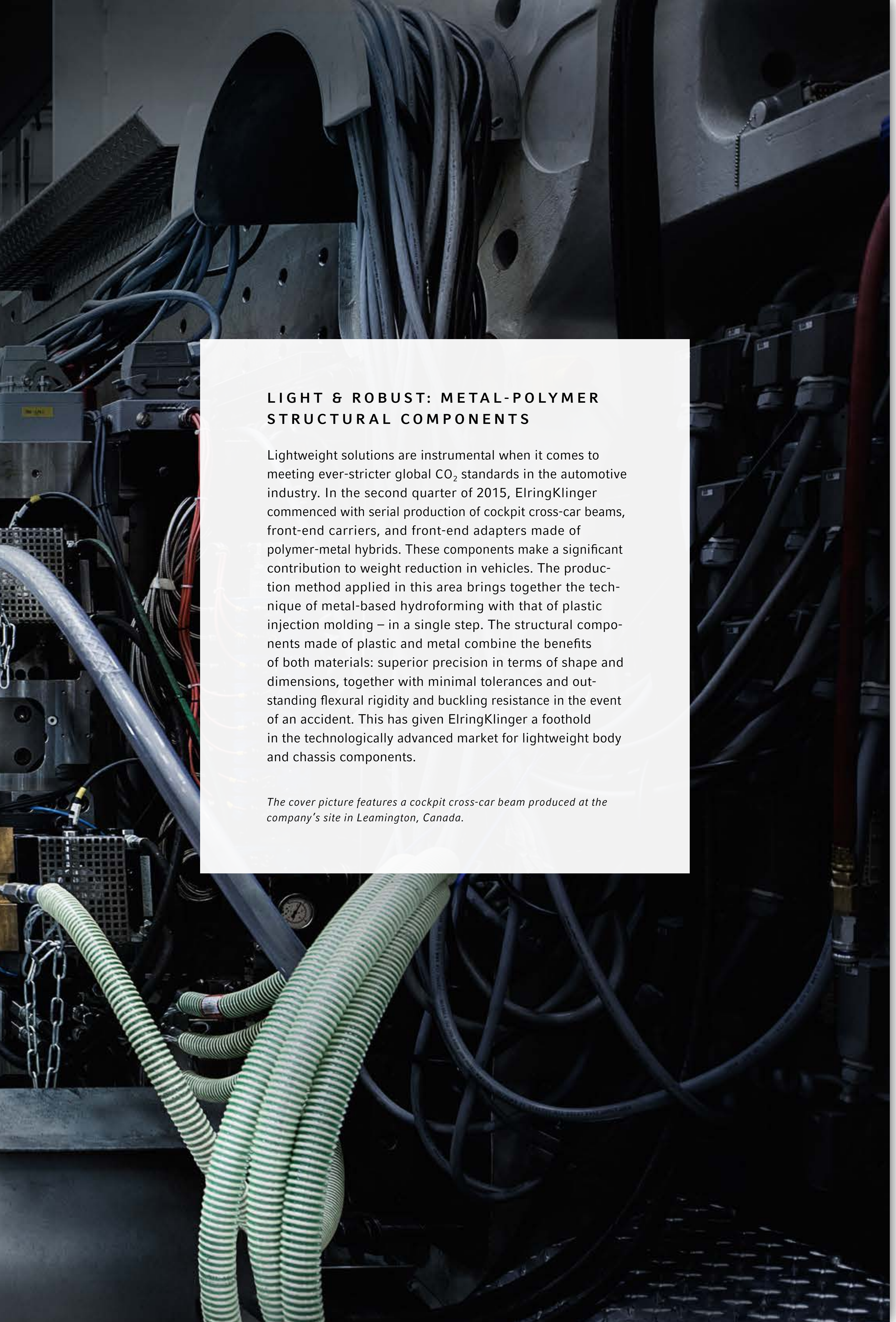
1%

ElringKlinger is the world's leading supplier of cylinder-head gaskets. The company also holds a premier position in the other well-established areas of its business.

Exhaust Gas Purification

3%

Percentage of Group revenue 2015



LIGHT & ROBUST: METAL-POLYMER STRUCTURAL COMPONENTS

Lightweight solutions are instrumental when it comes to meeting ever-stricter global CO_2 standards in the automotive industry. In the second quarter of 2015, ElringKlinger commenced with serial production of cockpit cross-car beams, front-end carriers, and front-end adapters made of polymer-metal hybrids. These components make a significant contribution to weight reduction in vehicles. The production method applied in this area brings together the technique of metal-based hydroforming with that of plastic injection molding – in a single step. The structural components made of plastic and metal combine the benefits of both materials: superior precision in terms of shape and dimensions, together with minimal tolerances and outstanding flexural rigidity and buckling resistance in the event of an accident. This has given ElringKlinger a foothold in the technologically advanced market for lightweight body and chassis components.

The cover picture features a cockpit cross-car beam produced at the company's site in Leamington, Canada.

pure *partners*

ElringKlinger sees itself as a trusted partner to its customers, investors, and suppliers. This ambition is shared by a team of more than 7,900 people currently working for the Group at 45 sites around the globe. The 2015 annual report has embraced "pure partners" as its principal theme, thus focusing on the worldwide network operated by ElringKlinger and exploring the multifaceted dimensions of collaboration within and beyond the company. The partnerships pursued within this network form the basis for our company's innovations, which in turn help to shape the world's mobility of the future and secure our position as a technology leader in the automotive supply industry.

#1
PURE PARTNERS

Beyond *boundaries*

»GIVEN THE LARGE NUMBER OF NEW PRODUCTS, MY WORK ALWAYS REMAINS EXCITING AND VARIED.«

OLAV HAHN — Head of Supplier Development/Central Quality Management

As Head of Supplier Development, Olav Hahn – together with his Dettingen-based team – manages a pool of around 800 suppliers of raw materials and purchased parts. Besides selecting new suppliers and gauging their potential, this includes conducting audits or implementing improvement measures on site at existing supplier facilities. In addition, his department approves purchase orders in co-ordination with Central Purchasing. Olav Hahn's core expertise is in the area of steel, which represents the highest purchasing volume at ElringKlinger. Against this backdrop, he will be visiting suppliers in the United States in 2016.

ElringKlinger has a truly global outlook: In addition to its headquarters in Dettingen/Erms, Germany, the Group has no fewer than 44 locations in 21 countries spanning four continents. As a global player, ElringKlinger is well used to operating in an international environment. We would like to introduce five members of our team who, when working on international assignments, have not only extended their professional expertise, but have also honed their intercultural skills, thereby also helping to strengthen the ElringKlinger network as a whole.

»MY JOB ALLOWS ME TO SUPPORT DIFFERENT SPECIALIST AREAS WITH THEIR PROJECTS.«

TIM KRAAK — Intranet Development Expert

As an Intranet Development Expert, Tim Kraak helps to digitally network individual factories or business areas within the ElringKlinger Group. He is responsible for developing and implementing SharePoint®-based solutions in order to facilitate more efficient teamwork. He provides expert advice to the respective departments and prepares individual concepts for them. As part of his current project, he spent two weeks at the Chinese sites in Changchun and Suzhou, where he was setting up local intranets and trained colleagues.

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»WORKING TOGETHER WITH DIFFERENT CULTURES EVERY DAY MAKES MY JOB FASCINATING AND REWARDING.«

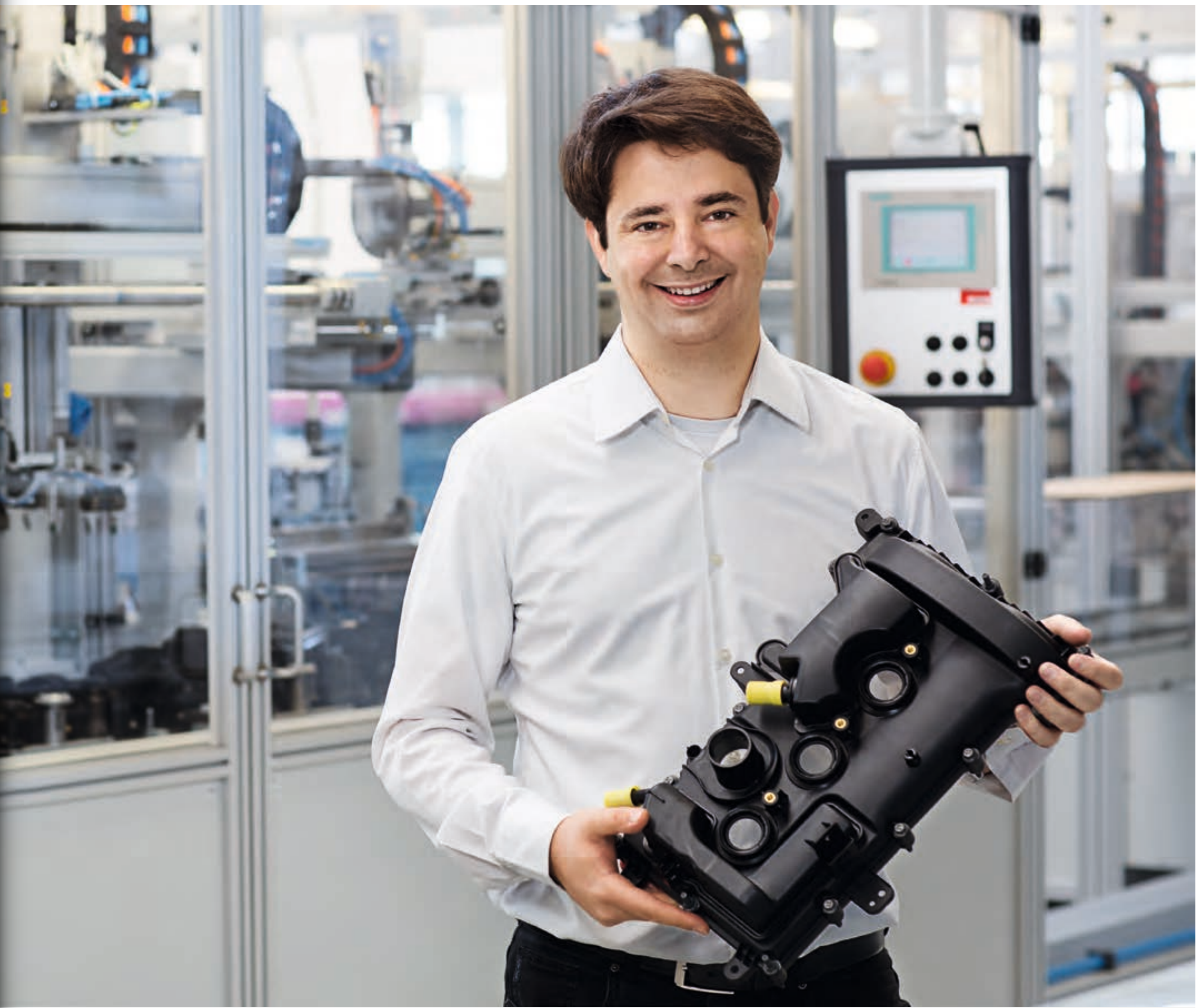
CAROLIN JUNK — Head of Corporate Human Resources

Among Carolin Junk's most important functions is filling management positions at overseas subsidiaries. In searching for suitable applicants, she works closely with HR consulting firms in Germany and abroad, as well as with the Group's general managers and division heads. She is actively involved in selection meetings via online conferences or directly on site. Most recently, Carolin Junk was involved in recruiting additional personnel for the newly established subsidiary in Hungary. She and her team are also striving to standardize the organizational structure and personnel processes throughout the Group.

»I AM PROUD TO BE ABLE TO HELP SECURE A LONG-TERM POSITIONING FOR THE ELRING BRAND WITHIN THE CHINESE SPARE PARTS MARKET.«

JOE LIU — Head of Independent Aftermarket

Joe Liu has set himself the goal of establishing the "Elring" aftermarket brand in China. As an expert in this market environment and its local requirements, he and his team specify the strategy for sales, marketing, and service required to achieve this goal. In doing so, he liaises closely with the specialist departments at the Group headquarters in Dettingen/Erms. His current projects include developing a pricing and distribution strategy as well as planning and implementing logistics processes for the Elring aftermarket business in China.



Project Engineer Mateus Vertu is involved in the overall process of setting up new production facilities: from installation, operation, and testing to final series production. His work also involves negotiating with suppliers and interacting on an ongoing basis with project managers and factory managers on location. At present, he is responsible for the production start-up of a new cam cover at plants in India, China, and Brazil. He does not see the travel associated with his job as a chore, but rather as something that enriches his work.

»INTERACTING WITH INTERNATIONAL COLLEAGUES IS SOMETHING THAT I PARTICULARLY ENJOY ABOUT MY WORK.«

MATEUS VERTU — Project Engineer Technical Service


#2
PURE PARTNERS
In *step*

Marcus Schwarzrock, national coach of the German rowing squad, and Dr. Stefan Wolf, CEO of ElringKlinger AG, share the view that only properly functioning teams can deliver top performance. With just a few months to go before the Olympic Games 2016, they met up for a chat at the Rowing Academy in Ratzeburg.

WOLF — The Olympic Games in Rio de Janeiro will be starting in just a few months. I imagine you are already experiencing that Olympics fever.

SCHWARZROCK — The Olympic Games set the rhythm for everything we do. In fact, they are the be-all and end-all. Our preparations span a period of four years, and we tend to train even more intensively in the run-up to the Games. Having said that, it's important to remember that rowing is an amateur sport. In the first two years of the Olympiad, our athletes should be concentrating more on their education or career preparation. We think that's very important.

WOLF — What I find fascinating about rowing is the tremendous coordination of the athletes. I think it's amazing to see every single movement in an eight happening at precisely the same time. Presumably more than anything else, that's all about training together.

SCHWARZROCK — Rowing is a team sport. Having said that, to make the team, you have to show your individual strengths, too. Everyone has to demonstrate their skills first of all in a single or a pair. The fastest and the strongest are selected for a boat, and from then on they train together.

WOLF — As a manager, I find time and time again that the biggest challenge is to take a number of high-performing individuals and form them into a team that can work together unconditionally. I imagine that it's the same in your case...

SCHWARZROCK — Absolutely, and the bigger the team, the harder it is to do that. Take an eight, for example. Including the cox, that makes nine people, so team- building is really important. You have to work out which members of the team have which strengths and weaknesses, and that helps you to determine their position in the boat. If someone rows really well in a single, but isn't really suited as a team player, there is of course still the single scull event (laughs). Sometimes it makes more sense to select a slightly weaker rower for the eight if that person fits perfectly into the team as a whole.

WOLF — It's a similar situation in our company, especially in development teams that are working in ground-breaking areas such as lightweight construction or low-emission drive systems. These are very complex technologies for which you need the expertise of several people. While it's true that we have individual top performers who are capable of tremendous things on their own, we can't afford to have too many "single scullers."

SCHWARZROCK — When you are talking about absolute top performance, the team has to work as one. There can't be any question of emotions or power structures. Everyone has to be completely focused. Everything has to be subordinated to the goal.

WOLF — What happens if a mistake occurs even then?

SCHWARZROCK — That's when you find out how good a team really is. Remember the World Championship final in 2011? Our quad was in the lead, and I already had my hands up in the air when one of our rowers "caught a crab" just before the finishing line. That's what we call it when the blade of the oar digs in too deep into the water. So we ended up in second place. In spite of that disappointment, everyone took the view that "we win together and we lose together." That approach helped to strengthen the team, and the following year we came away with a gold medal at the Olympic Games.

WOLF — For me, learning from disappointment and trying again is a prerequisite for success, in sports just as much as in business.

"When you are talking about absolute top performance, the entire team has to be completely focused. Everything has to be subordinated to the goal."

MARCUS SCHWARZROCK — Head Coach of the German Rowing Association

SCHWARZROCK — Obviously physical performance and the ability to coordinate your movements are very important in rowing. At the same time, you can't underestimate the significance of mental toughness. You have to be prepared to put yourself through the mill every day in training – we train for up to 30 hours a week just before the Olympic Games – and in competition you have to give it absolutely everything you have in every single race. That hurts.

WOLF — When we are looking for talented people, we don't just concentrate on their qualifications and intelligence. We also want to know how committed they are. For demographic reasons, it is getting harder and harder to find those talented people in Germany. Therefore, we have established close ties with various universities, and we try to attract young people to our company at an early stage by offering internships and opportunities to work on their final degree thesis. Some have been high-level sportsmen and sportswomen who joined us to complete the practical stage of a dual work/study course. For us the experience was very positive, because these young people were already very used to showing commitment as a result of their sport. Qualities such as self-discipline, concentration, a willingness to work very hard, and a focus on targets are all transferable into the working environment. They are the kind of values that distinguish the best from those who are simply good.

SCHWARZROCK — We have found that around 80 percent of our junior rowers actually perform better at school after they start training at a high level. They quickly learn to divide up their time more efficiently and to work in a more concentrated way.

WOLF — Does innovation also play a part in rowing?

SCHWARZROCK — It certainly does, and in several ways. On the one hand, we work with universities and research institutes to keep on improving our training methods. For example, at the moment we are evaluating a brand new approach towards the intensity of training and comparing it with our existing regime. On

Dr. Stefan Wolf and Marcus Schwarzrock meet up at the boathouse to discuss the ins and outs of lightweight engineering – in competitive rowing and the automotive industry.

the other hand, boat technology has come a long way. We used to work with wooden boats; nowadays its Kevlar and carbon fiber. Modern boats are lighter and also more rigid.

WOLF — Lightweight construction is very important for ElringKlinger too. In the same way that you are replacing wood with carbon fiber, more and more we are using plastics instead of metal. That increases efficiency, because in a vehicle less weight always translates into lower fuel consumption and therefore lower CO_2 emissions.

SCHWARZROCK — We have to keep making progress. After all, the competition we face internationally keeps getting stronger. Nowadays there are many more countries that are in with a chance of a medal. Of course, our strongest competitors are New Zealand, who is right there at the top, the USA, and Great Britain. As the biggest national rowing association in the world in terms of members, we've always aimed to be successful in all fourteen Olympic rowing categories. But that is becoming increasingly difficult. We are now thinking about concentrating our resources, although

> *"If we want to remain world class in Germany, we have to innovate – whether in sports or in business."*

DR. STEFAN WOLF — CEO of ElringKlinger AG

there is, of course, no question over Germany's eights squad.

WOLF — For automotive suppliers globalization is both a tremendous opportunity and a huge challenge. It's true that we now have our own factories in all the world's major automotive markets, such as North America and China. At the same time, however, various new competitors have emerged that didn't even exist twenty years ago. If we want to remain at the top, we have to keep on improving our products and implementing innovative ideas. What's more, our customers in the vehicle manufacturing industry are faced with ever tougher restrictions on exhaust and CO_2 emissions. Our job is to develop effective solutions. If we want to remain world class in Germany, we have to innovate – whether in sports or in business.

SCHWARZROCK — I don't want to sound as if I'm feeling sorry for myself, but I think, if anything, the problems we face in sports are even bigger than in the business world. I'm not just talking about top-level sports. I think we simply don't invest enough in sports as part of our education system. It ought to have the same priority as other school subjects. That would benefit society as a whole. The Brits and the Americans are a good way ahead of us there.

WOLF — Yes, I noticed that during my own time in the States as an exchange student. There was a whole range of sports on offer, and it was perfectly normal to do some sport every afternoon. I think it would be very important to improve sports provision at schools. Besides its impact on our health, sports play many other important roles: young people learn to set themselves goals and to achieve them as part of a team. Talking about goals, how many gold medals is the German squad going to bring back from Rio this time?

SCHWARZROCK — Our target is to win three to five medals – at least one of them gold.

WOLF — Given what you were saying about the tough competition out there, that sounds very ambitious.

SCHWARZROCK — It is ambitious. After all, sometimes victory can depend on just a few hundredths of a second. But you have to set yourself ambitious goals if you want to achieve something worthwhile.

WOLF — I wish you every success. Thanks for an interesting conversation!

ABOUT MARCUS SCHWARZROCK
The Head Coach of the German Rowing Association is always on the go, traveling between twelve national training centers for professional rowers. The 49-year-old can look back on an illustrious career as a rowing coach. Among his accolades as a coach are a gold medal won by the men's quad scull team at the 2012 Olympic Games. He was appointed Head Coach in the same year.

#3
PURE PARTNERS

今日は

konnichiwa
Japanese: hello

JAPAN
Tokyo

Japan is a country of ancient traditions. As a foreign company, it is difficult to become established, partly because of "keiretsu" – the interlocking business relationships between Japanese firms. Nevertheless, these formerly closed networks are gradually opening, and Japanese firms now expect their suppliers to have a global presence.

When it comes to vehicle production, Japan is among the world's biggest players with around eight million cars rolling off the assembly lines each year. Toyota, one of the largest manufacturers, is based in Japan. No global supplier can afford to ignore the country's gigantic automotive industry. While Japanese car makers have been at the forefront of global standard-setting, the industry follows its own rules. Unlike Germany or the United States, the roads are dominated by domestic models, especially compact and micro cars. In fact, the total market share of importers is only around 6%. The country also has a different set of preferences for the type of vehicle drive. The proportion of hybrids is higher than anywhere else in the world.

The traditional system of keiretsu pervades the entire industry. Keiretsu is the Japanese term for the interlocking business networks between car makers and their up to 300 suppliers. On average, 60% of the components used in a Japanese car still come from Japanese suppliers. For some time, however, manufacturers have been rethinking their approach – not least on account of Fukushima and the increasing volatility of their own currency. Japanese car makers expect their suppliers to have a global presence, but in many cases that is precisely their weak point. Even so, central decisions on design and procurement are still made inside the country itself, and, in spite of this new openness, doing business with Japanese manufacturers is not easy. "That's why it is so important for suppliers from other countries to have a presence in Japan. They need to establish relationships based on trust, and that can only be done if you are in the country," explains Raita Otomo, General Manager of the joint venture ElringKlinger Marusan in Japan.

Japanese car makers demand very intensive cooperation from their suppliers. It is not unusual to come across sudden changes in the design or adjustments during the development phase, and suppliers need to react quickly and offer their full support. The speed with which suppliers respond to such demands is crucial when it comes to establishing a successful long-term partnership.

In 2004, ElringKlinger set up a development and sales company specifically to help it meet these requirements. ElringKlinger Marusan is a 50:50 joint venture based in Tokyo. The company is recognized as a Japanese supplier since its Japanese co-owners know the local market and are familiar with its particular customs. With the other half of its equity owned by ElringKlinger, an international group with access to a global production network.

The challenge is to develop these two sides equitably, expand business relationships with Japanese customers and channel Japanese orders to ElringKlinger's global production network. "In 2015 we reached an important milestone when we received a series production order from a large-volume Japanese car maker," notes Otomo. "It was our first major order from this customer. Beginning in 2017, we will be supplying over a million lightweight shielding systems per year for the next generation of vehicle engines. The components will be produced both in Japan and at ElringKlinger's US subsidiary in Buford. That was a great success. Now we need to work on achieving the next one."

Raita Otomo: General Manager of the joint venture ElringKlinger Marusan Corporation, Tokyo, Japan

#4
PURE PARTNERS

Turning up *the pressure*

A new technology is ready for serial production at ElringKlinger. Thanks to an innovative hydroforming process combined with thermoplastic injection-molding, metals in cockpit carriers can now be replaced by plastic-metal hybrids. The first production lines have already commenced operations for one of Germany's premium manufacturers in China and Canada. What is more, a joint licensing agreement means ElringKlinger can now also offer the technology to other car makers.

CANADA
Leamington

CHINA
Suzhou

Cockpit cross-car beams made with the help of hydroforming hybrid technology: the intelligent combination of plastic and metal

600 BAR

The hydroforming method involves injecting fluid into an aluminum tube at a pressure of 600 bar. As part of this process the tube is formed into the desired shape.

You can still hear the joy and excitement in his voice when Humphrey Chen talks about a sunny day in the fall of 2014. It was then that the head of ElringKlinger's plant in Suzhou, China, and his team flicked the switch of a brand new production line for cockpit carriers. "When the first part came out of the machine and we saw the result of all our long, hard work, every single one of us was delighted," recalls Chen. He and fifteen of his staff provided their professional support during the turnkey development of the production line in Germany with the aid of an Austrian sub-contractor. Toolmakers and process technicians underwent weeks of training in the use of the serial production tool at the company headquarters in Dettingen/Erms, Germany. Finally, they shipped the whole plant in fourteen huge containers to Suzhou, located some 100 kilometers west of Shanghai. Since early 2015, the factory has been turning out innovative lightweight parts in large numbers: cockpit carriers made out of aluminum and plastic, using ElringKlinger's own patented production process.

This technology has a real future, particularly as lightweight vehicles consume less fuel and produce less carbon dioxide. With this in mind, ElringKlinger recently signed a licensing agreement for its hydroform hybrid technology – meaning it can now also offer it to other car makers. High-pressure molded hybrid parts such as cockpit carriers and front-end adapters not only weigh ten to twenty percent less than comparable parts made out of sheet steel. They also boast better shape and dimensional accuracy with minimal tolerances. This is particularly important in the case of cockpit carriers, where a host of different components are incorporated, such as the steering column, displays, and cockpit controls as well as the air-conditioning vents. Hydroform hybrid technology gives ElringKlinger a foot in the door of the fast-growing market for lightweight vehicle body and chassis components.

"Several car makers have expressed an interest in our new lightweighting technology, and we are already at the development stage with some of them," says Reinhard Müller, Head of the Plastic Housing Modules/Elastomer Technology division. "The speed with which we developed the technology to the point of serial production for our pilot customer is proof that we have the ability to offer this technology in other regions around the world." In fact, a second production line has already been added to the first one at the Chinese factory in Suzhou, which also serves the German premium car maker in Asia. For its American and South African production, ElringKlinger also recently set up a production line in record time at the company's Canadian location in Leamington. The first parts for that plant were delivered in January 2015, and serial production commenced in August of the same year.

"Several car makers have expressed an interest in our new lightweighting technology, and we are already at the development stage with some of them."

REINHARD MÜLLER — Head of the Plastic Housing Modules/Elastomer Technology division

Close collaboration: The team in Leamington benefited from the hands-on experience gained by their colleagues in Suzhou when establishing the production line in China.

11,000 KM

separate Leamington from Suzhou, two company sites at which the new production lines for HFH components have been installed.

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"We worked very closely with the project management team in Dettingen, our Chinese colleagues, and our customer, which enabled us to achieve start of production five months earlier than originally planned."

THOMAS BÄCHLE — Plant Manager in Leamington, Canada

ElringKlinger was able to benefit in Canada from the experience it had gained in developing the production line in China. "We worked very closely with the project management team in Dettingen, our Chinese colleagues, and our customer, which enabled us to achieve start of production five months earlier than originally planned," says Thomas Bächle, Plant Manager in Leamington. Bächle and his team first adapted an unused part of the building, covering 2,000 square meters, where cylinder-head gaskets used to be produced. Then they installed the individual parts of the plant: the forming tools developed by tooling specialist Hummel, a subsidiary of ElringKlinger, as well as injection-molding machinery and robots delivered by an Austrian supplier. The assembly cells, where the hybrid parts are finished after being shaped, also play an important role in the process.

With hydroform hybrid technology, a dual-purpose tool is used within the injection-molding machine to combine internal high-pressure forming, i.e., hydroforming, with plastic injection-molding. First a thin-walled aluminum tube is mechanically pre-formed and placed into the tool by a robot. Then, with the help of a high-pressure unit, cold water at 600-bar pressure is forced into the inside of the tube. This makes the tube bend by about five percent and adopt its ultimate and precise shape. In the case of cockpit carriers, the shaped tube becomes the crossbar between the A pillars to which the plastic parts are attached.

This part of the process is achieved by injection-molding within the same tool. Hot molten plastic at a temperature of 300 degrees Celsius is injected into the pre-formed aluminum tube, once again at a pressure of 600 bar. The counter-pressure exerted by the water inside the tube prevents the metal tube from collapsing during the molding process. Once the part has cooled and thus become dimensionally stable, it is removed by a robot and transferred to downstream processing steps. In this way, various plastic elements can be attached to the cockpit carrier and molded into their final shape in a single step.

Hydroform hybrid technology enables not just the production of cockpit carriers, but also lightweight front-end carriers and adapters, where elements like the head lamps and bumper covers are attached. ElringKlinger is currently preparing serial production of these vehicle parts at its Chinese and Canadian sites. Some more big challenges await Humphrey Chen and Thomas Bächle.

#5
PURE PARTNERS

Fully *automatic*

The global market for automatic transmissions is growing. By acquiring the US family-run company M&W in 2015, ElringKlinger has significantly increased its share of the market for transmission control plates. Further expansion in this fast-growing business will require not only complementary technology, but also an exemplary process of integration.

USA
Warren


P
R
N
D
M/S
+

Nine out of every ten vehicles in the US have automatic transmissions. In both Europe and China, more and more new cars are being equipped with an automatic transmission. Components supplied by ElringKlinger help to ensure that drivers are always in the right gear, maximizing fuel economy and providing a smooth transition between gears. In torque converter and dual-clutch transmissions, a fine network of oil channels ensures that the gear switching mechanism can be operated hydraulically without action by the driver. In CVTs (continuously variable transmissions), the transmission ratio is also determined by the oil pressure. ElringKlinger develops and produces the control plates that seal the oil control channels off from each other inside the hydraulic unit and ensure that the oil flows efficiently to where it is needed during the gear switching process. “These are precision components,” explains Reiner Drews, Head of the Specialty Gaskets division at ElringKlinger. “On the one hand, we have to introduce oil channels with a diameter of just a few tenths of a millimeter very precisely into the steel or aluminum plates; on the other hand, the control plate also has a sealing function.” As he points out, any leaks would reduce both the oil pressure and the efficiency of the entire transmission system.

In February 2015 ElringKlinger acquired the family-owned company and transmission control plate specialist M&W Manufacturing based in the US state of Michigan to become the leading supplier of such components in North America. “Our customers have different technical preferences, depending on their geographical region and the transmission design,” explains Drews. In the United States, most automatic transmission systems use torque converters with relatively low hydraulic pressures of up to 30 bar. The steel control plates used in these transmission systems are coated with fibrous materials to provide a more effective seal. “This technology is very important in the US market, and M&W has mastered it,” he continues. They kept working at it and eventually managed to automate a large part of the process for making control plates. Over the last few years, their market share has gone up and up.

31.6 %

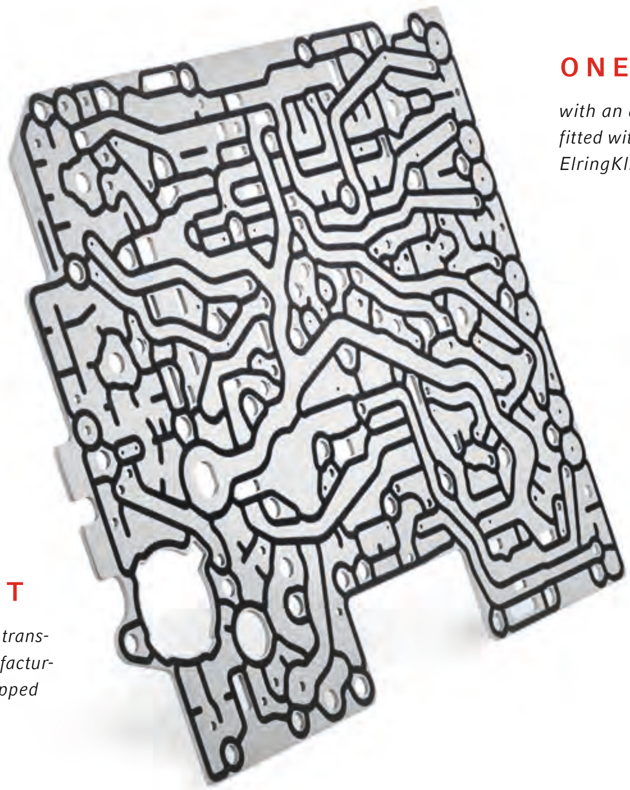
is the market share predicted for cars with automatic transmissions by 2017, calculated on the basis of global vehicle production.

3 TECHNOLOGIES

ElringKlinger has a state-of-the-art control plate to match any type of transmission.

ONE IN 2 CARS

with an automatic transmission is fitted with a control plate supplied by ElringKlinger – around the globe.



100 PERCENT

of the eight- and nine-speed automatic transmissions developed by a leading manufacturer of automatic transmissions are equipped with ElringKlinger control plates.

3 PRODUCTION SITES

ElringKlinger operates its own production sites for transmission control plates within the world's key automotive markets: China, Europe, and the United States.

In August 2015, a facility was purchased in Southfield, Michigan, covering an area of 10,000 square meters. Production, prototyping, and administration are to be accommodated under the same roof. The move is scheduled for completion by August 2016.

MORE THAN 12.5 MILLION CARS

equipped with automatic transmission systems were produced in North America in 2015. In 2012, the total was around 12 mn units. By contrast, the trend for manual transmissions points to a decline from 1.3 mn to 1.1 mn units.

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"The new plant in Detroit-Southfield will be one of the most modern ElringKlinger facilities worldwide."

REINER DREWS — Head of the Specialty Gaskets division

Bob Misch is one of M&W's three original owners. Now, he is Key Account Manager for the transmission business in North America at ElringKlinger in the United States. Even as a schoolboy, he helped out in the business set up by his grandfather. "We all started working at an early age, cleaning bathrooms, doing clerical work and learning what it meant to have your own business. As we grew older, the responsibilities increased into production, tooling and engineering as well as the demands from our father. This was critical to our success in later years." In the end, it was family reasons that led to the decision taken by Bob and his brothers to sell the company. "With ElringKlinger, we sensed right from the start that they would deal with us honestly, and that turned out to be the case – both in our negotiations on selling the business and right up to the present." It's not always that you will find the former owner of a family business being so positive after a sale, especially with so many changes being made – for example the switch to a new accounting system and computer programs.

The biggest change still lies ahead, however. Over the course of 2016, the company's two production sites in Warren and Roseville will come together at a brand new factory just a few miles away. Bob Misch hopes that all 100 or so of the company's workforce will stay on. The aim is to relocate without disrupting production, a major challenge for both the management team and the employees. Nevertheless, it will be worth the effort, promises Drews: "The new plant in Detroit-Southfield will be one of the most modern ElringKlinger facilities worldwide." At the end of 2016, besides fiber-coated control plates, it will start manufacturing components based on another technology. In the future, ElringKlinger's US operation will also make aluminum control plates fitted with an extremely thin elastomer seal-contact image using a silk screen printing method. These plates can withstand much greater oil pressures of up to 70 bar. They are already used, for example, in the eight- and nine-speed torque converter systems made by a leading producer of automatic transmissions. ElringKlinger has been a preferred supplier to this company for many years.

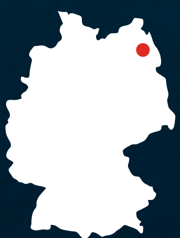
Together, Drews and Misch also have their sights set on the Chinese market. ElringKlinger already makes control plates for dual-clutch transmission systems in China. These are equipped with elastomer-coated metal gaskets because of the high pressure involved (up to 90 bar). However, there is growing demand for fiber-coated plates in China – especially from the Chinese factories operated by the American car manufacturers. The aim is to reproduce this US technology at ElringKlinger's plant in Changchun by the end of 2016. "That kind of growth rate is only possible because the integration process has been so smooth – thanks to the company's former owners," concludes Drews. And what is the key to this success? "Trust," reply Drews and Misch in unison.

#6

PURE PARTNERS

Tailwind

In its efforts to explore new avenues, ElringKlinger has increasingly been targeting particularly promising sales markets beyond the automotive industry. Since July 2015, ElringKlinger subsidiary new enerday has been supplying the world's leading manufacturer of wind turbines with an innovative fuel cell system that is capable of covering the on-site energy requirements of new wind farms during installation. In addition to guaranteeing an independent, 24/7 supply of power, the system reduces CO_2 emissions by more than 90 percent compared to conventional electricity generators.



GERMANY
Neubrandenburg

Dr. Matthias Boltze, General Manager of new enerday GmbH

The mobile fuel cell system supplied by new enerday is put to use by the customer.

Since closing the deal, new enerday has already delivered its systems to sites in Germany, Poland, and Scotland, thereby ensuring non-stop power supply to construction sites while the new wind turbines are being installed over a period of several months. For this purpose, new enerday operates a fleet of around a dozen mobile fuel cell systems that can be hired by customers as and when needed. In response to strong demand, the company has decided to expand its fleet in the near future – ten additional systems are currently being produced by new enerday.

Dr. Matthias Boltze, General Manager of new enerday GmbH, is delighted by the success of market roll-out and sees potential for follow-up orders: "The wind energy market is far from saturated. On the contrary, it will continue to grow. I am very confident that the tremendous benefits of our technology will be appreciated not only in this sector but also in other off-grid applications – and that we can convince even more customers of its merits." Other promising fields of application include systems designed to provide on-board

50 PERCENT

Operating costs can be reduced by up to 50% by switching to the new enerday fuel cell system.

3 MONTH

The systems guarantee an independent supply of power over a period of up to three months without the need for refilling. What is more, they are supplied as maintenance-free units with remote monitoring functionality.

1,000 WATT

The fuel cell systems powered by LPG supplied in conventional cylinders have an output of 1,000 W. New enerday has combined this with a high-performance solar module to create an innovative hybrid system for independent power supply.

90 PERCENT

Compared to conventional diesel-powered generators, CO_2 emissions can be scaled back by more than 90% when using a new enerday fuel cell system.

electrical power for boats and yachts, household power supply, and the telecommunications market. New enerday is looking to increase revenue more than tenfold in the next five years, propelling sales to a single-digit figure at the upper end of the million euro range.

The power generators use high-temperature solid oxide fuel cells (SOFCs) that are capable of generating electrical energy from fossil fuels. The company deploys 1,000 W fuel cells operated with conventional LPG cylinders for the full range of AC consumers. The fuel cells emit only a minimal amount of pollutants and produce hardly any noise during operation. What is more, they offer an independent supply of power over a period of up to three months without the need for refilling. The turnkey solution encompasses a high-performance solar module and a fuel cell to create an innovative hybrid system. The electrical efficiency of the fuel cell systems is almost twice as high as that achieved by generators powered by a gasoline or diesel engine.

In the past, the customer now being served by new enerday used conventional diesel-fueled generators to safeguard power supply during the installation of wind turbines. By switching to the fuel cell system developed by new enerday, the company will be able to reduce its operating costs by up to 50%. At the same time, CO_2 emissions will be scaled back by more than 90%. Another advantage: The unit is supplied as a maintenance-free system that can be monitored remotely.

Established in 2010 and based in Neubrandenburg, new enerday is likely to reach its upper capacity limit in the near future, particularly as it will have to accommodate the existing contract as well as other projects currently under negotiation. This will require further capital expenditure to ensure that new enerday can meet future market requirements in the long term. "Together with the Management Board of ElringKlinger, we have decided to extend our current plant. Our plan is to lease a building on a neighboring plot and relocate our production lines to that facility," says Dr. Boltze. The move is scheduled for May 2016.

#7
PURE PARTNERS

Purchasing *headquarters*

With automotive markets undergoing a more pronounced shift away from Europe toward Asia and North America, local production volumes within these regions are steadily increasing. "Think global, act local" has therefore become the strategic approach adopted by ElringKlinger's procurement management. The central purchasing unit at ElringKlinger's headquarters in Dettingen/Erms works in close cooperation with regional buyers operating on site. Together, the procurement team has established a global network of suppliers.

60%

OF SALES REVENUE

is attributable to the cost of production material. This represents the largest expense item within the Group.

GO-Lean

is the approach taken by the 30 purchasing managers to ensure that procurement performance is optimized continuously throughout the Group. In 2015, they performed 140 continuous improvement processes.

254,000

ORDERS

were placed by the purchasing department in 2015. On average, each buyer triggered procurement processes for 38 items per working day.

1,300

TRUCKS

filled with precision stainless steel deliver their goods to ElringKlinger production plants each year, which corresponds to a volume of 26,000 tons. Precision stainless steel is among the key commodities required by ElringKlinger.

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CENTRAL PURCHASING

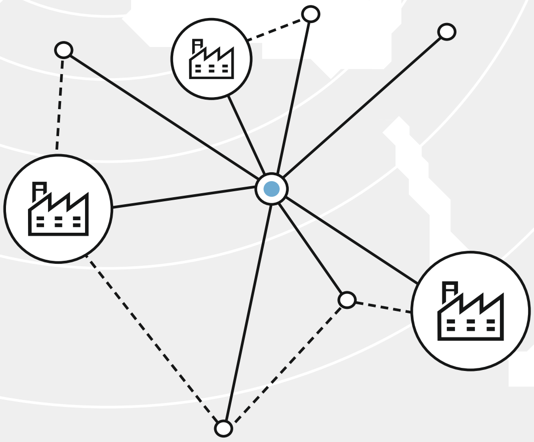
is the pacesetter at ElringKlinger. It ensures that the right materials are supplied to the respective plants around the globe on time and at the best possible price.

1

61

MILLION BOLTS

are procured per year for plastic cam covers and oil pans. That is the equivalent of Italy's entire population.



20 %

OF THE GROUP'S PURCHASING VOLUME

is covered by 30 principal suppliers.

1,015

APPROVED SUPPLIERS

are at the heart of the global supplier network. All suppliers fulfill ElringKlinger's quality and environmental guidelines as well as international ISO standards.*

5.5

TIMES AROUND THE WORLD

is the total distance covered by the rolled out coils of precision stainless steel, aluminum, and C-steel sourced and processed by ElringKlinger every year.

1,826 t

OF ELASTOMER

were processed by ElringKlinger in 2015. This is the equivalent of one jelly bean for each inhabitant of Europe (742 million in total).

* Cf. glossary

#8
PURE PARTNERS

High*lights*

of the year 2015

FEBRUARY

Number 1 spot in North America
In February, ElringKlinger acquired M&W Manufacturing Company, Inc., an automotive industry supplier based in the US state of Michigan, to become North America's market leader in transmission control plates for automatic drive vehicles. The acquisition has allowed ElringKlinger's Specialty Gaskets division to strengthen its geographical profile in the US market while expanding one of its structurally important high-growth areas. → See "Fully automatic," page 20

APRIL

Elring impresses visitors to AutoMec
The Aftermarket segment exhibited numerous components from its wide-ranging "Elring – Das Original" portfolio at the AutoMec trade show in the Brazilian city of São Paulo. Visitors also showed considerable interest in highlights from the series-production business. With around 1,200 national and international brands and close to 70,000 visitors, AutoMec is one of Latin America's biggest trade shows for the vehicle component aftermarket.

APRIL

Outstanding: ElringKlinger wins supplier award
In April, Elring Klinger do Brasil Ltda. and Elring Klinger (Great Britain) Ltd. were selected for awards by their respective customers Toyota and Caterpillar in recognition of outstanding product quality and supplier reliability. Furthermore, the Swiss rail company SBB awarded ElringKlinger's subsidiary Hug the title of Best Supplier for its innovative solutions in the field of diesel particulate filters for locomotives.

MAY

New Supervisory Board elected
Elections to the Supervisory Board were held at the Annual General Meeting in May on expiry of the periods of office of existing members. Rita Forst joined the Supervisory Board as a new representative of the shareholders and both Nadine Boguslawski and Ernst Blinzinger (elected by the workforce in March) as new employee representatives.

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AUGUST

Lightweight components go into series production

ElringKlinger's production site in Leamington, Canada, successfully ramped up serial production of front-end carriers and cockpit cross-car beams for a premium German car maker. These components have already been produced at ElringKlinger's Chinese site in Suzhou since the beginning of the year. The new hybrid polymer-metal design is ElringKlinger's first venture into the fast-growing market for lightweight vehicle body components. → See "Turning up the pressure," page 14

SEPTEMBER

Lightweight construction expertise on exhibit at the IAA

Under the slogan "Intelligent lightweight solutions. Success on the road." ElringKlinger presented a range of lightweighting solutions and new products at the IAA Motor Show in Frankfurt/Main, with components designed to maximize the efficiency of vehicles while reducing their environmental impact. Visitors were fascinated by ElringKlinger's 16-ton exhibit, just one half of the production tool used to make a new range of hybrid polymer-metal components.

OCTOBER

Planting trees to protect the climate

In October, more than fifty schoolchildren took part in a "Plant-for-the-Planet Academy" sponsored by ElringKlinger in Dettingen/Erms. The hands-on workshop also gave them a lot of background knowledge about protecting the climate and what they can do to help. True to the motto that "Stop talking. Start planting," the children planted twelve cherry trees in a meadow orchard.

OCTOBER

Emission-free mobility "made by ElringKlinger"

Also in October, ElringKlinger received the "f-cell" award from the German federal state of Baden-Wuerttemberg at the World of Energy Solutions 2015 trade fair. The award was presented in recognition of ElringKlinger's PEM fuel cell module, which can be fitted into material-handling equipment, light commercial vehicles and passenger cars. Fully developed from both a technical and commercial perspective, the hydrogen-based module delivers emission-free mobility.

DECEMBER

New CFO

In December, responding to strong growth at Group level, the Supervisory Board took the decision to appoint Thomas Jessulat Chief Financial Officer effective from January 1, 2016.

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4/5-layer Metaloflex™ cylinder-head gasket with partial coating and backland support.

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The Management Board of ElringKlinger AG

THEO BECKER
responsible for the Cylinder-head Gaskets, Specialty Gaskets, Plastic Housing Modules/ Elastomer Technology, Shielding Technology, Exhaust Gas Purification Technology, E-Mobility and Tooling Technology divisions, New Business Areas as well as the corporate functions Quality and Environment, Materials Management and ElringKlinger AG plants

(from left to right)

DR. STEFAN WOLF — Chairman / CEO
responsible for Group companies, the corporate functions Legal Affairs, Human Resources, Investor Relations and Corporate Communications, the Aftermarket division as well as Original Equipment Sales

THOMAS JESSULAT
responsible for the corporate functions Finance, Controlling as well as IT and the Industrial Parks division

Letter to Shareholders

Dear Shareholders,
Ladies and Gentlemen,

Looking back, 2015 proved to be an eventful year for the ElringKlinger Group. Despite the loss in forward momentum seen in China, vehicle markets around the globe recorded solid growth over the twelve-month period. Against this backdrop, ElringKlinger managed to expand revenue by almost 14% to EUR 1,507 million – an encouraging performance. On a less positive note, however, the bottom line was impacted by a disproportionately large increase in demand within one of the company's divisions. Earnings before interest and taxes stood at EUR 135 million in the period under review, compared to EUR 154 million a year earlier.

Despite the downturn in earnings, we would like to offer you an appropriate share of our profit. We do so because we are confident of ElringKlinger's future profitability. Therefore, the Management Board and Supervisory Board will submit a proposal to the Annual General Meeting for a dividend distribution of EUR 0.55 per share. In the medium to long term we will be looking to steadily increase the overall dividend payout.

Let us look back on some of the key developments within the ElringKlinger Group during the financial year just ended. Our new lightweight plastic components used in the vehicle body entered series production in 2015. What is more, we are now already working on other exciting projects in an effort to help achieve further efficiency gains in the field of automotive engineering. We are well on our way with our lightweight solutions and see tremendous potential for growth within this area. One of the key advantages of our lightweight components is that they are not restricted to a specific type of drive system, i.e., they can be used in any kind of vehicle – including hybrid and electric cars.

In acquiring a major US-based automotive supplier of control plates used in automatic transmissions, now trading as ElringKlinger Automotive Manufacturing, Inc., we have considerably strengthened our market position in North America within this line of business. Committed to this area of growth, we are anticipating significant gains in the coming years.

As mentioned above, 2015 also presented us with some challenges. We were faced with a disproportionately large increase in demand within the Original Equipment segment, which in turn led to considerable capacity constraints. The additional costs of around EUR 34 million incurred as a result of this situation, primarily for extra shifts and unscheduled freight movements, meant that ElringKlinger fell short of its prior-year earnings in the period under review – despite favorable conditions for business.

You can rest assured that we have already responded and initiated appropriate countermeasures that are now delivering tangible improvements. We anticipate that the Group will incur trailing exceptional costs in the first quarter, before returning to normal operations again over the course of the first half of 2016. We are currently establishing a production site in Kecskemét, Hungary, which will help to relieve the strain at an operational level. Having scrutinized and reviewed our processes, we are now taking a committed approach to renewal in those areas in which this is considered necessary.

March 2016 brought changes for ElringKlinger within the capital market: After a scheduled review of the stock market indices by Deutsche Börse at the beginning of March, ElringKlinger's shares will be listed in the SDAX effective from March 21, 2016. Regardless of the adjustment to index membership, we will continue to embrace an open and transparent dialogue with you, our shareholders.

We have also seen changes to our Management Board. At the beginning of 2016, Thomas Jessulat took up the new post of Chief Financial Officer. This step was taken in response to the Group's buoyant growth in recent years. Thomas Jessulat has known our company for more than a decade. Not only does he possess excellent knowledge of financial management, he is also fully conversant with the processes involved in a manufacturing company. We look forward to working with him. On February 23, 2016, Karl Schmauder resigned as a member of the Management Board. We would like to express our gratitude to Mr. Schmauder for the long-standing relationship with our company and for his valuable contribution when it came to evolving ElringKlinger to create one of the world's leading technology groups.

Allow me to take this opportunity to thank our team of more than 7,900 employees worldwide for all their hard work over the course of the year. Intelligence, cost awareness, and innovation have always been the hallmarks of ElringKlinger's workforce and the foundation on which our technology leadership is built.

Boasting an extensive product portfolio targeting the automotive megatrend of "efficiency gains," we are favorably positioned for the future. Our goal is to maintain a healthy rate of organic growth in the region of 5 to 7% per annum. This applies to 2016 and beyond. By 2020, we want to be generating revenue of around two billion euros. This is to be achieved with the help of a strategy dominated by innovation and sustainability. ElringKlinger continues to be a strong company and a trusted partner. It is with this in mind that we chose "pure partners" as the key theme of this year's annual report, our focus being on the various dimensions of partnership both within and outside of the company.

I hope you enjoy reading our 2015 annual report.
Dettingen/Erms, March, 2016
Yours sincerely,

Dr. Stefan Wolf

Report by the Supervisory Board 2015

During the fiscal year 2015, the Supervisory Board discharged the duties incumbent on it according to the law, the Articles of Association, the rules of procedure and the German Corporate Governance Code. The Supervisory Board monitored the activities of the Management Board and supported it in an advisory capacity, particularly with regard to the strategic positioning of the Group. The Supervisory Board was involved in all decision-making processes deemed to be of fundamental importance to the company. The Management Board submitted monthly written reports to the Supervisory Board concerning developments in the wider economy, ElringKlinger's business performance, order intake, order backlog, revenue and earnings (in each case comparing targeted and prior-year figures), significant new orders, the employment situation of the Group, of ElringKlinger AG with its divisions, and of the subsidiaries, as well as liquidity.

The Supervisory Board convened for four scheduled meetings in 2015. At these meetings, the Management Board provided a detailed review of business developments in respect of the most recent part of the year, including all key indicators as well as comparisons with prior-year figures and targets for the Group, for ElringKlinger AG with its divisions, and for the subsidiaries. It also looked ahead at figures for the annual period as a whole and assessed the economic, market, and competitive environment. In addition, the Management Board supplied regular information on the current risk situation, relevant compliance-related issues, the status of any significant legal disputes, and other matters of critical importance. Last, but not least, regular reporting encompassed strategic projects as well as acquisitions and their integration. The issues were presented and, where necessary, discussed in detail during the sessions of the full Supervisory Board. The members of the Supervisory Board were also informed extensively and in writing of the respective points on the agenda in good time prior to the meetings.

Aside from the aforementioned regular reports and topics, the Supervisory Board addressed the following subjects at its scheduled meetings:

- The Supervisory Board meeting of March 25, 2015, was devoted to the Management Board's explanation of the 2014 annual financial statements of ElringKlinger AG and the Group. This meeting also dealt with the report of the auditing firm Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft. The financial statements of ElringKlinger AG and the consolidated financial statements of the Group as well as the resolution on the Management Board's proposal for the appropriation of profit were authorized and approved. Additionally, the Supervisory Board was furnished with reports on preparations for the Annual General Meeting. At this meeting, it agreed on the items on the agenda for the Annual General Meeting. Lastly, the Management Board outlined the financing structure of the ElringKlinger Group. This issue was discussed extensively.

- At the Supervisory Board meeting of May 13, 2015, which took place immediately after the Annual General Meeting and was attended by its newly appointed members, Mr. Walter H. Lechler was elected Chairman and Mr. Markus Siegers Deputy Chairman of the Supervisory Board. In particular, the Annual General Meeting that had taken place immediately prior to this Supervisory Board meeting was another item on the agenda.

- The Supervisory Board meeting of September 11, 2015, was devoted among other topics to an election in respect of the Personnel Committee. Mr. Markus Siegers was elected to this committee as a further member alongside Mr. Walter H. Lechler and Ms. Gabriele Sons. Furthermore, the provisions set out by German legislation on equal opportunities for women and men in executive positions were discussed. In accordance with statutory requirements, the Supervisory Board passed a resolution on the target figure to be met by June 30, 2017, in respect of the proportion of women appointed to the Management Board. The Supervisory Board was in agreement that, regardless of the definition of target figures, equal opportunities for men and women at ElringKlinger, but also measures to promote women in executive positions, are considered to be important goals.

Walter Herwarth Lechler
Chairman of the Supervisory Board

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- The agenda defined for the final Supervisory Board meeting of the reporting period on December 4, 2015, included the budget for 2016 and medium-term planning for the period from 2016 to 2020. Other key topics discussed in length included a report on results relating to the internal audits conducted in 2015, plans regarding internal audits scheduled for 2016, and current risk assessments together with preventive measures by the Management Board. Among other topics, the current compliance system was outlined in connection with the 2015 compliance report. The Chairman of the Audit Committee, Mr. Klaus Eberhardt, also commented on the aforementioned issues and reported on the outcome of consultations within the Audit Committee. Lastly, Mr. Thomas Jessulat was appointed as an additional member of the Management Board, with responsibilities for Finance, IT, and Industrial Parks.

The scheduled meetings were attended by all of the Supervisory Board members, with the exception of the meeting in December. In 2015, there were again no separate meetings of the Supervisory Board's employee and shareholder representatives for the purpose of preparing the scheduled meetings. Such meetings were deemed unnecessary, not least in view of the extensive information made available in advance. No extraordinary meetings of the Supervisory Board were convened in the period under review, as no such meetings were required in 2015.

The Audit Committee convened on three occasions during the year under review. The meeting in March 2015 was devoted to in-depth discussion relating to the auditor's report on the 2014 annual financial statements. At the September meeting, the Supervisory Board discussed the results of the first half and the status of the compliance system. The agenda of the December meeting convened by the Audit Committee included the task of defining the focal points of the audit for the financial year 2015 and the supervision of financial reporting processes as well as the internal control and compliance system. The CEO also reported regularly to the Chairman of the Audit Committee on the results of internal audits and subsequent measures to be introduced.

The Personnel Committee convened on one occasion, in November 2015. The main focus of this meeting was on preparing a suggestion to the full Supervisory Board regarding the employment contract for Mr. Thomas Jessulat, who was to be newly appointed to the Management Board.

No meetings of the Mediation Committee were necessary in the reporting period.

There were no conflicts of interest in 2015 between Supervisory Board members and the company.

The Declaration of Conformity by the Supervisory Board and the Management Board pursuant to Section 161 of the German Stock Corporation Act (AktG) and regarding the German Corporate Governance Code in the version of May 5, 2015, was approved unanimously and published on the same day on the company's website at the Supervisory Board meeting of December 4, 2015.

In addition to the written monthly reports and the four scheduled Supervisory Board meetings, as in previous years, the Chairman of the Supervisory Board remained in contact with the Chairman of the Management Board by telephone, e-mail, and in person at regular intervals throughout the year. These ongoing exchanges covered the current economic situation, important business developments, and other events of particular significance. The Chairman of the Supervisory Board informed his Board colleagues of significant occurrences by e-mail or by telephone.

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

New elections for shareholder representatives were held at the Annual General Meeting of May 13, 2015. The term of office of the staff representatives elected by the employees of German operating sites in March 2015 commenced upon conclusion of the Annual General Meeting. We would again like to thank those members who either stepped down or no longer stood for election, namely Dr. Margarete Haase as a shareholder representative and Mr. Gert Bauer and Mr. Gerhard Wick as union representatives for company staff, for their commitment and constructive contributions in the interests of the ElringKlinger Group. This applies in particular to Mr. Bauer, who was a member of this board for 15 years. Ms. Rita Forst joined the Supervisory Board as a new respresentative of the shareholders and Nadine Bouslawski and Ernst Blinzinger, both were elected already in March, joined the Board as new employee representatives.

At the end of 2015, the Supervisory Board, as stipulated by the provisions set out in the German Corporate Governance Code, again evaluated the effectiveness of its work relating to the previous financial year on the basis of a questionnaire issued to all members. This covered issues such as the openness of communication at Supervisory Board meetings and the involvement of all members in discussions. The results of the survey are to be taken into consideration in respect of future Supervisory Board activities.

The annual financial statements of ElringKlinger AG and the corresponding consolidated financial statements with the combined management report for the 2015 financial year, as presented by the Management Board, were audited by the auditors Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft. The audit mandate was issued by the Supervisory Board in accordance with the appointment of the auditor by the Annual General Meeting on May 13, 2015. In accordance with Section 315a of the German Commercial Code (HGB), the consolidated financial statements of ElringKlinger AG were prepared on the basis of International Financial Reporting Standards (IFRS). The auditing firm issued unqualified audit opinions for the annual financial statements of ElringKlinger AG as well as for the consolidated financial statements, including the combined management report, for the fiscal year 2015. The Supervisory Board was in possession of the documents relating to the financial and consolidated financial statements together with the Management Board's proposal for the appropriation of profits, as well as the two audit reports compiled by the auditor. The aforementioned documents were studied in depth by the Audit Committee and the Supervisory Board as a whole before being discussed at length and examined in consultation with the competent auditors. The Supervisory Board concurred with the outcome of the audit. No objections were raised. At its meeting on March 24, 2016, the Supervisory Board adopted the annual financial statements of ElringKlinger AG and endorsed the consolidated financial statements together with the combined management report. At the same meeting, the Supervisory Board approved the Management Board's proposal for the appropriation of profit.

The Supervisory Board would like to thank the Management Board and all members of staff at ElringKlinger AG and its investees in Germany and abroad for their tremendous commitment and successful efforts. We, as the Supervisory Board, extend these thanks in particular to Mr. Karl Schmauder, who stepped down from his role as Management Board member effective from February 23, 2016. We accepted his decision with the deepest respect. Mr. Schmauder served our company for a period spanning 34 years in total, since 2005 in his capacity as a member of the Management Board. He was instrumental in helping to drive the company forward in terms of its development and has earned great recognition.

Stuttgart, March 24, 2016
On behalf of the Supervisory Board

Walter Herwarth Lechler
Chairman of the Supervisory Board

ElringKlinger and the Capital Markets

German stock market makes gains in 2015

Stock markets were faced with a roller-coaster ride over the course of 2015. In the first quarter of 2015, an extensive bond-buying program approved by the European Central Bank, together with a weak euro and improved economic data for the eurozone as a whole, provided a substantial boost to equity markets. The decision to unpeg the Swiss franc from the euro as well as negative headlines in connection with the crisis in Greece and the conflict in Ukraine merely produced temporary dips in trading.

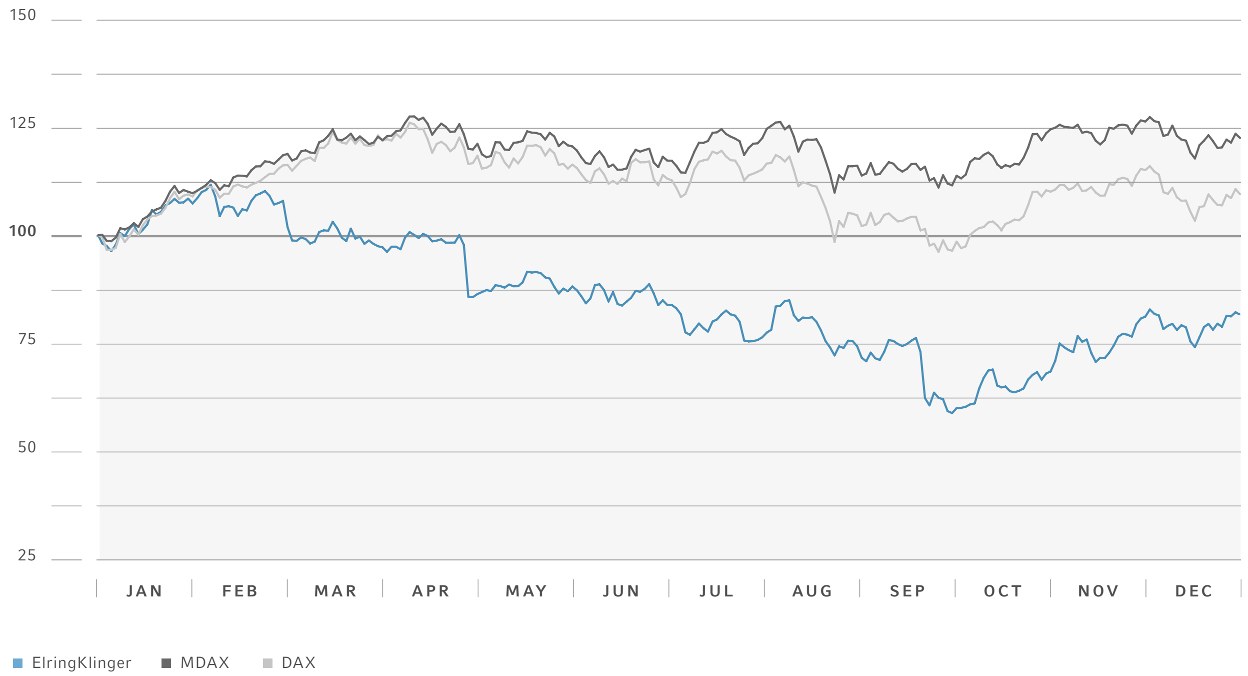
On April 10, the DAX closed at a new all-time high of 12,375 points, before several adverse factors such as the possible exit of Greece from the eurozone, the waning momentum of growth in China, and the prospect of the US Fed raising interest rates for the first time combined to produce a murkier outlook for the ensuing months. Against this backdrop of polarized forces, stock exchange indices remained largely on track for consolidation in the second quarter of 2015.

Stock markets were exposed to the effects of see-saw movements over the course of the third quarter of 2015. The diesel emissions affair at Volkswagen, the unexpected depreciation of the yuan, and weak economic data in China led to significant losses within the global equity markets. The respite provided by a last-minute bailout package agreed for Greece, the reduction in interest rates by the People's Bank of China, and robust economic data in the eurozone and the United States was only of a temporary nature.

Initially, stock markets rallied as they entered the fourth quarter, buoyed in particular by the ECB's announcement that it was prepared to embrace an even more expansive monetary policy together with the long-awaited interest rate hike agreed by the US Fed and strong car sales around the globe. This upturn proved short-lived, however, as the terrorist attacks in Paris, the dramatic plunge in oil prices to an eleven-year low, and persistently weak economic data from China exerted downward pressure on stock markets

ELRINGKLINGER'S SHARE PRICE PERFORMANCE (XETRA) SINCE JANUARY 1, 2015

compared with MDAX and DAX



towards the end of the year. The German benchmark index DAX closed the year with a gain of 9.6%. The MDAX was up by a solid 22.7% at the end of 2015.

ElringKlinger stock closes 2015 at EUR 23.50

After a gain of 22.8% at the end of 2014, ElringKlinger's stock initially improved by a further 11.8% and reached its annual high of EUR 32.18 at the beginning of February. Profit-taking following the announcement of the company's preliminary results for the 2014 financial year then exerted downward pressure on ElringKlinger's share price.

The preliminary figures for the first quarter of 2015, together with the adjusted outlook for fiscal 2015 that was issued at the same time, prompted a further downturn in the company's share price towards the end of April. Trading within an environment generally dominated by market consolidation, ElringKlinger's stock failed to make any decisive moves in the subsequent months of May and June.

In July, the company's share price rose slightly in line with the overall market trend before eventually losing ground again in August as China's economy took a turn for the worse. In September, a further adjustment to ElringKlinger's earnings forecast for the 2015 financial year saw a fall in ElringKlinger's stock by 14.8%. This coincided with reports of manipulated emissions tests at Volkswagen, which weighed heavily on auto stock prices as a whole. Against this backdrop, ElringKlinger's share price settled at an annual low of EUR 16.87 towards the end of September.

The company's stock performance improved again from October onward, with shares edging up to around EUR 20 at the end of the month. Capital markets took a positive view of the license agreement concluded in November, covering innovative metal-plastic lightweight components, as well as the announcement in December that the company's Management Board would be extended to include a dedicated finance section. Boasting a performance of +36.6%, ElringKlinger's stock surged to the top of the MDAX in the fourth quarter, thus partially offsetting its losses incurred over the course of the year. ElringKlinger shares closed the 2015 year of trading at a price of EUR 23.50.

Trading volume almost doubled year on year

The average volume of ElringKlinger shares traded was up substantially in 2015. Compared to the previous year, the stock's daily trading volume rose by 81.4% to 204,800 (112,900) units. Expressed in euros, the average daily value of shares traded on German stock exchanges increased by 61.3% to EUR 5.0 (3.1) million.

KEY INDICATORS FOR ELRINGKLINGER'S STOCK

	2015	2014
Earnings per share IFRS (after non-controlling interests, in EUR)	1.45	1.67
Shareholders' equity per share (in EUR)[1]	13.51	12.23
High (in EUR)[2]	32.18	32.60
Low (in EUR)[2]	16.87	22.09
Closing price as of Dec. 31 (in EUR)[2]	23.50	28.80
Price-earnings ratio (P/E ratio)[1]	16.21	17.25
Dividend per share (in EUR)	0.55[3]	0.55
Average daily trading volume (German stock exchanges; no. of shares traded)	204,800	112,900
Average daily trading value (German stock exchanges; in EUR)	5,039,300	3,090,700
Market capitalization as of December 31 (EUR millions)[2]	1,489.0	1,824.8

[1] as of December 31
[2] Xetra trading
[3] Proposal to 2016 AGM

Despite the relatively low free float of 48.0% when compared to the MDAX average, ElringKlinger's stock thus also offered high levels of liquidity for institutional investors to conduct larger share transactions.

In touch with the capital markets: a close dialog through conferences, road shows and local events

ElringKlinger again took a proactive and sustained approach to communicating with the capital markets in 2015. The company increased the number of road shows organized over the course of the year, in addition to attending more capital market conferences, both national and international, than in the previous twelve-month period. In total, ElringKlinger was represented at eleven conferences and took part in eight road shows at home and abroad.

In Germany, the company attended conferences and road shows in Baden-Baden, Frankfurt/Main, and Munich, the main focus being on institutional investors. In Europe, the schedule included events in France, Switzerland, Luxembourg, and Spain.

The emphasis of Investor Relations activities over the course of 2015 was on communicating with the key financial centers in English-speaking countries. For instance, ElringKlinger conducted road shows and attended several conferences in London, Dublin, and Edinburgh. Investors in the United States and Canada also showed a keen interest in the company's local road show events.

The offer to find out first-hand about the company's latest technologies and production processes remained popular among institutional investors. Over the course of 2015, the Investor Relations team at ElringKlinger hosted more than 20 plant visits and technology presentations at the company's headquarters in Dettingen/Erms.

In addition to the annual analysts' conference held in Frankfurt/Main, ElringKlinger regularly reports on its quarterly financial results and informs the market of particularly important issues and developments such as recent business performance, corporate acquisitions, or key technological innovations. Conference calls organized for these events are transmitted via the www.elringklinger.com website and are open to the public. This allows a broad range of investors to take part with a minimum of effort, while also fulfilling the requirements of timely, simultaneous, and transparent communication for all groups of investors and other parties interested in the company.

Investor Relations against the backdrop of the IAA 2015

ElringKlinger's Investor Relations team welcomed a number of guests to the company's exhibition booth at the International Motor Show (IAA) held in Frankfurt/Main in September 2015, meeting up with both capital market players and representatives of the financial press. Furthermore, the company presented its business model to analysts and investors attending the capital market conference held in parallel with the motor show.

Under the heading "Intelligent Lightweight Solutions" – and with a newly designed booth – the company showcased a number of exhibits relating to recent product developments as well as technological market trends. Trade and other interested visitors to the IAA were able to explore ElringKlinger's extensive portfolio, which also included a presentation of the company's tooling expertise. The highlight of the exhibition was a 16-ton mold. This tool is used to manufacture lightweight components made of plastic and metal on the basis of hybrid hydroforming technology.

In the cross-hair of the capital markets: interest in ElringKlinger remains strong

At the end of 2015, ElringKlinger's stock was covered by 22 financial analysts on a regular basis. At this point, 32% of analysts had issued a "buy" recommendation in favor of the company's shares, while 54% categorized the stock as a "hold." Finally, 14% recommended selling the stock, primarily based on market valuation at the time.

An up-to-date overview of banks providing coverage of ElringKlinger on a regular basis, including their respective recommendations in respect of the company's shares, can be accessed on the ElringKlinger website in the Investor Relations section (www.elringklinger.de/en/investor-relations/share/analysts).

Extensive information for private shareholders: redesigned ElringKlinger website

Maintaining a continuous dialog, ElringKlinger is committed to reporting on current and future company and market developments in a timely and transparent manner. In this context, the Investor Relations team is keen to ensure that the communication needs of all investor groups are fulfilled in equal measure. This also includes private investors, who currently hold around 10% of the company's shares and therefore represent a major shareholder group. ElringKlinger offers a wide range of communication channels to ensure an extensive flow of information and promote a direct exchange between the company and investors.

The company's website at www.elringklinger.com is generally seen as the first point of contact when it comes to accessing news on corporate developments, the latest financial publications, and upcoming events. The thoroughly redesigned website of ElringKlinger went live in September 2015 in time for the IAA Motor Show in Frankfurt/Main. Visitors to the site can experience the benefits of a contemporary look, up-to-date content, and user-friendly navigation. As the website has been programmed in a responsive design, it is also suitable for access by mobile devices such as smartphones and tablets.

ElringKlinger's activities can also be followed on the latest social media channels. ElringKlinger publishes interesting news items about the company and its stock through its Facebook (www.facebook.com/elringklinger) and Twitter (www.twitter.com/elringklingerAG) accounts.

The Investor Relations hotline (+49 7123 724-137) continues to be extremely popular as a direct route of communication with this department. A member of the Investor Relations team is on hand as a key point of contact to answer specific questions relating to the company and its shares. Additionally, the department can be contacted via its e-mail address, investor-relations@elringklinger.com, e.g. for the purpose of submitting specific inquiries, ordering financial reports, or registering as a subscriber to the company's e-mail newsletter.

The "CEO Chat" organized in December 2015 proved to be extremely popular again. Once a year, Dr. Stefan Wolf, Chief Executive Officer of ElringKlinger AG, responds to questions put forward by the interested public via an online forum. This special form of dialog was established several years ago as a direct and unfiltered platform of exchange with ElringKlinger's top management. The archived CEO Chats from previous years can be accessed on the company's website (www.elringklinger.de/en/investor-relations/service/ceo-chat). The dates of upcoming chat sessions are published well in advance.

In addition, private investors were given the chance to find out first-hand about ElringKlinger's business activities at an event organized at the beginning of October 2015. The company took part in a conference at a venue in Bad Neustadt an der Saale. It had been organized by Schutzgemeinschaft der Kapitalanleger (SdK) in cooperation with VR-Bank Rhön-Grabfeld and attracted an audience of around 100 people. At the end of the presentation, those attending the event had the opportunity to put their questions to company representatives.

Awards galore for ElringKlinger's 2014 annual report

Comparing well with its international peers, ElringKlinger's 2014 annual report received a number of awards over the course of 2015 as part of prestigious competitions judged by an acknowledged panel of experts.

ELRINGKLINGER AG STOCK MARKET DATA

ISIN	DE 0007856023
German Securities Identification Code (WKN)	785 602
Bloomberg	ZIL2
Reuters	ZILGn.DE
Capital stock	EUR 63,359,990
Number of shares outstanding	63,359,990
Stock exchanges	Official trading: XETRA, Frankfurt/Main, Stuttgart, Munich, Düsseldorf, Hamburg, Berlin
Market segment	Prime Standard
Index	SDAX

ElringKlinger's financial report was honored with the Good Design Award for the third year in succession. This award is presented annually by the Chicago Athenaeum Museum of Architecture and Design and the European Centre for Architecture Art Design and Urban Studies in recognition of excellence in design. The company's 2014 annual report also excelled at the Galaxy Awards, where it received a silver medal from the panel of experts in the "Print: Automotive" category. The Galaxy Awards are presented in recognition of outstanding projects in the field of marketing communication. The criteria are creativity, effectiveness, performance, and success.

At the renowned LACP Vision Awards, ElringKlinger managed to win a bronze award for its most recent annual report. Among other things, the League of American Communications Professionals (LACP) awarded top marks for the cover, the letter to shareholders, and the report narrative.

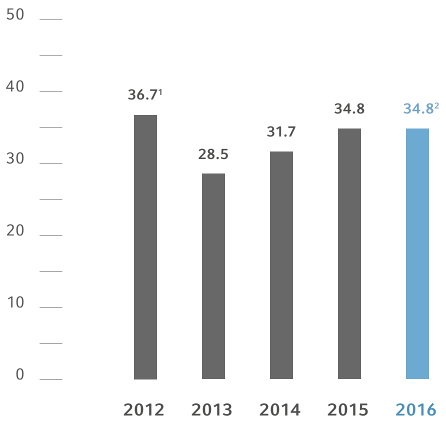
The ElringKlinger annual report also received a bronze medal at the internationally acclaimed ARC design award sponsored by MerComm, USA, thus securing a place among the world's top 15% of companies competing against each other at an international level. The report covering the last financial year also performed well at this year's FOX Award competition and received a silver medal in recognition of the highly effective nature of its communication.

The "pure process" motto chosen for the 2014 annual report captures the core competencies of ElringKlinger: pure process know-how in the form of exceptional metalworking capabilities, the very best in functional coating technology, and far-reaching plastics expertise. Preceding the actual financial presentation, a magazine section – using a reporting style – tells the story of company employees and the latest products and technologies within the Group. This section is further enhanced by high-quality photographs as well as informative charts and graphics.

ElringKlinger AGM 2015 approves 10% dividend increase to EUR 0.55 – Rita Forst appointed as new Supervisory Board member

Addressing an audience of around 500 shareholders, shareholder representatives, and guests attending the 110th Annual General Meeting of ElringKlinger AG, which was held at the Liederhalle Cultural and Congress Center in Stuttgart on May 13, 2015, CEO Dr. Stefan Wolf looked back on what had been a favorable financial year 2014.

TOTAL DIVIDEND PAYMENTS
in EUR million



[1] Including one-time bonus of EUR 0.18 per share from the proceeds of the sale of the Ludwigsburg industrial park
[2] Proposal to 2016 AGM

The AGM approved by a large majority the proposal put forward by the Management Board and Supervisory Board for an increase in the dividend by 10% to EUR 0.55 (0.50) per share. Participating in the company's success, the shareholders in the company thus received a dividend payout of EUR 34.8 (31.7) million in total. Calculated on the basis of ElringKlinger AG's applicable net income, amounting to EUR 58.9 (60.2) million, the dividend ratio for the financial year 2014 was 59.1% (52.7%).

Fundamentally, the company's dividend policy stipulates that shareholders should receive an appropriate and sustainable return on their investment, the aim being to distribute between 40 and 60% of ElringKlinger AG's annual net income as a dividend. With respect to the 2015 financial year, the Management Board and Supervisory Board intend to propose to the 2016 AGM a dividend of EUR 0.55 per share.

On conclusion of the term of office of the Supervisory Board members appointed by shareholders, the focus of the 2015 AGM was on new Supervisory Board elections. The shareholder representatives nominated by the company were re-elected by large majorities. Rita Forst was appointed as a new member of the Supervisory Board. Until 2012, she had been a member of the Management Board of Adam Opel AG.

Shareholder structure 2015 – larger proportion of private investors

As of December 31, 2015, the shareholder structure of ElringKlinger AG was as follows: at 52.0% (52.1%) of the interests in the company, the Lechler families and the estate of Klaus Lechler continue to hold the majority of the share capital in ElringKlinger AG. The company's free float accounts for 48.0% (47.9%) of the 63,359,990 no-par-value shares issued in total.

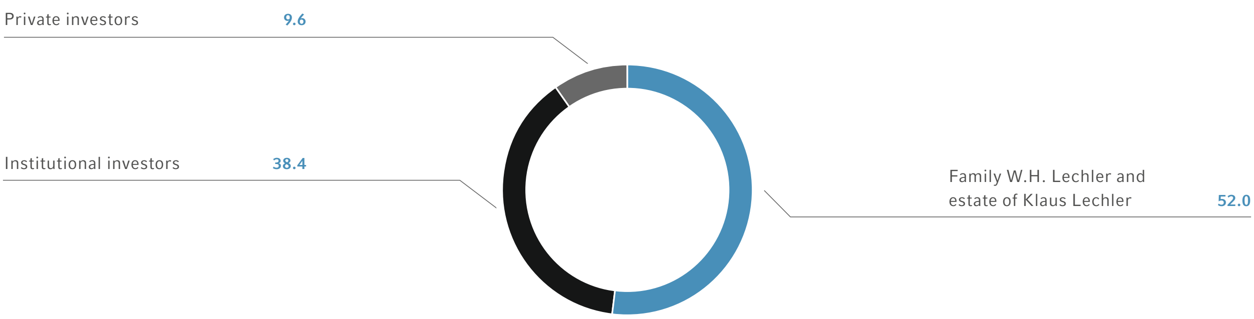
Within the free float, institutional investors such as banks, insurance companies, and pension funds, primarily based abroad, represent by far the largest group of shareholders. Moreover, ElringKlinger shares are held in the portfolios of many of Germany's asset managers. At the end of 2015, this group of investors held 38.4% (40.3%) of ElringKlinger AG's total share capital. The percentage of free float shares held by institutional investors thus remained at a high level, despite being slightly down year on year.

By contrast, the number of private shareholders has been trending higher. At the end of 2015, ElringKlinger had 10,360 (7,004) private investors in total. This corresponds to 9.6% (7.6%) of total share capital.

Sustainable investment on the rise

ElringKlinger's commitment to sustainability is now also being acknowledged to a larger extent within the capital markets. In addition to looking at financial parameters, a growing number of private and institutional investor groups base their investment decision on environmental and social criteria as well as good corporate governance. ElringKlinger shares have become an interesting investment proposition for these groups of investors.

SHAREHOLDER STRUCTURE*
in %



* Based on information available to the company as of December 31, 2015

ElringKlinger took part in the Carbon Disclosure Project as early as 2007 – one of the first automotive suppliers to do so. In this context, the focus is on efforts to reduce greenhouse gases as well as strategies put in place to deal with the effects of climate change. ElringKlinger is assessed in regular intervals by sustainability rating agencies such as Oekom, EIRIS, and Sustainalytics. ElringKlinger's stock has been listed in the DAXglobal® Sarasin Sustainability Germany Index since 2010 and has held a quality mark for sustainability from DZ Bank since 2012.

For more detailed information on ElringKlinger's efforts in the area of sustainability, please refer to the Sustainability section in this report (page 88 et seqq.). In addition, ElringKlinger published a separate CSR report again in 2015 entitled "pure responsibility." It can be downloaded from the company's website (www.elringklinger.de/en/sustainability/reporting/csr-report).

Schedule for 2016

The company will continue to extend its Investor Relations activities at an international level by attending a number of capital market conferences and road shows in 2016. At the same time, ElringKlinger will also be represented at regional events organized for private investors. For further details on current events, please feel free to visit the company's website.

Corporate Governance Report

The joint report issued by the Management Board and the Supervisory Board of ElringKlinger AG with regard to corporate governance, including the Declaration of Conformity passed on December 4, 2015, in respect of the Code, has been published online at www.elringklinger.de/en/company/corporate-governance in accordance with Section 3.10 of the German Corporate Governance Code in connection with the Corporate Governance Statement.

Highly elastic molded Metalosea™ ring gaskets for high-temperature applications and mica- or graphite-based volume sealing rings for exhaust and turbocharger applications.

02

ElringKlinger AG Combined Management Report
for the Financial Year 2015

Overview of ElringKlinger's Activities and Structure

ElringKlinger's corporate history spans a period of 136 years, during which time the Group has gradually evolved into a global player within the automotive supply industry. The Group develops and manufactures high-tech products for current and future vehicle generations.

Profile

As an independent development partner and original equipment manufacturer with global business operations, ElringKlinger produces and distributes parts and assemblies used in engines, transmissions, exhaust systems, and vehicle bodies, alongside components for lithium-ion batteries and fuel cells. The Group's portfolio encompasses products for all types of drive technology – from conventional combustion engines to hybrid units and electric systems. ElringKlinger generates around 90% of its revenue from sales to the automotive industry and within the independent aftermarket. Additionally, the Group supplies end-to-end exhaust treatment systems deployed in ships, buses, trucks, construction and agricultural machinery, and locomotives, as well as in power stations. This is complemented by a portfolio also targeted at industries beyond the automotive sector. Here, ElringKlinger Kunststofftechnik GmbH offers an extensive range of products made of the high-performance plastic PTFE*.

Alongside the majority of vehicle and engine manufacturers around the globe, ElringKlinger's customer base includes numerous automotive suppliers, particularly in the field of turbo-chargers, exhaust technology, and transmission engineering. ElringKlinger generally holds a so-called Tier 1 position* within the value chain of automotive production and supplies directly to vehicle manufacturers.

In total, some 7,900 people were employed by the ElringKlinger Group at 45 locations worldwide as of December 31, 2015 (cf. Sustainability, page 88 et seqq.).

Business model and core competencies

ElringKlinger has fully embraced one of the megatrends currently driving the automotive industry: emissions reduction. The majority of products in the portfolio contribute to the reduction of carbon dioxides, nitrogen oxides, hydrocarbons, or soot particulates – either through new lightweighting concepts, the continued optimization of combustion engines by means of downsizing*, alternative drive technologies, or exhaust gas purification systems.

The ElringKlinger Group's core competencies are founded on its far-reaching expertise relating to materials, processes, and tooling. ElringKlinger designs and produces the majority of tools required for high-precision metal processing (stamping, embossing, and forming) and injection-molding operations itself. Embracing innovative process technologies and maintaining a high level of automation in production, the ElringKlinger Group combines technology leadership with cost leadership. In manufacturing large quantities of products and leveraging economies of scale, the Group is able to reduce unit costs. Against this backdrop, the barriers to entry for new market players are extremely high.

For the purpose of safeguarding its competitive position in the long term, ElringKlinger invests heavily in research and development (cf. Research and Development, page 60 et seqq.). 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

Product sales are dependent on market developments within the area of global vehicle manufacturing. As experience has shown, the latter is closely linked to economic conditions and the employment situation in the country in question. Serving a broad customer base, ElringKlinger is not dependent on specific contractual partners. Temporary economic recessions in individual countries can usually be offset by exploiting the more favorable performance of other sales markets.

With regard to the legislative environment, one of the main factors is that relating to statutory regulations governing the reduction of emissions. Over the coming years, maximum limits for permissible emissions will be further tightened at an international level. The European Commission, for instance, has determined an upper limit of 95 g CO_2/km for CO_2 emissions produced by new vehicles. This threshold will apply as of 2021. Elsewhere, the shipping industry will be subject to IMO Tier III* regulations as of January 2016. They prescribe stricter limits for nitrogen oxides. Legislation governing various industries provides additional impetus for ElringKlinger's business, as the use of ElringKlinger products in specific applications can help to scale back emissions.

Group structure and organization

Headquartered in Dettingen/Erms, Germany, ElringKlinger AG as the parent company handles all the cross-Group 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, 2015, in addition to the parent company, the ElringKlinger Group included 40 fully consolidated subsidiaries as well as one investee. In the majority of cases, ElringKlinger AG holds 100% of the interests in its subsidiaries.

Sales markets and ElringKlinger locations

The Group operates within a global manufacturing and sales network, allowing it to supply markets around the world with high-tech products. At the end of 2015, the ElringKlinger Group encompassed 45 sites in 21 countries. They include 33 production facilities, nine sales offices, one enterprise dedicated to aftermarket sales, and two locations assigned to the Services and Industrial Parks segments.

In 2015, ElringKlinger Kunststofftechnik GmbH, based in Bietigheim-Bissingen, Germany, was among the German entities generating the Group's highest revenue alongside the headquarters of ElringKlinger AG in Dettingen/Erms, Germany. The largest non-domestic enterprises (calculated on the basis of revenue) were ElringKlinger Abschirmtechnik (Schweiz) AG in Sevelen, Switzerland, ElringKlinger USA, Inc. in Buford, United States, Changchun ElringKlinger Ltd. in Changchun, China, Elring Klinger México, S.A. de C.V. in Toluca, Mexico, and ElringKlinger Marusan Corporation in Tokyo, Japan.

72.7%

OF GROUP REVENUE GENERATED OUTSIDE OF GERMANY

Operating with a global production and distribution network, ElringKlinger serves not only the industrialized economies but also the full range of emerging markets.

ElringKlinger serves the three largest economic areas encompassing Europe, NAFTA, and the industrialized regions of East Asia. Additionally, the Group is also active in the emerging markets of Asia and South America. In acquiring 100% of the ownership interests in US automotive supplier and transmission control plate specialist M&W Manufacturing Company, Inc., Warren, United States, in 2015, ElringKlinger has strengthened the regional positioning of its Specialty Gaskets division in North America, and reinforced its manufacturing presence. Following this acquisition, the name of the company was changed to ElringKlinger Automotive Manufacturing, Inc.

In December 2015, ElringKlinger AG established ElringKlinger Hungary Kft., Kecskemét, Hungary. As a first step, the new subsidiary will commence production of shielding components starting in 2016.

Segments and divisions

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

* Cf. glossary

ELRINGKLINGER GROUP SEGMENTS

Segment	Proportion of revenue	Main customer groups
Original Equipment	83.3%	Car, truck and engine manufacturers, automotive suppliers
Aftermarket	9.4%	Independent aftermarket business
Engineered Plastics	6.4%	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 markets cylinder-head and specialty gaskets as well as lightweight plastic components and housing modules for the power-train, in addition to thermal and acoustic parts for engine, transmission, and exhaust tract applications. Its product range also includes components for lithium-ion batteries* and fuel cell systems*. The client base includes nearly all the world's vehicle and engine manufacturers. The Swiss subsidiary Hug Engineering AG, Elsau, 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 operates as a supplier 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. Business within the Aftermarket segment is transacted primarily through a global network of wholesalers and major group purchasing organizations. The Group's Aftermarket products are primarily sold in Western and Eastern Europe, the Middle East, and North Africa. Among the key markets of the future are North America and China, where ElringKlinger is currently in the process of developing its business.

The **Engineered Plastics** segment develops, manufactures, and sells products made of the high-performance plastic PTFE. Around two-thirds of revenues from this segment are generated outside the automotive industry. Within Europe, ElringKlinger has emerged as one of the leading suppliers of products for PTFE applications. At present, local sales enterprises serve the markets of Asia and the Americas, regions in which business is currently undergoing expansion.

The **Services** segment consists of Elring Klinger Motortechnik GmbH, Idstein, Germany. It 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. Additionally, ElringKlinger Logistic Service GmbH, Ergenzingen, Germany, which provides internal and external logistical services, and KOCHWERK Catering GmbH, Dettingen/Erms, Germany, are assigned to this segment. KOCHWERK Catering GmbH operates the restaurant at the principal site in Dettingen/Erms 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 manage land and buildings.

The segments are further divided into a total of eleven divisions. Seven of these belong to the Original Equipment segment, which at approx. 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 metallic **cylinder-head gaskets**. The market is characterized by an oligopoly. The principal competitors are two US conglomerates. However, they do not specialize solely in the production of gaskets. Some of the local markets include smaller, regional players.

The **Specialty Gaskets** division focuses mainly on metallic flat gaskets for high-temperature applications relating to engines, turbochargers, transmissions, and exhaust systems. Due to the range of different products it offers, the number of competitors in this field is higher. ElringKlinger has also established itself as a leading player in this line of business and is ranked as one of the three largest suppliers worldwide.

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 revenues. Here, too, ElringKlinger is one of the world's top three suppliers. 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 components made of polyamide plastics and fiber-reinforced organo sheets*, e.g., cam covers and oil suction pipe modules. Substantial weight savings can be achieved in vehicles by replacing metal with plastic. The product portfolio is complemented by high-performance metal-elastomer gaskets for commercial vehicles. The market is more fragmented than in the other divisions.

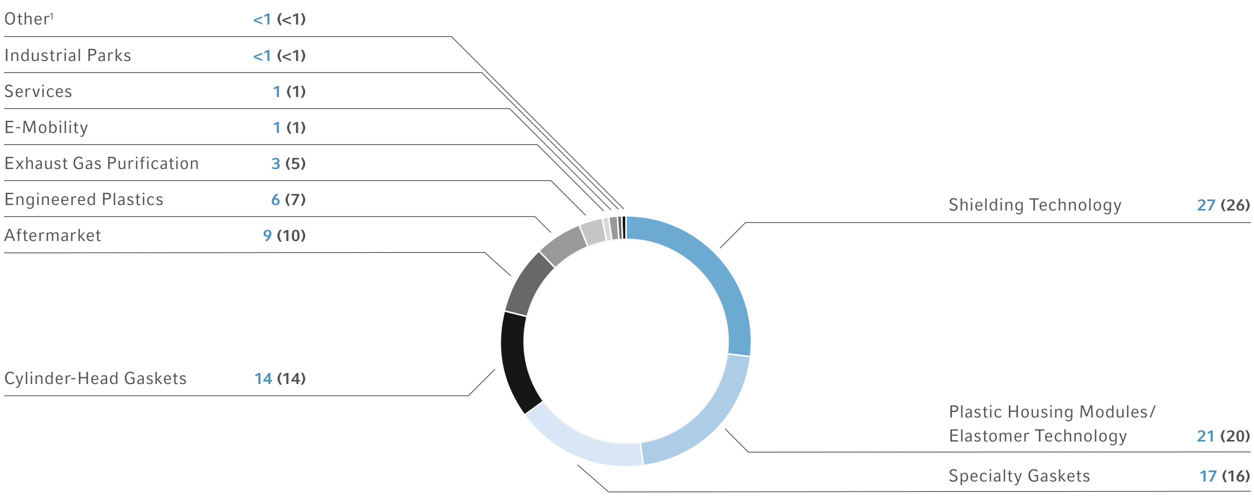
The **E-Mobility** division focuses on cell contact systems* for lithium-ion batteries, which are used in both pure electric and hybrid vehicles. Serial production of this division's core product has been underway since 2011. Growth within this division is heavily dependent on demand for electric vehicles. 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. Serving various industries, Hug is acknowledged as one of the leading suppliers of exhaust gas purification technology for stationary and mobile engines as well as off-road applications.

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 the tooling specialist for plastic injection molding 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.

Consolidated Financial Statements

SALES REVENUE BY DIVISION IN 2015
(prior year) in %



[1] Tooling Technology and New Business Areas

* Cf. glossary

New activities are transferred to dedicated divisions only once they generate tangible revenue contributions. 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 60 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 include 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 the individual business divisions.

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 target defined for the Group is to achieve a return on capital employed of at least 15% 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.

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

- Operating free cash flow*
- Equity ratio
- Potential market price risks from foreign exchange movements, interest rate changes, and increases in material costs

The following table presents the financial control criteria of the ElringKlinger Group. In conformity with external communications, earnings before interest and taxes (EBIT) have been adjusted for non-recurring exceptional items and are presented before purchase price allocation (PPA).

KEY FINANCIAL CONTROL CRITERIA OF THE ELRINGKLINGER GROUP

		Target 2015	Actual 2015	2014	2013	2012	2011	2010	2009
Significant financial control criteria:									
Sales revenue	*(in EUR million)*	1,422.1 to 1,448.6[1]	1,507.3	1,325.8	1,150.1	1,127.2	1,032.8	795.7	579.3
Adjusted EBIT, before PPA[2]	*(in EUR million)*	135 to 145[3]	140.4	162.3	149.8	140.9	130.6	116.0	63.3
EBT	*(in EUR million)*	–	128.8	153.1	131.3[4]	123.6	113.9[5]	94.0	49.4
ROCE		20%	9.5%	12.4	14.4%	13.3%	14.2%[5]	15.2%	8.8%
Other, less significant financial control criteria:									
Operating free cash flow[6]	*(in EUR million)*	not positive[7]	-65.2	12.4	-4.2	8.2	-10.5	-1.9	58.2
Equity ratio		>40%	48.5%	49.7%	50.4%	50.6%	50.1%	52.7%	41.2%

[1] Including approx. EUR 30 million in sales revenue from the takeover of former M&W Manufacturing Company, Inc., Warren, USA.
[2] Adjusted for non-recurring exceptional items EUR 0 (4.9) million as well as depreciation/amortization relating to purchase price allocation EUR 5.2 (3.4) million; this method of calculation applies in the same way to the financial years 2009 to 2013.
[3] Original forecast for 2015: EUR 170 to 180 million; adjustment on April 29, 2015: approx. EUR 165 million; adjustment on September 18, 2015: EUR 135 to 145 million.
[4] Adjusted for one-time gain from full consolidation of ElringKlinger Marusan Corporation (EUR 17.6 million).
[5] Adjusted for one-time gain of EUR 22.7 million from sale of Ludwigsburg industrial park.
[6] Cash flow from operating activities less cash flow from investing activities, adjusted for payments for the acquisition of subsidiaries, less cash.
[7] Original forecast for 2015: positive; adjustment on November 9, 2015: not positive.

Non-financial control criteria

In addition, ElringKlinger regularly monitors staff-related 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.

- Change in number of employees and average number of staff on sick leave
- Quality indicators and assessments such as work-related accidents and reject rates

For further details, please refer to the chapter entitled "Sustainability" (page 88 et seqq.).

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 as to 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.

ElringKlinger also 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.

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Research and Development

The main focus of ElringKlinger's R&D activities lies on one of the automotive industry's megatrends – emissions reduction, a field that encompasses new lightweight component designs, ongoing optimization of the combustion engine (downsizing), alternative drive technologies, and exhaust gas purification technology. In 2015, ElringKlinger again developed a wide range of new applications that directly or indirectly help to reduce emissions of carbon dioxide (CO_2) and other pollutants such as hydrocarbons, particulates, and nitrogen oxides.*

Focus on lightweight construction, efficiency gains, and emissions reduction

By prioritizing innovative technologies, especially for demanding niche applications, the ElringKlinger Group aims to establish a market-leading position and maintain a permanent edge over its competitors with regard to product development. Together, the company's outstanding culture of innovation and its consistent record of investment in research and development (R&D) provide a firm basis for achieving this objective. Every year, the Group invests around 5% of its total revenue in R&D, above the average for the industry as a whole. In 2015, this allowed it once again to reinforce its competitive position.

One of the key factors fueling innovation within the Group is the global drive towards ever stricter regulation of vehicle emissions. By 2021, for example, CO_2 emissions for new vehicles must be reduced to 95 g/km in Europe. What is more, policymakers are already discussing further cuts to between 75 and 65 g/km from 2025. In 2014, average CO_2 emissions per vehicle in Germany were still as high as 132 g/km. In the United States, vehicle CO_2 emissions also need to fall to 132 g/km by 2021 (2012: 178 g/km). In China, too – now the world's biggest vehicle market – the government is imposing a limit of around 117 g/km by 2020, compared with a figure of 169 g/km in 2012.

R&D expenses climb to EUR 71 million

A considerable proportion of the value creation process within the area of vehicle manufacturing is attributable to automotive suppliers – approx. 82%. This has a favorable impact on ElringKlinger as a development partner. In total, research and development costs rose to EUR 61.4 (57.3) million in 2015. If capitalized development costs of EUR 9.8 (9.2) million are included, the total figure for spending on R&D rose to EUR 71.2 (66.5) million. The corresponding R&D ratio for 2015, including capitalized R&D expenses, stood at 4.7% (5.0%). In the period under review, most of this R&D-related expense was again attributable to longer-established divisions, i.e., Cylinder-head Gaskets, Specialty Gaskets, Plastic Housing Modules, Shielding Technology, and Exhaust Gas Purification. At more than 10%, a significant proportion of development expense is capitalized and is thus not accounted for in "Research and development cost" within the income statement. Therefore, ElringKlinger has drawn up the following table to present its R&D costs as well as its R&D ratio, including the capitalized amounts.

	2015	2014	2013	2012[1]	2011[1]
R&D costs including capitalized R&D costs *(in Mio. €)*	71.2	66.5	65.7	65.7	56.6
R&D ratio (including capitalized R&D costs)	4.7%	5.0%	5.7%	5.8%	5.5%
Capitalization ratio[2]	13.8%	13.8%	13.7%	12.7%	11.8%

[1] Including amortization of capitalized R&D expenses – as of 2013 recognized in cost of sales.
[2] Capitalized R&D costs in relation to R&D costs including capitalized R&D costs.

Amortization of capitalized R&D expenses presented in cost of sales amounted to EUR 8.2 (7.6) million in the financial 2015 year.

The large volume of new projects and development orders was reflected in a further increase in the number of personnel employed in R&D positions. In 2015, staffing levels in departments of relevance to research and development were expanded to a headcount of 562 (538).

Technological expertise protected by patents and competence centers

ElringKlinger's dedicated patents unit is tasked with protecting the company's technological know-how relating to products and processes. In 2015, it applied for a total of 67 (94) new German and international patents.

The majority of the ElringKlinger Group's research and development activities are concentrated at the parent company's sites (ElringKlinger AG) in Germany and, in the field of exhaust gas purification, at the Swiss subsidiary Hug Engineering. These competence centers limit the risk of technology transfers, outflows of know-how, and copying.

ElringKlinger builds on existing expertise in the field of lightweight construction

There has been no let-up in the industry trend towards lightweight construction. Components previously made of metal are being replaced by plastic equivalents. This generally produces weight savings of up to 40% and is often more cost-effective. Lighter products have a direct impact on CO_2 reduction. In 2015, ElringKlinger's development teams again worked on various ideas for new products made of high-performance plastics and innovative composites.

Their main focus was on new material concepts. These include organo sheets*, a lightweight fiber-reinforced composite made of woven fibers – preferably carbon or glass fiber but also aramid fibers – embedded in a thermoplastic matrix. This makes it possible to achieve a substantial improvement in resilience and rigidity. Organo sheets could pave the way for a host of new applications in structural areas of the vehicle, especially in the vehicle body, but also, for example, with regard to the battery mounting, seat pan, and spare tire recess.

ElringKlinger obtained some very promising results from development projects involving a much lighter underbody paneling material (based on compressed textiles) that also reduces noise and vibration levels. This technology helps to reduce air resistance (Cw drag coefficient) and improves the vehicle's aerodynamic performance. The lightweight construction process involves combining thermally reshaped plastic components and a variety of surfaces using a range of composite, non-woven, and foam-based materials. Following the start of series production in Europe in the preceding year, there are plans to launch a number of large-scale projects for premium car makers in the NAFTA region in 2016.

ElringKlinger made further progress in the development of plastic resonators that are installed in the chargeair duct to reduce noise. These are currently being tested by various customers.

Thanks to ElringKlinger's development teams, glass-fiber-reinforced polyamide engine brackets are ready to enter series production. The engine bracket supports the engine above the engine mount. Compared with the traditional aluminum design, the new plastic model delivers better acoustic performance, more effective thermal insulation, and a weight-saving. The company began work on its first series production orders in 2015.

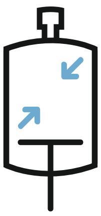
In 2014, ElringKlinger made its debut in the market for lightweight vehicle body components with its newly developed and highly innovative polymer-metal hybrid (PMH*). This product entered series production in 2015. The company has been working on this groundbreaking technology in cooperation with a German car maker. ElringKlinger developed the complex tool technology required for this purpose. A combination tool is used to link hydroforming (Hydroforming*) with plastic injection-molding so that complex and extremely lightweight components can be made in a single process. This new hybrid technology is now in use to make cockpit cross-car beams, front-end carriers, and front-end adapters. ElringKlinger developers are already investigating other possible vehicle applications. There is considerable medium-term potential for other structural components with a range of geometries.

* Cf. glossary

ElringKlinger is also contributing its expertise to the ReLei (fabrication and recycling strategies for electromobility to recycle lightweight structures in fiber-reinforced composite hybrid design) project sponsored by Germany's Federal Ministry of Education and Research. The goal of the research project, which is being coordinated by ElringKlinger, is to develop recycling strategies for carbon fiber-reinforced plastics to be used in future electric vehicles.

Boosting efficiency as trend towards downsizing places ever-growing demands on sealing and shielding solutions

Trends such as downsizing*, alternative fuels, and hybridization are placing ever-increasing demands on the combustion engine. The performance requirements relating to cylinder-head and specialty gaskets are becoming increasingly challenging due to more frequent load changes, elevated temperatures, and higher pressures.



6%

REDUCTION OF CYLINDER CAPACITY

As a result of downsizing, the average size, i.e., displacement, of a conventional combustion engine will be reduced by a further 6% by 2021. (Source: PwC Autofacts, November 2015)

In 2015, therefore, the focus was on refining stopper geometries* for the top layer of cylinder-head gaskets. ElringKlinger was the first automotive supplier to develop embossed end stoppers for gasoline engines. These are mainly used in engines located in particularly confined spaces. Most of the demand for this product comes from Asian and American customers.

During the year under review, ElringKlinger broke its previous record with 308 (305) series development projects in the field of cylinder-head gaskets.

In terms of solutions that boost efficiency, the company's development teams concentrated on ideas related to the turbocharging of optimized vehicle engines, other measures to reduce exhaust emissions involving intensive exhaust gas recirculation (EGR*), and more stringent cleanliness and anti-leak requirements in automatic transmission units.

During the year under review, ElringKlinger also worked on complex EGR gaskets with an integrated screening fabric. This filters out ceramic particles and soot that could otherwise damage the turbocharger. The company also worked on solutions to integrate additional functions such as filters and screens into the control plates used in automatic and dual-clutch transmission systems. One of the main objectives here is to reduce leakage currents. Among other benefits, this would help to optimize fuel consumption.

ElringKlinger developers also focused on new gasket solutions for air conditioning compressors and enhanced coatings for V-ring gaskets in the turbocharger as a way of improving leakage rates. They made further improvements to the coating technology used for transmission pistons. A lower coefficient of friction leads to faster gear changes and increases efficiency. The result is a substantial reduction in sliding friction.

In 2015, the company began series production of a highly efficient oil separation system for cars. The variable-flow separator captures a large proportion of the blow-by flows in the engine that leak past the pistons into the crankcase – without any loss of separating performance. The separation system is primarily designed to offer a premium solution for cars or medium-sized commercial vehicles.

Temperatures in the engine and exhaust tract are steadily increasing as a result of downsizing and the use of turbochargers. This has led to a greater demand for shielding solutions. Besides thermal shielding, more and more vehicles now incorporate components with acoustic shielding properties. At the same time, more compact engine compartments mean that air has to be directed more efficiently; specially designed shielding systems can also perform this role.

Accordingly, one of the R&D priorities in 2015 was to refine ElringKlinger's studded and perforated component surfaces to improve the shielding system's acoustic performance. The perforation ratio and a method of partial perforation, where appropriate in combination with fiber materials, make it possible to target and suppress specific disruptive frequencies.

The issue of weight reduction is increasingly important in the area of thermal-acoustic shielding components, and here too ElringKlinger developers looked at a range of new materials.

There was a continued focus on efforts to improve thermal management through direct encapsulation of the exhaust tract. This minimizes radiation losses while delivering faster warm-up times and higher operating temperatures. In turn, this enhances the efficiency of catalytic converters, thus helping to reduce emissions.

Emissions reduction: Towards a zero-emissions future with battery technology and fuel cells

Alternative drive technologies are set to play a key role in the long term. ElringKlinger was among the first to prepare itself by developing components for every possible scenario involving cars powered electrically by batteries or by fuel cells.

Although revenue from series production in the field of battery technology was still well below expectations in 2015, there was an increase in the number of new development projects. In this area, the current trend is increasingly towards plug-in hybrids, while in the medium to long term the focus is on new cell generations with lower costs and greater specific storage capacity.

ElringKlinger's developers made further refinements to improve the functionality and manufacturing efficiency of cell contact systems* for lithium-ion batteries. In addition, they designed cell housing components with integrated safety functions as part of a series of funded projects.

The company saw some very promising results from initial development projects focusing on the design of its own lithium-ion battery modules. ElringKlinger is keen to expand its product portfolio in the field of electromobility. In particular, it wants to meet the demand from niche markets such as construction machinery and forklift trucks.

ElringKlinger began development work in the area of fuel cell technology over ten years ago. Thanks to the support of its various divisions, the company's portfolio now ranges from fuel cell components and cell stacks to electricity generators. The two different technologies involved are the SOFC* high-temperature fuel cell and the PEMFC* low-temperature fuel cell. There are strong arguments on both sides: SOFCs are particularly effective when used with today's logistically available fuels, all of which are based on hydrocarbons, while PEMFCs are the ideal technology for use with hydrogen, which has considerable potential as the fuel of tomorrow.

SOFCs are primarily used as a low-emission, low-noise solution for electricity generation in a range of applications and for combined heat and power (CHP) generation in fuel cell heating systems designed for individual and multiple-occupancy buildings. Natural gas and liquid gas are two examples of the fuels used. ElringKlinger's takeover of new enerday GmbH, Neubrandenburg, Germany, in 2014 allowed it to expand its existing system know-how in the SOFC field. The new additions to its portfolio – low-emission, low-noise generators – can provide grid-free electricity efficiently and without maintenance for 365 days, even in continuous operation. This opens up numerous opportunities for a variety of promising applications, e.g., in boats and telecommunications. Since 2015, ElringKlinger has provided energy for a well-known wind turbine manufacturer during the construction of new wind farms.

PEM fuel cells are used wherever hydrogen can be made available. Although the network of hydrogen refueling stations in Germany and other countries is expanding, it is likely to be some years before nationwide coverage is achieved. For the time being, ElringKlinger is therefore concentrating on "back to base" applications such as conveyor vehicles in logistics centers and local authority maintenance vehicles.

In 2015, ElringKlinger received a prestigious f-cell award in the "Products and Market" category for its BZM-5 PEM fuel cell module, which has a scalable output of between 1 and 50 kW. The award was granted

* Cf. glossary

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by the German federal state of Baden-Württemberg, partly in recognition of the component and module design, which is suitable for series production. The module provides the ideal base for simple, low-cost fuel cell-battery hybrid systems for a range of applications. It is already in use in logistics centers, and the feedback to date has been very positive.

Exhaust gas purification: Tighter emissions limits on and off the road

The imposition of stricter limits on emissions is also being felt outside the automotive sector, e.g., in the maritime industry. This raises the prospect of some new and attractive niche markets. ElringKlinger's subsidiary Hug develops and produces complete exhaust gas purification systems with all the essential components such as ceramic substrates, catalytic coatings, metering and control technology, and housings. These systems are primarily designed for use in commercial vehicles, stationary engines, construction machinery, and marine diesel engines.

Hug's core products include SCR systems* that reduce levels of nitrogen oxides* in exhaust gases by means of a chemical reaction involving urea. The CleanCoat™ coating* developed by ElringKlinger contains no precious or heavy metals and is used as a catalyst to help burn off soot in the diesel particulate filter.

In 2015, Hug continued to work on the development of a compact SCR system with integrated soundabsorption. It also successfully began production of a new urea dosing system for ships and yachts.

From 2016, the maritime industry will have to meet the stricter emissions limits specified in IMO Tier III*. In response, the trend is towards combined systems specially adapted to meet space constraints. Among other things, the regulations drawn up by the International Maritime Organization (IMO) include emissions limits aimed at preventing and combating marine pollution. Provisions set out in IMO Tier III include stricter standards governing nitrogen oxide emissions in new ships. They apply to specially designated areas. During the year under review, Hug's first SCR system was certified for this purpose; it is being installed in a vessel designed by a leading Dutch yacht builder. Hug's developers are currently working to gain additional certifications worldwide.

One of the Group's most important product developments in 2015 was an active regeneration system for use in diesel particulate filters (DPF*). The regeneration process is vital in order to burn off soot deposits in the filter. Thanks to this new development, a low-cost mini-burner is now being introduced. It is particularly well suited for DPF applications of up to 250 kW in conjunction with low exhaust temperatures, e.g., for use in construction machinery or where the sulfur content of the fuel is still very high, as is still the case for instance in many emerging market countries. As such, it is a very attractive product for the Asian market. In 2015, Hug secured its first orders in China, and the trend is upwards. The systems made by Hug are installed in the stationary plant and equipment used to produce electricity and heat from the alternative fuels biogas and landfill gas. Over the course of 2016, ElringKlinger expects to generate additional revenue in this important Asian market.

Macroeconomic Conditions and Sector Environment

The moderate level of growth achieved by the global economy in 2015 was underpinned mainly by the favorable performance of markets in the United States and Western Europe. By contrast, the emerging and developing countries proved sluggish, which had an adverse effect on economic growth as a whole. What is more, China lost some of its forward momentum. These trends were mirrored in the performance of auto markets around the world. Led by Europe and the NAFTA states, the global car market expanded by around 2% in 2015. China saw a significant slowdown in its rate of expansion, whereas markets in Latin America and Russia underwent a severe slump.

Global economic growth dampened by emerging countries

The global economy lost some of its forward momentum over the course of 2015. The sustained dip in commodity and energy prices proved to be a blessing for the industrialized economies in particular, whereas emerging markets with a strong dependence on raw material exports were faced with severe losses. The developing countries as a whole, which account for more than 70% of global growth, saw a further decline in their rate of expansion. According to the latest figures published by the International Monetary Fund (IMF), the established economies recorded an increase in their gross domestic product (GDP) of 1.9% in 2015. Growth within the emerging and developing countries contracted from 4.6% in 2014 to 4.0% in the year under review.

Europe's domestic economy was supported by historically low interest rates due to an expansive monetary policy adopted by the European Central Bank as well as by a tangible gain in purchasing power as a result of favorable energy prices in 2015. What is more, the weakness of the euro in relation to other currencies provided a boost for exports.

The German economy expanded in line with that of the eurozone, supported by both private and public sector consumption. From mid-2015 onwards, however, waning demand from markets beyond the euro area had a dampening effect on growth.

The world's largest economy – the United States – was in good shape in 2015, buoyed in particular by strong consumer spending. While the strength of the US dollar exerted some downward pressure on the industrial sector, the improved financial situation of private households together with high employment levels acted as a stimulus to demand. In December 2015, the Federal Reserve went ahead with its much-anticipated decision to raise the benchmark interest rate by 0.25 percentage points, thereby reversing its policy of low interest rates and interest rate cuts that had previously spanned a period of almost ten years.

Both heavily dependent on commodity exports, Brazil and Russia became mired in recession in 2015. While Brazil had to contend not only with downward pressure on raw material prices but also with cases of corruption and lower competitiveness at an industrial level, Russia was hit by international economic sanctions imposed in response to the Crimean crisis.

China acted as a major decelerator on global economic growth in 2015. Measures initiated by the Chinese government to transform the country from being an export-fueled economy to one underpinned to a larger extent by its domestic market had a dampening effect on the overall rate of growth. India's economy remained on a path of robust recovery in 2015, but fell just short of the government's target of 8% year-on-year growth. On the back of a difficult twelve months in 2014, Japan's economy suffered another setback in mid-2015. As a result, it has yet to sail clear of the doldrums.

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* Cf. glossary

GDP GROWTH RATES

Year-on-year change *in %*	2014*	2015
World	3.4	3.1
Germany	1.6	1.5
Eurozone	0.9	1.5
USA	2.4	2.5
Brazil	0.1	-3.8
China	7.3	6.9
India	7.3	7.3
Japan	0.0	0.6

Source: International Monetary Fund (January 2016)
*Prior-year figures changed in accordance with data as of the publication date of January 19, 2016

Vehicle industry in 2015: solid gains in North America – Europe produces pleasant surprise

The car industry was driven by surprisingly favorable developments in Western Europe and the NAFTA states during 2015, while at the same time being influenced by an unexpectedly severe loss in momentum in China together with a market slump in Brazil and Russia. In total, global demand for new vehicles grew by around 2%. News of the VW emissions incident that broke in mid-September had no tangible impact on car sales as a whole or on diesel car sales as a proportion of all new cars sold (cf. Opportunities and Risks, page 96 et seqq.).

European car market accelerates across the board

Sales figures in Western Europe were up markedly in 2015. At 13.2 million, new car registrations in the market as a whole were still below the level recorded prior to the crisis year of 2009. However, this proved to be the market's best performance in five years. Led by Spain, all five key markets (Germany, France, Italy, Spain, and the United Kingdom) advanced well into positive territory. The smaller players also generated forward momentum, with an increasingly strong upward trend towards the end of the year. The German automobile industry managed to expand in terms of vehicle sales and production output in 2015, which coincided with stronger export figures. In doing so, it maintained the trajectory of growth seen in the preceding year. Domestic car production rose by 2.1% to 5.7 (5.6) million units. Around 77% of this total was attributable to exports, which increased by 2.4% to 4.4 (4.3) million vehicles. At a global level, production output for German car makers moved beyond the threshold of 15 million units for the first time in 2015.

Demand in Eastern Europe (excluding Russia) showed another visible increase in 2015. This came on the back of a strong performance in 2014, when some of the Eastern European markets had already recorded double-digit growth. By contrast, Russia's vehicle market continued to slide. With sales reaching 1.6 million light vehicles (passenger cars and light trucks), the Russian market was just slightly up on the level recorded in the crisis year of 2009.

US market breaches 17 million mark

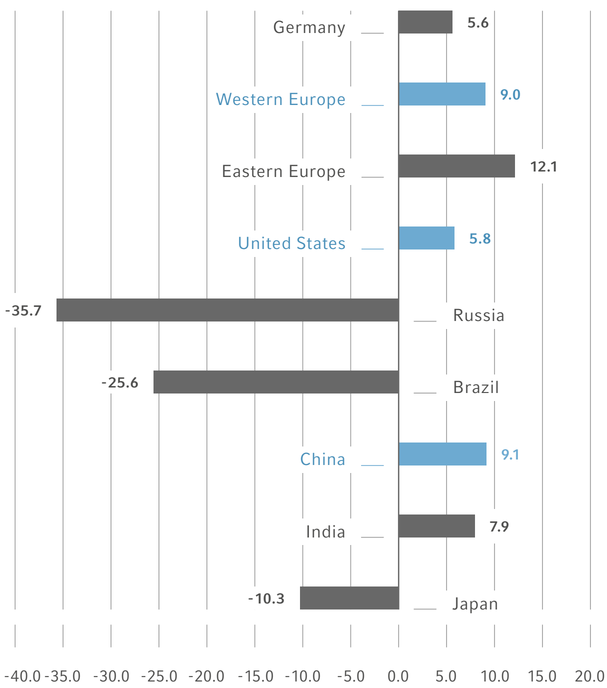
Low fuel prices, cheap loans, and solid levels of employment helped to keep the US market in the fast lane. Demand was particularly buoyant when it came to SUVs. Sales of passenger cars and light trucks totaled 17.4 million, just edging past the all-time high of 17.3 million achieved in the year 2000.

The downturn in Brazil's car market was even more pronounced in 2015, with sales slumping by a quarter compared to the anemic levels already recorded in 2014 – down to just 2.5 million light vehicles in total.

See-saw performance in China

The Chinese vehicle market recorded a new all-time high of more than 20 million new car registrations in 2015 and the highest level of growth worldwide in absolute terms. The market, however, proved to be turbulent over the course of the year. After a strong start, monthly growth rates plunged into negative territory towards mid-2015, which was followed by double-digit growth in the fourth quarter. From October onwards, a tax incentive for small-sized cars equipped with engines up to 1.6 liters provided significant stimulus.

NEW CAR REGISTRATIONS 2015
Year-on-year change (in %)



Source: VDA (January 2016)

India recorded stable growth. Fueled by improved consumer sentiment and lower interest rates, vehicle sales expanded to 2.8 million units.

The Japanese market, by contrast, proved to be less encouraging. Car sales stood at 4.2 million, a decline of around 10% compared to the previous year.

Commercial vehicle market gains momentum in Europe – Solid demand for US trucks

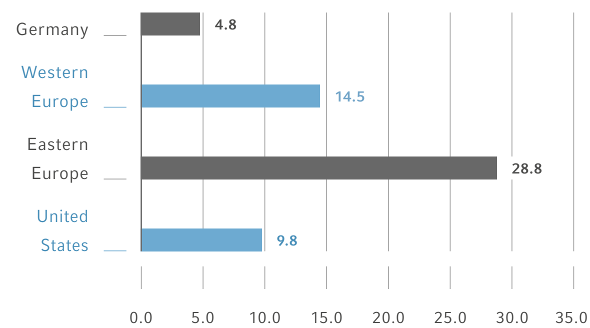
Reflecting prevailing economic trends, the performance of commercial vehicle markets in North America, and increasingly also Europe, was encouraging in 2015.

Having been faced with declining truck sales in 2014, Western Europe saw a stable upturn in registration figures at the beginning of 2015. This positive trend became more pronounced in the second half of the year. With the exception of Germany, the five largest Western European truck markets recorded double-digit growth rates. In Germany, the figure for new registrations of mid-sized and heavy trucks was up 4.8% on the previous year at 150,691 (143,857) units in 2015.

Moving into 2015, the US truck market was not quite able to emulate its strong growth performance (around 15%) of 2014. Having said that, truck manufacturers nevertheless recorded a solid order intake in the period under review. On a less positive note, demand slackened as the year progressed. In December, new truck registrations dipped slightly into negative territory compared to the same month a year before. In total, sales of mid-sized and heavy trucks (Class 4-8) rose to 477,428 (434,799) units. By contrast, Brazil's truck market had to contend with a substantial slump, with demand down by almost half.

Accounting for 15.6% (16.4%) of Original Equipment revenues, the company's business activities relating to commercial vehicles are of particular importance to ElringKlinger. In this area, too, there has been 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.

NEW REGISTRATIONS OF MID-SIZED AND HEAVY TRUCKS 2015
Year-on-year change (in %)



Source: ACEA, Automotive News Data Center (January 2016)

Significant Events

Among the significant events for the ElringKlinger Group in the 2015 financial year were the acquisition of US automotive supplier M&W Manufacturing Company, Inc., Warren, United States, the purchase of additional interests in its subsidiary ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Germany, and the decision to extend the Management Board by introducing a dedicated finance section.

Acquisition of US automotive supplier M&W

Effective from February 14, 2015, ElringKlinger acquired 100% of the interests in US automotive supplier M&W Manufacturing Company, Inc., Warren, United States, from the former owner family. Subsequently, the name of this subsidiary was changed to ElringKlinger Automotive Manufacturing, Inc.

In acquiring this enterprise, ElringKlinger has strengthened the market position of its Specialty Gaskets division in North America, in addition to now also operating with its own local production plant within this area of the business. Together with US market leader M&W, ElringKlinger has thus advanced to become the premier supplier of transmission control plates. In addition to supplying customers in North America, M&W is, to an increasing extent, also serving the Chinese market.

Larger stake in subsidiary ElringKlinger Kunststofftechnik

Effective from July 17, 2015, ElringKlinger acquired a further 3% of the ownership interests in the subsidiary ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Germany, from the co-owners. Following this transaction, it holds 77.5% of the interests in the PTFE specialist. This is in keeping with ElringKlinger AG's continued strategy of scaling back non-controlling interests within the Group to the largest extent possible.

ElringKlinger extends Management Board to include dedicated finance section

At its meeting convened on December 4, 2015, the Supervisory Board of the ElringKlinger Group appointed Thomas Jessulat to the Management Board of the ElringKlinger Group effective from January 1, 2016. Mr. Jessulat will take on the role of Chief Financial Officer. In accordance with the provisions set out in the Corporate Governance Code, his contract will initially cover a period of three years.

As a new member of the Management Board, Mr. Jessulat will be responsible for the corporate functions of Finance/Controlling as well as IT and the Industrial Parks division. Prior to the new appointment, these individual areas had all been directed by CEO Dr. Stefan Wolf.

Dr. Wolf will continue to direct the Group companies, the corporate functions of Legal Affairs, Personnel, Investor Relations, and Corporate Communications, as well as the Aftermarket division. ElringKlinger's Management Board also includes Theo Becker, who is responsible for operations, the plants of ElringKlinger AG, and the coporate functions of Quality and Environment and Materials Management. Following Karl Schmauder's resignation from the Management Board on February 23, 2016, his field of remit Original Equipment Sales passed to Dr. Wolf and New Business Areas to Mr. Becker.

Sales and Earnings Performance

Maintaining its consistent trajectory of growth in 2015, the ElringKlinger Group increased its sales revenues by 13.7% to EUR 1,507.3 (1,325.8) million. The company benefited from buoyant structural growth within many of its product groups. However, impacted in particular by additional costs driven by strong demand, it was unable to emulate last year's earnings performance.

Revenue increases to over EUR 1.5 billion

For the first time in its corporate history, the ElringKlinger Group managed to push sales revenue beyond the threshold of EUR 1.5 billion. Revenue increased by EUR 181.5 million year on year. Taking into account the effects of currency translation contained in this figure and the revenue contribution from the entity acquired in the US, organic growth amounted to EUR 79.7 million or 6.0%. Thus, revenue was within the long-term annual range of 5 to 7% targeted by the Group. In terms of revenue, the weak euro, particularly against the Group's key currencies, i.e., the US dollar, the Chinese yuan, and the Swiss franc, produced positive foreign exchange effects of EUR 69.6 million in 2015.

The first-time inclusion of former M&W Manufacturing Company, Inc., Warren, USA, in the scope of consolidation as of February 14, 2015, contributed revenue of EUR 32.2 million following a strong final quarter. The name of this entity was changed during the financial year to ElringKlinger Automotive Manufacturing, Inc. (also referred to as "EKAM").

ElringKlinger managed to increase sales revenue substantially in the final quarter of the year in particular, despite the fact that the positive foreign exchange effects on revenue had become less pronounced as the year progressed. Towards the end of the year, growth became increasingly dynamic in the "NAFTA" and "Asia-Pacific" sales regions. Business within the German market also improved in the final quarter, expanding by 8.7% year on year. In total, sales revenue generated in the final quarter of the financial year was up 14.4% on the figure recorded in the same period a year ago. From a purely organic perspective, revenue growth stood at 8.0%.

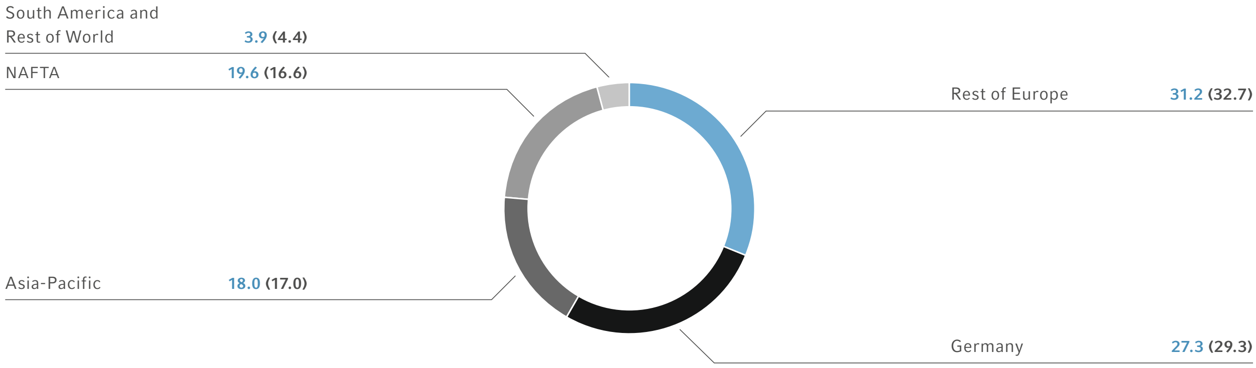
In 2015, ElringKlinger was faced with an unexpectedly strong surge in demand in one of the divisions operating within the Original Equipment segment. This led to considerable capacity constraints. The additional costs of EUR 34 million incurred as a result of this situation, primarily for extra shifts and unscheduled freight movements, meant that ElringKlinger fell short of its prior-year earnings. The Group's original guidance figure for adjusted earnings before interest and taxes (EBIT) as well as before purchase price allocation had been EUR 170 to 180 million. In view of the aforementioned capacity constraints, this figure had to be revised downward over the course of the year to a range of between EUR 135 and 145 million as part of the most recent guidance. Recording adjusted EBIT before purchase price allocation of EUR 140.4 (162.3) million, the Group completed the financial year within the projected earnings corridor.

Strong growth in "NAFTA" and "Asia-Pacific" business

The ElringKlinger Group made further revenue gains in all of its sales regions over the course of the 2015 financial year and thus managed to exceed its prior-year figures. As regards revenue generated in the respective regions, foreign exchange effects were evident in the majority of markets covered. Eliminating these effects, the Group recorded its most prominent revenue growth in the regions categorized as "NAFTA," "Asia-Pacific," and "Rest of Europe."

In 2015, ElringKlinger recorded 31.2% (32.7%) of Group revenue within its key sales market – the region comprising the "Rest of Europe." Although the proportion of revenue generated in Europe (excluding Germany) continued to fall as a result of stronger expansion within the international growth markets, this

GROUP SALES BY REGION IN 2015
(prior year) in %



region nevertheless developed very well during the period under review. Revenue from sales in this region rose by 8.4% to EUR 470.3 (433.8) million.

The German vehicle industry also managed to maintain its forward momentum of recent years. As a result, Group revenues increased by 6.0% to EUR 411.5 (388.1) million. Some of the ElringKlinger components supplied to German customers in particular are fitted to vehicles or engines destined for foreign markets. Despite an increase in revenues, it is becoming increasingly apparent that the German car and automotive supply industry is establishing more extensive production resources at sites outside of Germany. This also explains the lower share of domestic revenue in 2015, down from 29.3% to 27.3%.

On the back of strong growth last year (+10%), ElringKlinger managed to drive Group revenue up even further in the "NAFTA" sales region, taking the figure to EUR 296.4 (220.4) million. At +34.5%, revenue growth proved to be most dynamic in the "NAFTA" region. In addition to the positive effects of foreign exchange rates, revenue growth benefited from consistently strong demand for new vehicles. Growth in this region amounted to 19.9%, even when eliminating revenues contributed by the entity acquired in the United States. The Group generated 19.6% (16.6%) of its total revenue in this region, meaning that in terms of size "NAFTA" is of similar importance to the Group as the Asian market.

The strong depreciation of the Brazilian real had a significant impact on revenue generated in the region encompassing "South America and the Rest of the World" in 2015. While revenues increased by a solid 11.5% in the first half of 2015, they fell by 8.6% in the second half of the financial year due to the direction taken by foreign exchange rates. In total, revenue amounted to EUR 58.3 (57.9) million. However, adjusted for the effects of foreign exchange rates, revenue was up 10.9% on the prior-year figure. On this basis, the percentage share in Group revenue declined to 3.9% (4.4%).

Despite economic volatility within the Asian markets, coinciding with a slowdown in growth in some cases, ElringKlinger managed to drive revenue up by 20.0% to EUR 270.7 (225.6) million in its "Asia-Pacific" sales region. This was in large part due to the positive effects of foreign exchange rates. Lifting its growth rates from quarter to quarter, the Group recorded a currency-adjusted gain of 7.9% in the year as a whole. ElringKlinger has increasingly been investing in the expansion of its "Asia-Pacific" sales region over recent years – and the Group benefited from these efforts in 2015. The Asian markets outside of China, in particular, produced significant growth in the period under review. The rate of growth within the Chinese vehicle market returned to a more normal level in 2015. This was reflected in the growth rates of ElringKlinger's Chinese subsidiaries. "Asia-Pacific" accounted for 18.0% of total Group revenue, up from 17.0% in the same period a year ago. 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-Pacific" would amount to roughly one-quarter.

The percentage share of foreign sales in relation to Group revenue rose yet again in 2015, with the figure increasing to 72.7% (70.7%). For ElringKlinger, business within the international markets continues to gain in importance.

Strong gains in Original Equipment segment

The Original Equipment segment accounted for 83.3% (82.2%) of Group revenues in 2015. Revenue increased by 15.2% to EUR 1,255.8 (1,089.7) million. The most sizeable stimuli for growth came from the Specialty Gaskets, Plastic Housing Modules, and Shielding Technology divisions. Growth within this area was partly due to the incorporation of the US company EKAM. Overall, ElringKlinger continued to benefit from growing demand at a structural level for automatic transmission components, turbocharger gaskets, thermal-acoustic shielding parts, and lightweight plastic modules. At the same time, it saw an increase in the number of ElringKlinger products fitted per vehicle. The segment also profited from a number of new product rollouts in 2015, e.g., newly developed polymer hybrid components that are being produced in Canada and China for a premium car maker from Germany.

Shielding Technology faced with surge in demand

One of the units within the Shielding Technology division had to contend with a disproportionately strong rise in demand during 2015. Additional costs totaling EUR 34 million, e.g., for extra shifts and freight movements, were incurred in order to be able to process excess orders. ElringKlinger initiated a number of measures that are already showing positive effects. This illustrates that the unit is now back on the right track. ElringKlinger anticipates that trailing exceptional costs will amount to around EUR 10 million by the time measures to expand capacity levels have finally been completed.

Further reduction in fixed costs within E-Mobility

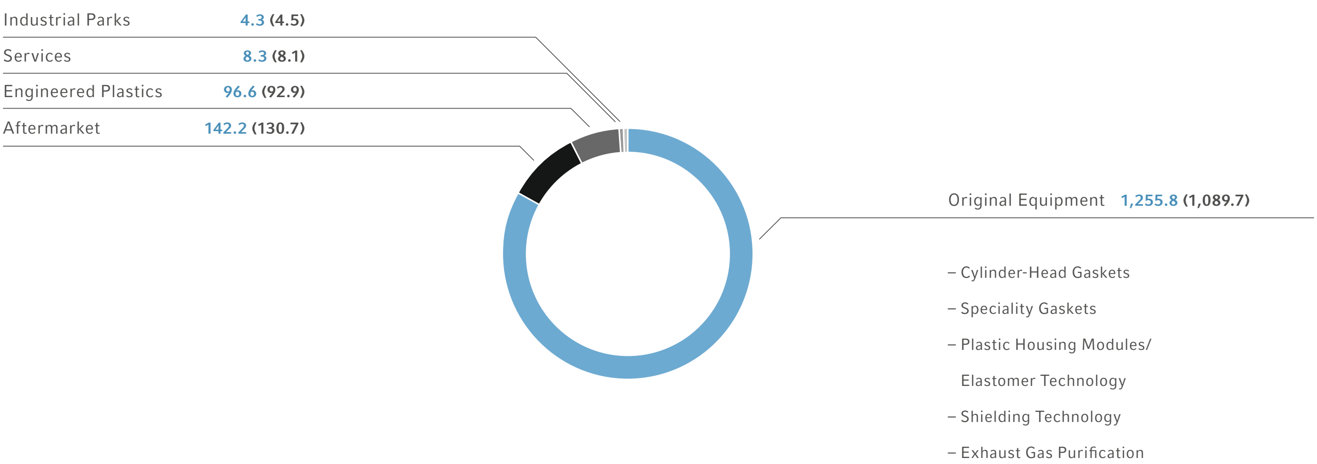
Global demand for pure electric vehicles and plug-in hybrids was sluggish in 2015, with the low price of diesel and gasoline, in particular, having a dampening effect. Against this back-drop, the share of revenues generated by ElringKlinger's E-Mobility division fell short of expectations. However, at EUR 11.0 (11.0) million, revenue matched last year's figure.

Thanks to measures implemented for the purpose of cost streamlining, the Group managed to scale back its loss before taxes to 5.1 (-8.0) million.

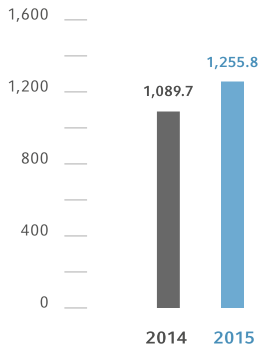
Exhaust Gas Purification falls short of expectations

Within the Exhaust Gas Purification division, which produces exhaust treatment systems mainly for industrial applications and ships, revenues and earnings tend to fluctuate more noticeably than in the case of ElringKlinger's conventional series production business. In 2015, ElringKlinger was faced with a temporary dip in demand for exhaust gas purification systems deployed in natural gas power plants. The same applied to projects centered around inland waterway vessels and construction machinery.

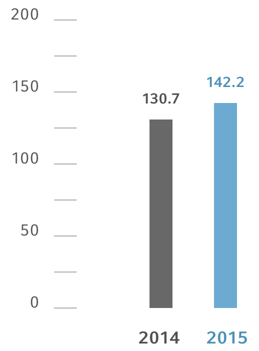
SALES REVENUE BY SEGMENT IN 2015
(prior year) in € million



SALES IN THE ORIGINAL EQUIPMENT SEGMENT
in € million



SALES IN THE AFTERMARKET SEGMENT
in € million



Although the Exhaust Gas Purification division picked up considerable pace in the final three months and generated higher revenue than in the preceding quarters, revenue for the financial year as a whole was down year on year at EUR 50.3 million, compared to a prior-year total of EUR 72.9 million. The division actively worked 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 gas reduction systems for large vessels powered by heavy fuel oil.

Due to the strong project-based nature of its business, earnings performance in this division is more volatile. Exhaust Gas Purification posted earnings before taxes of EUR 4.4 (17.4) million for the year as a whole. When comparing these figures with the previous year, it should be noted that results in 2014 were influenced to a significant extent by invoicing two large-scale contracts.

Due to exceptional costs incurred over the course of 2015 in the Shielding Technology division and the marked downturn in earnings within the Exhaust Gas Purification division, the operating result for the Original Equipment segment fell to EUR 91.2 (111.2) million. Earnings before taxes stood at EUR 85.7 (111.4) million.

Strong growth in Aftermarket business

The Aftermarket segment mainly encompasses ElringKlinger's spare parts portfolio consisting primarily of cylinder-head gaskets and complete gasket sets. Despite geopolitical tensions in some of the key sales markets for automotive parts, ElringKlinger managed to increase its revenue by 8.8% to EUR 142.2 (130.7) million in 2015. The three strongest revenue-generating regions – Western Europe, Eastern Europe, and the Middle East – each grew at a percentage rate towards the lower end of the double-digit range.

In Western Europe, an upturn in the economy produced buoyant growth, as repairs that had often been postponed during the economic crisis finally went ahead. More extensive efforts to cultivate markets in countries such as Italy, France, and Spain also had a positive impact.

The individual markets of Eastern Europe, the Middle East, and Africa showed a mixed picture. Geopolitical tensions in Russia, the Middle East, and a number of North African countries in particular had a dampening effect on business. At the same time, some wholesalers were faced with limited access to refinancing and thus often showed a reluctance to go ahead with purchases. On a more positive note, ElringKlinger benefited to an increasing extent from the sustained growth in ownership of Germanmade cars throughout these regions. Overall, the Group achieved very solid growth rates in all three markets.

The direction taken by the "NAFTA" region was encouraging. Operating from a low base, ElringKlinger managed to lift sales revenue by 18.8%. The expansion strategy specifically put in place for the purpose of targeting the North American market showed the first signs of success in the period under review. Expansion in the company's market presence is an important step forward when it comes to securing an additional share of the local aftermarket business. Markets in the region encompassing "South America and the Rest of the World" continued to languish in the doldrums, which was reflected in stagnant Aftermarket business in 2015.

Over the course of 2015, ElringKlinger also pressed ahead with efforts to establish its spare parts business in the "Asia-Pacific" region. Compared to the previous year, the segment had to contend with a downturn in business of 9.7% within the Asian markets. However, the rapid expansion in vehicle numbers suggests that demand for spare parts will become increasingly buoyant in the medium term. With this in mind, ElringKlinger is fully committed to expanding further in this region. In doing so, it is investing in a key market of the future that offers promising prospects for growth.

ElringKlinger maintained the strong position it holds in its domestic market and expanded its business by 0.9% on the back of buoyant growth in the previous year. In total, domestic sales accounted for a good 13% (around 15%) of revenue generated in the Aftermarket segment.

Outpacing revenue growth in 2015, the Aftermarket segment made a positive contribution to Group earnings. Earnings before interest and taxes rose by 12.4% in total, taking the figure to EUR 28.2 (25.1) million.

Slight revenue growth in Engineered Plastics segment

The Engineered Plastics segment specializes in processing the high-performance plastic PTFE* (polytetrafluoroethylene). Its business is also centered on the associated application technology. In total, the Engineered Plastics segment grew at 4.0% year on year, taking revenue to EUR 96.6 (92.9) million in 2015. However, this expansion was attributable mainly to the takeover of Polytetra GmbH in 2014. Without the effects of consolidation, revenue would have been largely unchanged year on year.

While revenues generated within the automotive industry continued to expand during the first half of the year, the trend reversed in the second six months. Over the course of 2015 as a whole, this segment also saw a downturn in business with customers operating in the mechanical and plant engineering sector. This industry was hit particularly hard by the political instability of markets and their more pronounced volatility during the period under review. As a consequence, revenues fell short of expectations, and the performance of other markets was not sufficiently strong to compensate for this situation. In China, meanwhile, the Engineered Plastics segment also failed to match the growth rates it had achieved in previous years.

In 2015, ElringKlinger continued to press ahead with efforts to internationalize its business within this segment, which had previously been focused heavily on Central Europe. The sales companies in Qingdao, China, and Buford, USA, looked at cultivating markets in Asia with an emphasis on China, Korea, and Taiwan as well as in the NAFTA region, primarily in the United States, Canada, and Mexico. In taking this strategic approach, ElringKlinger is investing in the future of the Engineered Plastics segment. The sales team in the United States secured several development projects in 2015. The associated production activities will be handled by the subsidiary in Buford, United States. ElringKlinger is currently still in the process of penetrating the "NAFTA" sales region, the aim being to substantially expand its share of the world's biggest PTFE market in the medium term.

Up-front costs associated with market cultivation, particularly for sales and development, had a dilutive effect on earnings in 2015. The Engineered Plastics segment recorded earnings before interest and taxes of EUR 13.2 million, down from EUR 15.4 million in the previous year. Correspondingly, the operating profit margin fell to 13.7% (16.6%).

Industrial Parks

ElringKlinger's rental income from the industrial parks in Idstein, Germany, and Kecskemét-Kádafalva, Hungary, amounted to EUR 4.3 (4.5) million. At the same time, the Industrial Parks segment contributed slightly more to Group EBIT compared to the previous year, at EUR 0.7 (0.4) million.

* Cf. glossary

Consolidated Financial Statements

Slight revenue growth in Services segment

In the Services segment, Elring Klinger Motortechnik GmbH, Idstein, Germany, provides engineering and testing services to vehicle manufacturers and other suppliers. The company's range of services in 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, is also accounted for in this segment. It provides logistics services such as sorting and packaging both within the Group and to outside customers. In 2015, it accounted for a substantial proportion of revenue and earnings growth within this segment. By contrast, Elring Klinger Motortechnik GmbH saw a year-on-year decline in both revenue and earnings.

Overall, sales revenue was up marginally year on year at EUR 8.3 (8.1) million. At 2.0 (1.9) million, earnings before interest and taxes were also slightly higher than in the previous year. As a result, the profit margin improved from 23.5% to 24.1%.

Gross profit margin diluted by exceptional charges

The adverse factors relating to capacity constraints within the Shielding Technology division, as outlined above, had a significant impact on the Group's earnings performance in the 2015 financial year. A disproportionately strong increase in demand led to exceptional costs of EUR 34 million, which mainly affected cost of sales and, additionally, selling expenses. They grew at a faster rate than revenue, up by 17.1% to EUR 1,133.0 (967.4) million. Correspondingly, the gross profit margin fell to 24.8% (27.0%).

Despite falling slightly year on year, the percentage revenue contribution from tool-related billings remained at a high level in 2015. Compared to serial production business, revenue associated with tools tends to generate lower earnings for the Group in some cases.

At +10.8%, the cost of materials, including tool-related costs, rose at a slower rate compared to revenue growth – to EUR 643.2 (580.6) million in total. Correspondingly, the cost-of-materials ratio fell to 42.7% (43.8%). Price reductions relating to C-steel and polyamide granules had a positive effect, and prices for precision stainless steel were also maintained at a stable level. Merely the price of aluminum continued to edge upward in 2015.

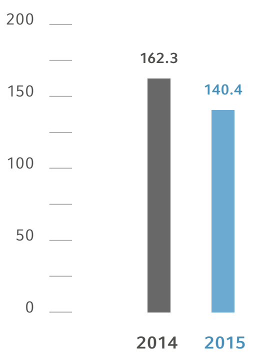
Staff costs rose to EUR 416.7 (371.1) million in the 2015 financial year. This was attributable to the staff profit-sharing bonus agreed in respect of the 2014 financial year for employees at ElringKlinger AG, ElringKlinger Kunststofftechnik GmbH, and Elring Klinger Motortechnik GmbH. Amounting to EUR 1,600 (1,450) per employee, this bonus pushed staff costs up by EUR 5.6 million, after EUR 4.7 million in the previous year. Additionally, collective pay rises coming into force during the period under review triggered an increase in wages and salaries for personnel employed under collective agreements. The expansion of staffing levels, particularly abroad, resulted in higher expenses in the financial year under review. Compared to the previous year, the headcount within the ElringKlinger Group was up by 9.1%. These factors were also responsible for driving up the staff cost ratio, i.e., staff costs accounted for in the cost of sales in relation to the Group's total revenue, to 25.2% (23.4%). ElringKlinger is committed to increasing the level of automation with regard to machinery and equipment in order to raise productivity at its production plants.

Selling expenses rose to EUR 116.0 (93.4) million in the 2015 financial year. This substantial increase, by 24.2%, was fueled mainly by the additional costs incurred by the Group, as discussed earlier, particularly for extra shifts and unscheduled freight movements. The Group also recorded an increase in its general and administrative expenses in 2015, up by EUR 7.9 million to EUR 69.3 (61.4) million. Alongside the expansion in staffing levels, additional expenses relating to the acquisition of the transmission control plate manufacturer in the United States also pushed general and administrative expenses higher.

Further expansion in research and development activities

ElringKlinger again stepped up its efforts in the area of research and development in the period under review. Expenses relating to R&D activities totaled EUR 61.4 (57.3) million. Taking capitalized development costs into account, ElringKlinger spent a total of EUR 71.2 (66.5) million on development projects. This corresponds to an R&D ratio of 4.7% (5.0%).

EBIT ADJUSTED, PRE PPA*
in € million



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

While capitalized development costs amounted to EUR 9.8 (9.2) million, scheduled amortization totaled EUR 8.2 (7.6) million. The resulting positive effect on earnings was equivalent to EUR 1.6 (1.6) million. The Group received government grants of EUR 7.8 (7.4) million in 2015, which were mainly used on projects in the field of fuel cell technology, battery engineering, and lightweight construction. In parallel, the company incurred projectrelated expenses at a comparable level for development work and prototyping.

At EUR 20.1 million, other operating income was just slightly up on the prior-year figure of EUR 18.7 million. This was attributable primarily to the slight increase in government grants and a one-time insurance payout, which was counterbalanced by corresponding expenses accounted for in the cost of sales. Other operating expenses rose to EUR 12.4 (11.1) million in total.

Adjusted EBIT in line with most recent guidance

Despite strong organic revenue growth in the Original Equipment and Aftermarket segments, the Group was unable to offset the exceptional costs incurred in the Shielding Technology division during 2015. Therefore, earnings before interest, taxes, depreciation, and amortization (EBITDA) fell by 4.5% to EUR 222.8 (233.4) million at Group level.

As a result of more expansive investing activities within the Group, depreciation and amortization rose by 10.2% to EUR 87.5 (79.4) million. Depreciation of property, plant, and equipment, in particular, increased to EUR 69.9 (64.4) million in total. Depreciation and amortization of intangible assets and property, plant, and equipment include negative effects from purchase price allocations equivalent to EUR 5.2 (3.4) million in total. This increase was attributable to the EKAM acquisition transacted in 2015.

Adjusted earnings before interest and taxes (EBIT) totaled EUR 140.4 (162.3) million before purchase price allocation. On this basis, the Group succeeded in meeting its most recent earnings forecast of EUR 135 to 145 million. In relation to revenue, this corresponds to an adjusted EBIT margin before purchase price allocation of 9.3% (12.2%). The lower margin in 2015 was attributable primarily to temporary exceptional costs associated with measures aimed at eliminating capacity constraints. It was further diluted by around 0.4 percentage points due to losses incurred in the E-Mobility division. Other dilutive effects came from the full consolidation of ElringKlinger Marusan Corporation, Tokyo, Japan, (around 0.3 percentage points), an entity whose margin is still considerably lower than that recorded by the Group and, to a lesser extent, the most recent consolidation of the subsidiaries new enerday GmbH, Polytetra GmbH, and – as already mentioned – EKAM.

Group tax rate falls to around 26%

The weakness of the euro against the US dollar, Swiss franc, and Chinese yuan, in particular, produced significant foreign exchange effects in 2015. The net foreign exchange gain was EUR 3.2 million in the period under review, after EUR 10.0 million in the previous year. Net interest costs stood at EUR 11.6 (10.9) million in the 2015 financial year. Among other aspects, this was due to more extensive interest expenses as a result of higher net debt.

Consequently, Group earnings before taxes totaled EUR 128.8 (153.1) million. The tax rate was pushed up due to the decline in earnings contributions from subsidiaries in countries with a lower Group tax rate. In the final quarter of 2015, the recognition of loss carryforwards in deferred tax assets at two subsidiaries – in France and in Switzerland – had a positive tax effect that reduced the Group tax rate to 25.6% (27.8%). Income tax expenses fell to EUR 33.0 (42.5) million in the period under review.

Earnings per share at EUR 1.45

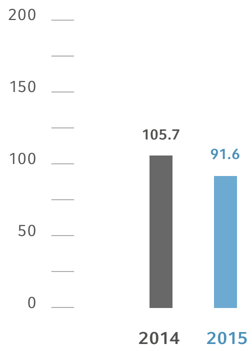
At EUR 95.8 million, net income generated by the ElringKlinger Group in 2015 fell short of the prior-year figure of EUR 110.6 million. Due to lower earnings from the Exhaust Gas Purification division (Hug Group) and the Engineered Plastics division (ElringKlinger Kunststofftechnik GmbH), net income attributable to non-controlling interests fell by 14.3% to EUR 4.2 (4.9) million. Without these interests, profit attributable to shareholders of ElringKlinger AG stood at EUR 91.6 (105.7) million. On this basis, earnings per share amounted to EUR 1.45 (1.67) in 2015. As of December 31, 2015, the number of shares outstanding that were entitled to a dividend remained unchanged at 63,359,990.

Dividend of 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 31, 2016, an unchanged dividend of EUR 0.55 (0.55) per share.

At EUR 34.8 (34.8) million, the total dividend payout would be the same as in the previous year. Based on net income attributable to shareholders of ElringKlinger AG, the dividend ratio is 38.0% in 2015, compared to 32.9% in the previous year.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF ELRINGKLINGER AG
in € million



Financial Position

With an equity ratio of 48.5%, the ElringKlinger Group remained very solid with regard to its financial position as of December 31, 2015. Total assets rose by 13% year on year as a result of the Group's organic growth in business and its corporate acquisitions. At 60%, the proportion of non-current assets was up slightly at the end of the reporting period.

Total assets up due to investing activities and M&A efforts

As of December 31, 2015, total ElringKlinger Group assets were up by around 13% at EUR 1,765.8 (1,558.8) million. In this context, the year-on-year increase was also attributable to some extent to the depreciation of the euro against key currencies within the Group. Primarily, however, it was driven by the growth-induced expansion in working capital (inventories and trade receivables) and property, plant, and equipment as well as the first-time consolidation of the newly acquired US entity M&W Manufacturing Company, Inc., Warren, USA. The latter is now trading under the name of ElringKlinger Automotive Manufacturing, Inc. (also referred to as "EKAM").

The inclusion of EKAM – acquired in February – in the scope of consolidation of the ElringKlinger Group prompted an expansion in total assets by EUR 38.1 million in total in the first quarter of 2015. Of this total, the largest part was attributable to intangible assets. This item included derivative goodwill of EUR 17.1 million as well as other intangible assets of EUR 8.0 million identified as part of the purchase price allocation. A detailed description of the impact of this acquisition on the Group statement of financial position can be found in the notes to consolidated financial statements.

Investments in property, plant, and equipment and investment property as well as intangible assets totaled EUR 189.8 (163.1) million in the financial year under review and were well in excess of depreciation/amortization (less write-ups) of EUR 87.5 (79.2) million. As a result, intangible assets expanded by EUR 28.2 million to EUR 213.5 (185.3) million, while property, plant, and equipment rose to EUR 827.3 (708.0) million.

Whereas the increase in intangible assets was attributable primarily to the acquisition of EKAM, the rise in property, plant, and equipment by EUR 119.3 million was mainly due to capital expenditure on capacity expansions and streamlining projects. In total, EUR 13.6 million of the year-on-year increase was the result of foreign exchange factors.

Inventories expand slower than revenue growth

Inventories rose by 11.0%, i.e., at a slightly less pronounced rate than revenue growth (13.7%). As of December 31, 2015, they amounted to EUR 321.9 (290.1) million. Overall, EUR 6.6 million of the EUR 31.8 million increase in inventories was attributable to the accretive effects of currency translation, while a further EUR 4.8 million was due to additions from the acquisition and first-time consolidation of EKAM. Without these factors, inventories would have increased by 7.0% compared to the figure posted at the end of the prior-year reporting period.

Trade receivables rose by 17.2% to EUR 287.2 (245.1) million compared to the end of the 2014 financial year. Eliminating the effects of currency translation as well as the increase attributable to the first-time consolidation of EKAM (EUR 4.5 million), trade receivables were up by EUR 31.5 million or 12.9%.

When looking at inventories and trade receivables over the course of the entire year, it should be noted that the increase compared to the figure recorded at the end of 2014 was mainly due to business developments in the first quarter. On the one hand, the increase was a necessary response to growth in business. What is more, it was also to be seen against the backdrop of lower inventory levels at the end of 2014. Over the remainder of the year, capital tied up in inventories and trade receivables remained at a stable level, despite the fact that the level of receivables at the end of the financial year was higher, due to factors relating to the end of the reporting period, as a result of relatively substantial tooling revenue.

At the end of the reporting period, cash and cash equivalents were lower at EUR 48.9 (68.7) million. In total, current assets amounted to EUR 691.3 (635.2) million, which corresponds to 39.1% of total assets.

Equity ratio remains high at 48.5%

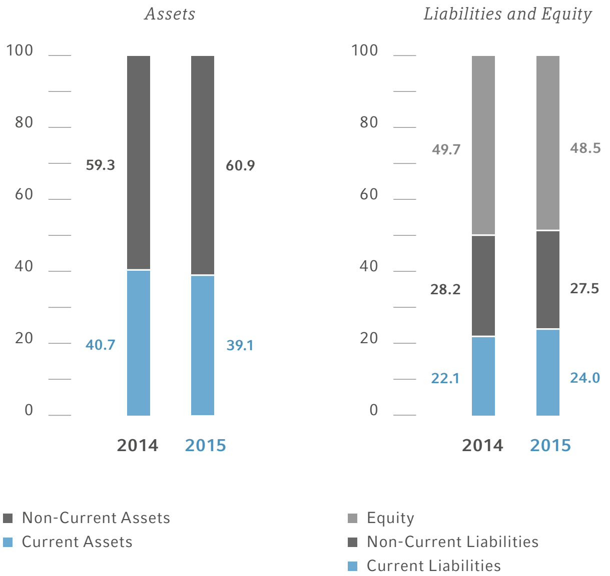
As of December 31, 2015, equity accounted for by the ElringKlinger Group rose to EUR 855.7 (775.2) million. The equity ratio at the end of the reporting period amounted to 48.5% (49.7%), thus remaining at a solid level. Revenue reserves increased to EUR 628.9 (572.2) million. The year-on-year change was attributable to the allocation of net income (net income attributable to shareholders of ElringKlinger AG) totaling EUR 91.6 (105.7) million as well as – with a contrary effect – the dividend payout of EUR 34.8 (31.7) million. Additionally, other reserves increased by EUR 21.4 million in total to EUR 11.1 (-10.3) million. To a large extent, the latter include foreign exchange translation differences of EUR 19.1 million, which were accounted for in other comprehensive income. This item also includes actuarial gains of EUR 4.4 (-21.4) million from pension obligations.

Slight reduction in pension provisions

The remeasurement of pension provisions at the end of the reporting period resulted in a reduction in this item to EUR 118.7 (124.1) million. The actuarial gain from the remeasurement was accounted for directly in equity and thus had no impact on profit or loss.

Non-current provisions fell to EUR 12.3 (16.6) million. The decline was attributable in part to the settlement of an entitlement in connection with a warranty incident. At the same time, a reimbursement was received from an insurer, which was recognized in other non-current assets.

BALANCE SHEET STRUCTURE ELRINGKLINGER GROUP
in % of Balance Sheet Total



Net debt rises to EUR 487 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. Financial liabilities therefore increased by EUR 118.7 million to EUR 535.7 million compared to the figure reported as of December 31, 2014 (EUR 417.0 million). In net terms, both long- and short-term loans rose by EUR 57.6 million and EUR 61.1 million respectively.

As a result, the Group's net debt (non-current and current financial liabilities less cash) rose to EUR 486.8 (348.3) million.

Trade payables increased to EUR 85.9 (68.8) million due to more expansive business.

There were no significant year-on-year changes to the other liability items as of December 31, 2015.

Overall, liabilities amounted to EUR 910.0 (783.6) million, which corresponds to 51.5% (50.3%) of total equity and liabilities.

Cash Flows

With cash flow from operating activities of EUR 123 million and a sufficient liquidity cushion consisting of cash and open lines of credit, the ElringKlinger Group's financial situation in terms of cash flow remains solid. In the period under review, operating free cash flow was dominated by a more substantial outflow connected with investing activities as well as a year-on-year decline in the Group's operating result.

Cash flow from operating activities at EUR 123 million

In the 2015 financial year, the ElringKlinger Group generated net cash from operating activities of EUR 123.3 (149.9) million. The decline by EUR 26.6 million was attributable primarily to lower Group earnings. Earnings before taxes fell by EUR 24.3 million to EUR 128.8 (153.1) million as a result of exceptional charges relating to capacity constraints within the Original Equipment segment, as outlined earlier.

The direction taken by net working capital (inventories and trade receivables less trade payables) was similar to that seen in the previous financial year. While the change in inventories, trade receivables, and other assets not attributable to investing or financing activities led to a cash outflow of EUR 51.8 (39.7) million, the change in trade payables and other liabilities not attributable to investing or financing activities produced a cash inflow of EUR 5.9 (8.9) million. The net result of the aforementioned changes was a reduction in cash flow by EUR 45.9 (30.8) million.

The direction taken by funds tied up in net working capital in the fourth quarter was the opposite to that outlined above. The change in inventories and trade receivables as well as other assets not attributable to investing or financing activities led to a cash inflow of EUR 24.4 (33.4) million, while the change in trade payables and other liabilities not attributable to investing or financing activities produced a cash outflow of EUR 29.6 (-17.5) million. Thus, the effects from the first quarter were partially offset.

In the fourth quarter of 2015, the cash flow effect of funds tied up in respect of net working capital also contrasted with that seen in the same period a year ago. In net terms, the final quarter of 2015 produced a cash outflow related to net working capital of EUR 5.2 million, as opposed to an inflow of EUR 15.9 million in the same period a year ago. In this context, last year's figure had benefited from an insurance payment of EUR 8.5 million in connection with the definitive settlement of a warranty incident. Despite the fact that fourth-quarter earnings were largely unchanged year on year, net cash from operating activities for this period fell to EUR 31.7 (52.8) million.

Income tax payments reduced cash by EUR 39.4 (-42.5) million in 2015.

Depreciation and amortization (less write-ups) of non-current assets, as used to determine cash flow, amounted to EUR 87.5 (79.2) million in the 2015 financial year. This figure includes EUR 5.2 million in write-downs from purchase price allocations. The change in provisions, which is also taken into account when determining operating cash flow, had a dilutive effect equivalent to EUR 7.8 million. This contrasts with a positive effect of EUR 1.3 million in the previous year.

The positive non-cash foreign exchange effects were eliminated in the line item comprising "Other non-cash expenses and income" and amounted to EUR -2.2 (-13.7) million in the period under review.

Expansion in foreign investment

Payments made in connection with investments in property, plant, and equipment as well as investment property totaled EUR 176.1 million in 2015, after EUR 147.0 million in the previous financial year. The Group's investment ratio (payments for investments in property, plant, and equipment as well as investment property relative to Group sales revenue) was 11.7% (11.1%).

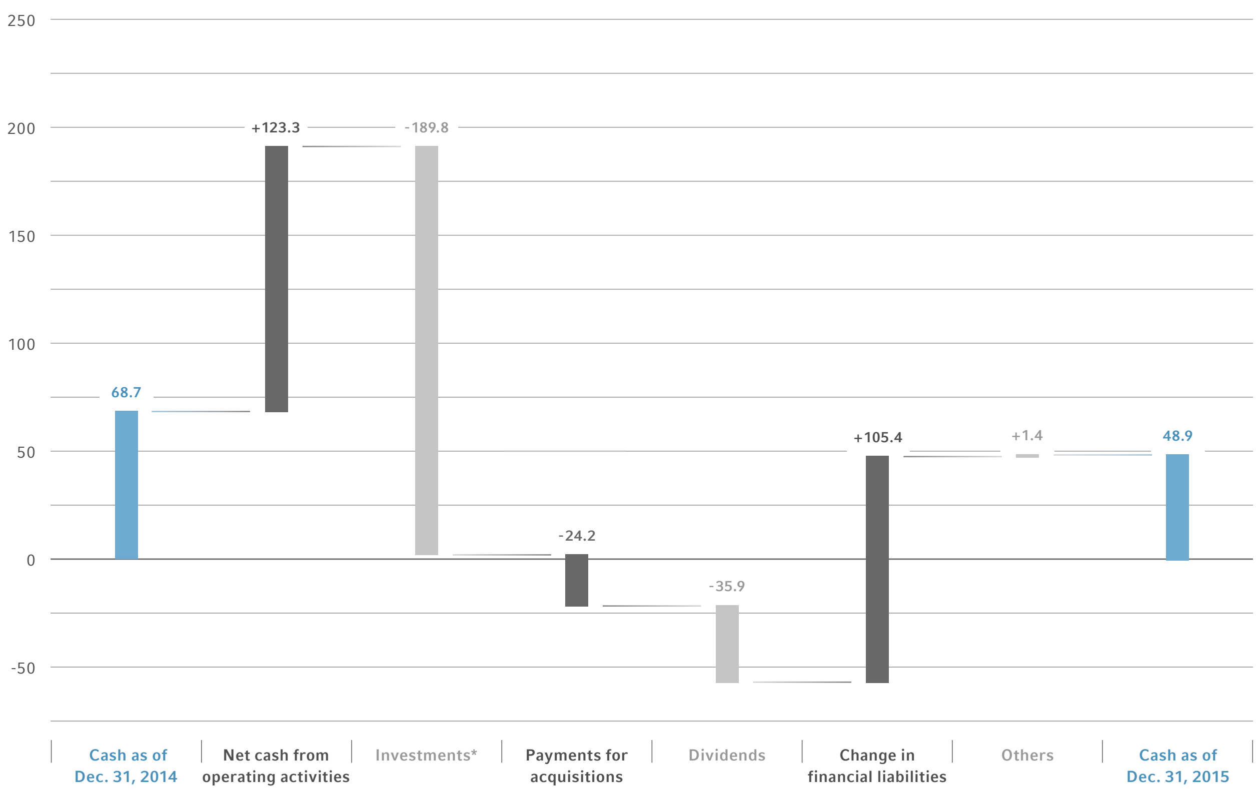
The original capital expenditure target for 2015 had been set at a level of between 7% and 9% of Group revenue plus approx. EUR 10 million for production technology relating to ElringKlinger Automotive Manufacturing Inc., Warren, USA, (also referred to as "EKAM"), a company acquired in 2015. In response to persistent capacity constraints within the Original Equipment segment, the Group pressed ahead with efforts to increase its capacity levels over the course of the year. Against this backdrop and in view of the company's business performance in the first half of the year, the Group raised its capex guidance to between EUR 145 and 155 million on publishing its results for the first half. The investments made by the Group during 2015 as a whole exceeded this revised target corridor.

Investment spending on intangible assets amounted to EUR 13.7 (16.1) million in 2015.

Investment expenditure (including outflows for investments in intangible assets) was largely directed at the Original Equipment segment in 2015 and amounted to EUR 154.7 (145.1) million. A relatively large proportion was attributable to the introduction and expansion of production capacity for new series production ramp-ups as well as for the purpose of eliminating bottlenecks. From a regional perspective, the share of investments relating to foreign subsidiaries rose substantially in the period under review, whereas the volume of investments in Germany was comparable to that recorded in the previous year. As regards foreign investment, the regional focus was on the "Rest of Europe," "NAFTA," and the sites in China and India.

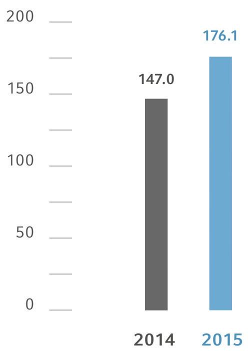
CHANGES IN CASH 2015

in € million



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

PAYMENTS FOR INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT AS WELL AS INVESTMENT PROPERTY
in € million



Investment spending directed at EKAM, a company acquired in 2015, totaled EUR 12.5 million in the period under review. This includes the purchase of a building in Southfield, Michigan, and new production technology required for the manufacture of transmission control plates.

Back in 2014, ElringKlinger began installing production machinery at its site in Suzhou, China, in preparation for ramp-ups relating to new lightweight components based on hybrid polymer-metal technology. Further payments were made for this purpose during the 2015 financial year. In 2015, a second production line for the manufacture of these pioneering hybrid components was installed at the site in Leamington, Canada.

In the Shielding Technology division, meanwhile, unexpectedly strong demand resulted in capacity bottlenecks that were addressed by means of unscheduled investments aimed at expanding operations.

Investment spending during the period under review was also targeted at the two plants located in China. Work on the new construction project initiated in 2014 at the site operated by ElringKlinger China Ltd., Suzhou, China, continued to progress. The new state-of-the-art facility will be substantially larger than the production plant used to date. Alongside new lightweight components based on polymer-metal hybrid technology, it will manufacture in particular additional parts for the Plastic Housing Modules and Shielding Technology divisions. At the other Chinese production site located in Changchun, additional production capacity was created by means of an extension to the plant – mainly for cylinder-head and near-engine plastic housing modules.

Looking at the Asian region, another project worth mentioning is one completed in India in the period under review. An additional production facility, including offices, was built at the site operated by ElringKlinger Automotive Components (India) Pvt. Ltd. in Ranjangaon.

The focus of investments in the NAFTA region was on the above-mentioned production line installed for new lightweight hybrid components at the plant in Canada as well as projects at the sites in Buford, USA, and Toluca, Mexico. Among other topics, this includes the installation of presses capable of producing innovative lightweight underbody components made of glass-fiber-reinforced thermoplastics. These components are to be supplied initially to the North American plants operated by premium car manufacturers from Germany.

Investments directed at the German sites operated by ElringKlinger AG within the Original Equipment segment stood at around EUR 40 million. Among the key items procured within the area of equipment and machinery were a coating system for the Specialty Gaskets division and assembly lines for the production of plastic housing modules. In addition, production floor space was increased in the Specialty Gaskets division.

Investment spending at non-domestic sites in Europe included an expansion of production capacity at the UK subsidiary in Redcar. In response to the UK company's buoyant growth, further capital expenditure was required in 2015 for new presses and assembly lines for the production of specialty gaskets. Work progressed on the construction of a new plant at the site of the Turkish subsidiary in Bursa. Starting in 2016, this facility will mainly produce thermal shielding parts and specialty gaskets.

Investment spending in the Engineered Plastics segment, primarily ElringKlinger Kunststofftechnik GmbH in Bietigheim-Bissingen, Germany, amounted to EUR 17.9 (11.5) million. These funds were used for the purpose of completing, to a large extent, construction work on a new production building, including an extruder tower, that commenced back in 2013 as well as the installation of additional production machinery. The additional production capacity at this site is to be used for new projects in the area of automotive and mechanical engineering.

Capital expenditure also centered on a new builiding at the subsidiary ElringKlinger Logistic Service GmbH in Ergenzingen, Germany. This entity is assigned to the Services segment, which accounted for a total of EUR 11.0 (3.6) million in payments relating to investing activities.

Payments for investments in the Aftermarket segment totaled EUR 2.0 (2.8) million in 2015. Investment spending in the Industrial Parks segment amounted to EUR 4.1 (0.1) million.

The acquisition of EKAM resulted in an investment outflow of EUR 24.2 million in the first quarter of 2015. By contrast, prior-year investment spending within this area had totaled EUR 5.7 million for the acquisition of two smaller subsidiaries in Germany.

In total, net cash used in investing activities amounted to EUR 212.7 (168.0) million in 2015. 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 65.2 (-12.4) million.

Increase in cash flow from financing activities

Distributions to shareholders and non-controlling interests rose to EUR 35.9 (32.8) million in 2015, driven by the higher dividend payment of EUR 0.55 (0.50) per share by ElringKlinger AG.

The payments of EUR 4.2 (0) million made to non-controlling interests for the purchase of interests were attributable to an increase in the ownership interest by 3.0% to now 77.5% at ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Germany.

The ElringKlinger Group took on financial liabilities that resulted in a cash inflow of EUR 162.5 (99.8) million. By contrast, loan repayments of EUR 57.1 (46.9) million were made in the period under review. In net terms, therefore, financial liabilities rose by EUR 105.4 (52.9) million.

Net cash from financing activities amounted to EUR 65.3 (20.1) million.

As of December 31, 2015, cash held by the ElringKlinger Group totaled EUR 48.9 (68.7) million and the Group also had at its disposal approved yet undrawn lines of credit totaling around EUR 100 million.

Overall assessment by the Management Board of the financial position, sales and earnings performance, and cash flows of the Group

In summary, the Management Board considers the financial position, sales and earnings performance, and cash flows of both the parent company ElringKlinger AG and the Group as very solid in respect of the 2015 financial year. The Group has a broad customer structure and a number of product ramp-ups in the pipeline. At the same time, global vehicle production continues to expand. Taken together, this provides a stable and sustainable basis for continued positive business development in the future.

With substantial earnings power at an operating level, a solid assets structure, and a Group equity ratio of 48.5%, the Group is also very solidly positioned when compared to the industry as a whole.

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 previous years, 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 German Commercial Code (Handelsgesetzbuch) and the additional requirements of the German Stock Corporation Act (Aktiengesetz).

Sales and Earnings Performance of ElringKlinger AG

Solid revenue growth

In the period under review, ElringKlinger AG again benefited from its broad customer base together with structural growth in specific areas of its business and the positive trend in global vehicle production. The company's cost of materials increased by 3.8% to EUR 592.4 (570.9) million.

As a result of the strong performance seen in specific sales markets, ElringKlinger AG came close to reaching its original growth target of 5% and managed to exceed the growth figure of around 2% recorded by global auto markets as a whole.

Overseas demand remains strong

In 2015, revenue generated by ElringKlinger AG from domestic sales amounted to EUR 216.4 (218.4) million, which was close to the buoyant level recorded in the preceding year. As growth was attributable entirely to business outside of Germany, the domestic share of revenue fell to 36.5% (38.3%). 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.

Foreign sales rose by 6.7% to EUR 376.0 (352.5) million. Thus, the percentage share of foreign sales in relation to total revenue grew to 63.5% (61.7%). Europe retained its position as the key sales market outside of Germany, with revenue expanding by a substantial 8.5% to EUR 258.5 (238.2) million. Both Western and Eastern Europe (excluding Russia) saw a significant boost in sales volumes. The company also expanded within the NAFTA region, where business grew by 2.5%, followed by Asia with a 1.5% increase.

Growing sales volumes for Original Equipment

Revenue in the area of Original equipment increased by a modest 2.6% to EUR 462.4 (450.8) million, which corresponds to 78.1% (79.0%) of total sales revenue generated by ElringKlinger AG in 2015.

Looking at the individual sections within the area of Original Equipment, the most visible growth came from sales in the areas of Specialty Gaskets and Cylinder-head Gaskets. With the exception of Housings (Exhaust Gas Purification), all other divisions more or less matched their prior-year figures or slightly exceeded them in 2015.

Aftermarket business on track for growth

Having seen revenue grow by a good 9% in 2014, the Aftermarket business maintained its forward momentum in the period under review. Sales revenue increased by a further 8.3% to EUR 129.5 (119.6) million in 2015. This area's share of total sales at ElringKlinger AG thus rose to 21.9% (20.9%). The company recorded substantial growth primarily in the markets of Eastern Europe (excluding Russia) and the Middle East. ElringKlinger has been benefiting from the larger proportion of German-made vehicles in these markets. At the same time, revenue from sales in Western Europe was boosted in the period under review, rising by almost 15%.

Total operating performance up by 4%

Following a reduction in inventories by EUR 0.5 million in 2014, more expansive business led to an increase in inventories of finished goods and work in progress of EUR 1.8 million in 2015. Total operating performance, i.e., revenue +/- inventory changes +/- work performed by the enterprise and capitalized, rose by 4.2% to EUR 594.7 (570.9) million.

Other operating income increased to EUR 45.7 (35.1) million. Among other items, this includes income from insurance claims relating to warranty incidents, counterbalanced by corresponding expenses. Write-ups on financial assets were lower than in the previous year at EUR 2.8 (7.4) million and related to interests held in three subsidiaries.

Expansion in capacity prompts higher cost of materials

The cost of materials increased at a slightly faster rate in relation to sales revenue, up 5.3% to EUR 281.0 (266.8) million. This was due to higher expenses relating to purchased services in order to counteract capacity bottlenecks in the area of Shielding Technology. In total, the cost-of-materials ratio (cost of materials in relation to total operating performance) thus increased slightly to 47.3% (46.7%).

Higher retirement benefit costs due to actuarial interest rate

Personnel expenses rose to EUR 173.0 (160.8) million in the 2015 financial year. This was attributable to a number of factors. In addition to the 3.4% increase in staffing levels, taking the total to 2,572 (2,488) employees as of December 31, 2015, the staff profit-sharing bonus of EUR 1,600 (1,450) lifted personnel expenses by EUR 4.4 (3.7) million. Furthermore, the wage increase of 2.2% that came into effect on May 1, 2014, as well as the one-off payment in March 2015 of EUR 150 per person under the terms of collective agreements, and a further collective wage increase by 3.4% as of April 1, 2015, for personnel employed in Germany under collective agreements prompted a rise in personnel expenses.

The further decline in the actuarial interest rate in 2015 led to a visible increase in expenses for retirement benefits in the period under review, up by EUR 3.8 million to EUR 7.5 (3.7) million.

At 29.1% (27.9%), the staff cost ratio was higher than in the previous year due to the factors outlined above.

Other operating expenses amounted to EUR 87.0 (79.0) million. Included in this item are expenses relating to warranty incidents, which were higher than in the preceding year and were counterbalanced by corresponding income. Additionally, expenses relating to foreign exchange translation increased by EUR 3.2 million to EUR 4.1 (0.9) million. Taking into account foreign exchange gains recognized in other operating income, the net result of foreign exchange translation was EUR 1.0 (2.7) million in 2015.

Depreciation and amortization down on previous year

Amortization and depreciation of intangible assets and tangible assets fell slightly to EUR 28.2 (29.0) million. This reduction is due to lower write-downs relating to tools, which amounted to EUR 2.1 (5.6) million in the 2015 financial year.

Higher operating result

The operating result of ElringKlinger AG (not including the write-ups on financial assets accounted for in other operating income) rose by 8.6% year on year to EUR 68.5 (63.1) million. Efficiency gains and growth in the respective divisions helped to offset the effects of higher expenses for retirement benefits as well as charges relating to temporary capacity constraints in the area of Shielding Technology. In a year-on-year comparison, it should be noted that a bad debt loss from the definitive settlement of a warranty incident had reduced the result of 2014 by a one-off amount of EUR 5.9 million.

Higher income from affiliated companies

Income from affiliated companies rose to EUR 15.5 (12.4) million in the 2015 financial year. The net effect on earnings of write-ups and write-downs of financial assets, which are accounted for in other operating income and in finance cost respectively, was negative at EUR 4.0 million. This contrasts with a positive effect of EUR 6.8 million in the previous year. Therefore, income from equity investments was down EUR 7.7 million in total at EUR 11.5 (19.2) million.

The net interest result stood at EUR -6.9 (-6.2) million in the 2015 financial year.

Return on capital employed (ROCE) for ElringKlinger AG stood at 8.9% (9.7%) in the period under review and thus fell short of the improvement target of around one percentage point originally set for the financial year.

Income from ordinary activities down on prior year

Despite an improvement in the company's operating result, income from ordinary activities fell 4.0% short of last year's figure at EUR 73.0 (76.1) million. Due to the decline in income from equity investments and the higher expenses outlined above, ElringKlinger AG was unable to meet its projected target of propelling income from ordinary activities at a faster rate than revenue growth.

Income taxes rose to EUR 18.1 (16.9) million. Correspondingly, the tax rate (income taxes in relation to income from ordinary activities) stood at 24.8% (22.2%).

Net income for ElringKlinger AG totaled EUR 54.8 (58.9) million in 2015.

Proposed dividend unchanged year on year at EUR 0.55

Net retained earnings, i.e., distributable profit, matched the prior-year figure at EUR 34.8 (34.8) million, having accounted for an allocation of EUR 19.9 (24.0) million to other revenue reserves. The Management Board and the Supervisory Board will propose to the Annual General Meeting on May 31, 2016, an unchanged dividend of EUR 0.55 (0.55) per share for the 2015 financial year. Calculated on the basis of net income of ElringKlinger AG, the dividend ratio increased to 63.5% (59.1%).

Net Assets of ElringKlinger AG

With a balance sheet 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, 2015.

International growth reflected in level of total assets

The expansion in total assets by 8.1% or EUR 78.7 million to EUR 1,053.6 (974.9) million reflects the level of forward momentum generated by ElringKlinger AG as the parent company of an international Group. The higher level of total assets was attributable to an expansion in tangible fixed assets and a growth-induced increase in current assets. At the same time, it was driven in particular by interests in affiliated companies, accounted for in financial assets, which were up on the prior-year figure.

Fixed assets account for 71% of total assets

While intangible assets fell slightly year on year to EUR 9.2 (9.8) million, tangible fixed assets were up by EUR 17.9 million to EUR 298.9 (281.0) million in 2015. Further automation and, in part, expansions in capacity levels within production prompted investments in equipment and machinery that exceeded corresponding depreciation. Progress was made with regard to a construction project at the subsidiary operating within the Services segment. This was accounted for in assets under construction at the end of the reporting period.

The relatively strong expansion of financial assets to EUR 439.6 (406.6) million in the 2015 financial year was attributable largely (EUR 24.5 million) to the acquisition of M&W Manufacturing Company, Inc., Warren, USA, whose name was subsequently changed to ElringKlinger Automotive Manufacturing, Inc. (also referred to as "EKAM"). Additionally, the larger stake in ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Germany, and capital increases relating to three subsidiaries – in Turkey, China, and India – were accounted for in this item. Write-ups and write-downs of the carrying amounts relating to investments in affiliated companies were another contributory factor.

Loans to affiliated companies fell to EUR 36.9 (51.6) million as of December 31, 2015.

In total, fixed assets rose by 7.2% to EUR 747.6 (697.4) million as of the end of the 2015 reporting period, which represented 71.0% of total assets

Increase in working capital driven by several factors

Inventories reached a level of EUR 125.6 (114.7) million at the end of 2015. The increase by EUR 10.9 million was primarily due to solid order situation. Additionally, a scheduled technology changeover in the area of Specialty Gaskets led to a temporary increase in inventories of semi-finished goods. Furthermore, inventory levels in the Aftermarket segment had to be raised in line with demand to safeguard the availability of parts.

As of December 31, 2015, receivables and other assets were up at EUR 179.1 (161.7) million. This was mainly due to an expansion in receivables from affiliated companies by EUR 17.4 million to EUR 90.3 (72.9) million. The increase in this item, which also comprises short-term loans to subsidiaries, was attributable primarily to ElringKlinger Abschirmtechnik (Schweiz) AG, Sevelen, Switzerland.

Funds tied up in current assets increased – including short-term loans – to EUR 304.8 (276.7) million as of December 31, 2015.

Solid equity ratio of over 50%

Following an allocation of EUR 19.9 (24.0) million from net income generated by ElringKlinger AG, revenue reserves increased to EUR 313.1 (293.1) million in 2015. Net retained earnings amounted to EUR 34.8 million in the period under review, thereby matching the prior-year figure. In total, shareholders' equity rose to EUR 532.1 (512.2) million. The equity ratio fell to 50.5% (52.5%) as a result of the disproportionately strong expansion of the balance sheet total but still remained at a very high level.

Provisions largely unchanged year on year

Total provisions recorded as of December 31, 2015, remained largely unchanged year on year at EUR 104.2 (103.7) million. While other provisions were lower compared to the previous year, tax provisions as well as provisions for pensions and similar obligations increased in the period under review. The latter, which are measured on the basis of the projected unit credit method, were up markedly as a result of the general decline in interest rates as of December 31, 2015.

Acquisition fuels increase in liabilities

Liabilities at ElringKlinger AG rose to EUR 410.2 (350.0) million as of December 31, 2015, and accounted for 38.9% (35.9%) of total equity and liabilities.

The year-on-year increase was mainly due to a rise in liabilities to banks to EUR 342.1 (286.8) million. Funds were needed mainly for the purchase price payment relating to M&W and for the purpose of expanding interests held in affiliated companies.

Cash Flows of ElringKlinger AG

Major improvement in cash flow from operating activities

Despite a slight downturn in net income, cash flow from operating activities improved significantly to EUR 84.8 (67.2) million. The statement of cash flows was again prepared according to the provisions set out in GAS 2.

This relatively encouraging performance reflects the fact that a large proportion of earnings was attributable to non-cash transactions. This relates mainly to write-ups and write-downs of financial assets. These amounted to EUR 4.0 million in net terms in the period under review and had an accretive effect within cash flow reconciliation. By contrast, the previous financial year had seen a dilutive effect equivalent to EUR 6.8 million.

Cash flow from operating activities was reduced by EUR 10.9 (-2.2) million as a result of the increase in funds tied up in inventories. The fact that the level of funds tied up was scaled back substantially due to lower trade receivables from affiliated companies (excluding short-term loans) had a contrary effect. In total, this produced a positive effect on cash flow from operating activities of EUR 7.3 million. The reduction in trade payables and other liabilities not attributable to investing or financing activities increased cash flow by EUR 5.3 (-12.4) million.

Income taxes paid amounted to EUR 17.5 (18.5) million.

Increase in net cash used in investing activities

Net cash used in investing activities totaled EUR 82.1 (78.4) million in 2015. This was dominated by investing activities relating to tangible fixed assets and, to an even larger extent, financial assets.

Investments in tangible fixed assets at ElringKlinger AG amounted to EUR 43.8 (48.0) million in the period under review. Correspondingly, the investment ratio (capital expenditure on tangible fixed assets as a proportion of revenue) fell to 7.4% (8.4%).

ElringKlinger AG invested in an extension to the production facility for spare part sets at its subsidiary ElringKlinger Logistic Service GmbH, Rottenburg/Neckar, Germany. This was accounted for at the end of the reporting period in assets under construction.

Cash outflows for investments in financial assets totaled EUR 51.7 (27.6) million and were mainly attributable to the acquisition of EKAM, additional interests in ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, Germany, and capital increases at subsidiaries, as outlined above.

As a result, operating free cash flow amounted to EUR 2.7 (-11.2) million for the 2015 financial year. This constitutes an increase of EUR 13.9 million compared to the same period a year ago.

Cash flow from financing activities in slightly negative territory

Due to the higher dividend of EUR 0.55 (0.50) per share for the 2014 financial year, the total amount distributed to shareholders of ElringKlinger AG in 2015 rose to EUR 34.8 (31.7) million.

Cash flow from financing activities decreased by EUR 2.3 million as a result of the reduction in current bank borrowings (current account). In the previous year, they had been expanded by EUR 61.4 million. By contrast, non-current financial liabilities rose by a net amount of EUR 56.8 (-20.5) million.

Loans and time deposits for affiliated companies rose by EUR 22.4 million in net terms and resulted in an outflow of cash, which contrasts with an inflow of EUR 1.9 million in the previous financial year.

Net cash used in financing activities totaled EUR 2.8 million in 2015, compared to net cash from financing activities of EUR 11.2 million in 2014.

Sustainability

Sustainability is an integral element of ElringKlinger's corporate strategy, which is centered on growth in enterprise value over the long term. In all decisions it makes, the Group invariably strikes a balance between economic success, protection of the environment, and its responsibilities to society along its value chain.

ElringKlinger's ambitions with regard to sustainability are defined by four areas of action: products and innovation, environment and quality, employees, and social commitment. A program of continuous strategic development is in place to ensure that each area can evolve.

As regards the issue of sustainability, the annual report now focuses solely on parameters that are of relevance to performance management and strategic control. Starting in 2016, indicators and information that go beyond the scope of such data will be included in a separate sustainability report. For further details of the areas of action outlined above as well as information relating to sustainability, please refer to ElringKlinger's website at www.ElringKlinger.de/en/sustainability. This separate report will continue to underpin the company's policy of transparency by highlighting how ElringKlinger embraces the aspect of sustainability in its actions.

December 2015 saw the publication of ElringKlinger's fourth sustainability report (in German and English) under the heading of "pure responsibility." The interactive online report provides a detailed account of the Group's sustainability efforts in the 2014 financial year.

Products and innovations

Mobility is today seen as an essential prerequisite for freedom of movement and an open exchange beyond borders. With a clear focus on the aspect of emissions reduction, the majority of products in ElringKlinger's portfolio are aimed at making vehicles as environmentally friendly as possible.

The Group is committed to being a driving force behind the development of sustainable and truly pioneering technologies within this industry. Maintaining a fast pace of innovation, ElringKlinger employees are always on the lookout for new materials and new fields of application. ElringKlinger also uses public funding for the purpose of financing research projects. The company brings together industry expertise in the form of development partnerships with vehicle manufacturers, e.g., in order to streamline development cycles.

For detailed information relating to innovation and the Group's latest development projects, please refer to the chapter entitled "Research and Development," page 60 et seqq.

Environment and quality

ElringKlinger has defined strict quality and environmental standards for the entire Group. They apply to all employees within the Group as well as to ElringKlinger's suppliers. These standards include guidelines on resource efficiency and the use of production methods geared towards low emissions and minimal waste.

The majority of production sites operate with an environmental management system certified in accordance with ISO 14001. With the exception of Indonesia, the quality management of all ElringKlinger's plants is certified as being compliant with the automotive industry standard TS 16949 and/or ISO 9001. Audits are conducted on an irregular basis to assess whether processes, requirements, and guidelines continue to fulfill the applicable standards. In 2015, five sites were audited as per ISO 9001. As a matter of course, all certified companies submit documentation on an annual basis for the purpose of outlining measures put in place with regard to the environmental and quality management systems.

In 2015, the ElringKlinger Group drew up a roll-out plan for the certification of energy management systems in accordance with the energy management standard ISO 50001. This plan applies to all of the

Group's production companies in Europe. Certification of the first companies under the provisions of this new standard will commence starting in 2016. In the future, qualified energy teams will evaluate existing energy-related processes at regular intervals and define measures aimed at raising energy efficiency levels. ElringKlinger makes a point of selecting intelligent, modern, and above all resource-efficient production machinery when undertaking new investments.

The Group calculates and analyzes the environmental, quality, and energy indicators per plant on a quarterly basis. This helps to pinpoint any excessive use of resources and implement rapid optimization measures.

ElringKlinger always ensures that tailor-made energy concepts are applied when constructing new buildings and plants. For instance, the extended production plant in Bietigheim-Bissingen, which was opened in 2016, incorporates intelligent heat recovery concepts for air compressors as well as state-of-the-art waste heat recovery systems. What is more, an additional co-generation plant with combined heat and power (CHP) was installed to reduce overall energy consumption.

As part of a two-year project, the Group also came up with a smart heat recovery concept at its Chinese production site in Changchun. As a result, the facility can operate without the need for district heating. Operational processes generate sufficient waste heat to keep the facility warm during the winter period. This is a more environmentally-friendly approach. An additional ground-coupled heat exchanger was installed when the facility was expanded in 2015. This increases the building's cooling capacity, while at the same time taking advantage of the heat storage capabilities of soil. From the spring of 2016 onward, waste heat can be transferred to the ground and regenerated.

THE ELRINGKLINGER GROUP – KEY ENVIRONMENTAL INDICATORS

	2015[1]	2014[2]
Total direct and indirect CO_2 emissions in metric tons	91,320	90,840
CO_2 emissions in metric tons per EUR 1 million in sales	60,6	68,5
Total direct CO_2 emissions in metric tons	23,020	22,240
Of which direct CO_2 emissions from gas, oil, engine test stands, etc. in metric tons	22,150	21,400
Of which CO_2 emissions for vehicle fleet[3] in metric tons	870	840
Total indirect CO_2 emissions in metric tons	68,300	68,600
Of which indirect CO_2 emissions from electricity in metric tons	64,100	65,300
Of which indirect CO_2 emissions from flights[4] in metric tons	4,200	3,300

[1] The subsidiaries ElringKlinger Automotive Manufacturing, Inc., Polytetra GmbH, and new enerday GmbH were not included in the figures for 2015.
[2] The figures for 2014 do not include the subsidiaries Polytetra GmbH and new enerday GmbH.
[3] Vehicle fleet of ElringKlinger sites in Germany (Dettingen/Erms, Gelting, Langenzenn, Runkel, Thale, Lenningen, Bietigheim-Bissingen, Magdeburg, and Rottenburg), including rental vehicles in the period under review. The figures are based on manufacturer data in respect of CO_2 emissions and the mileage stipulated by vehicle lease agreements.
[4] Air travel attributable to sites in Germany, Switzerland, and France as well as centrally recorded flights relating to sites in the UK and US.

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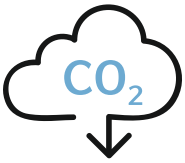


140 g/km

AVERAGE CO_2 EMISSIONS OF VEHICLE FLEET

ElringKlinger extended its company car fleet to include vehicles with lower fuel consumption, used low-emission rental vehicles, and improved average CO_2 emissions per vehicle by around 2%.

Target for emissions reduction met in 2015

Emissions caused by gas, heating oil, and engine test stands as well as by the company's own vehicle fleet are categorized as emissions attributable directly to the company (Scope 1 Emissions). Indirect emissions (Scope 2 and 3 Emissions) encompass CO_2 emissions attributable to electricity consumption and air travel by ElringKlinger employees.

At 91,320 (90,840) metric tons, total direct and indirect CO_2 emissions remained largely unchanged in the 2015 financial year. They developed at a slower rate in relation to revenue growth. Consequently, relative CO_2 emissions declined to 60.6 metric tons CO_2 per EUR 1 million in sales. Thus, ElringKlinger exceeded its 2015 target of reducing relative CO_2 emissions by a percentage figure at the lower end of the single-digit range.

Direct CO_2 emissions rose by 3.5% to 23,020 (22,240) metric tons, primarily as a result of higher direct CO_2 emissions from gas, oil, and engine test stands. This was attributable to the changeover of heating technology from district heating to gas at one of the Chinese production plants. Additionally, the full-year operation of a new, fourth cogeneration unit at the company site in Dettingen/Erms led to a rise in the overall level of gas consumption.

In 2015, direct CO_2 emissions attributable to the company's vehicle fleet rose from 840 to 870 metric tons. The year-on-year increase was due to a larger number of company cars and more miles traveled. Furthermore, this figure includes all additional vehicles rented by the company.

Indirect emissions improved slightly at Group level. They amounted to 68,300 (68,600) metric tons in the reporting period. CO_2 emissions relating to electricity fell to 64,100 (65,300) metric tons, as part of the electricity required was covered by cogeneration units and photovoltaic systems. Due to the continued globalization of Group activities, ElringKlinger saw an increase in air travel over the course of 2015. Indirect CO_2 emissions attributable to air travel rose to 4,200 (3,300) metric tons.

Employees

Personnel recruitment prompted by strong revenue growth

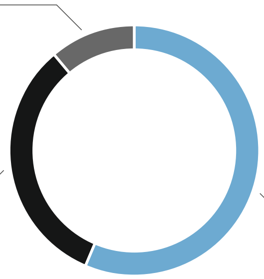
As of December 31, 2015, the ElringKlinger Group as a whole employed 7,912 (7,255) people. In response to the significant increase in production output, the Group created new jobs in the specific areas affected. In total, the headcount for the Group was up by 657 compared to the previous year. This represents an increase of 9.1%. The first-time consolidation of ElringKlinger Automotive Manufacturing, Inc. in Warren, USA, an entity acquired in 2015 (formerly: M&W Manufacturing Company, Inc.), added 111 employees to the payroll. Adjusted for this acquisition, the total number of employees rose by 7.5% in 2015.

The average Group headcount for the year was 7,653 (7,081).

Further decline in proportion to domestic headcount

The German automotive industry managed to lift its domestic car production by a solid 2.1% in 2015. Correspondingly, the number of people employed by the company at German sites rose by 103 to 3,445 (3,342) employees in total. At the same time, however, employees based in Germany only accounted for 43.5% of the total Group headcount, down from 46.1% a year ago.

ELRINGKLINGER GROUP EMPLOYEES WORLDWIDE
as at December 31, 2015 (prior year)



In total, 84 new jobs were created at the sites operated by the parent company ElringKlinger AG in Dettingen/Erms, Gelting, Langenzenn, Lenningen, Runkel, and Thale. In response to the overall dimensions of the company in its present form, ElringKlinger focused increasingly on expanding central Group areas.

Further increase in non-domestic staffing levels

The Group, which employs 56.5% (53.9%) of its staff abroad, saw its foreign headcount grow by 14.2% in 2015. In total, 4,467 (3,913) people were employed outside of Germany as of December 31, 2015. Personnel levels increased markedly in response to new product ramp-ups and buoyant demand in North America and Asia.

The number of people employed at sites in Asia rose by 14.4% to 1,309 (1,144) in 2015. China, now ranked as the world's biggest car market, saw the most pronounced rate of growth in ElringKlinger's headcount in absolute terms. Here, 112 new recruits joined the core workforce in 2015. Additional production machinery was bought at the two manufacturing plants in Suzhou and Changchun.

Having also strengthened its presence in North and Central America, ElringKlinger expanded its HR levels at the majority of its subsidiaries in this region – without taking into account the acquisition transacted in the United States in 2015. Several production ramp-ups in Mexico, in particular, meant that more personnel had to be recruited. By contrast, the persistent malaise afflicting South America's vehicle market necessitated adjustments to staffing levels at the subsidiary in Brazil.

Against the backdrop of higher production output, the Group expanded its core workforce within the European market. This applied in particular to the Swiss production plant in Sevelen and the UK subsidiary in Redcar.

HR development stepped up

As a technology business, ElringKlinger is particularly reliant on the expertise and dedication of its employees. They form the basis for the company's long-term success.

In 2015, the main focus of HR activities was on developing employee skills in a targeted manner with the help of selected advancement programs within specialist areas. For this purpose, 2015 saw the introduction of the "on the move" training program. It includes a number of options for job-specific seminars. ElringKlinger regularly carries out "Employees with Potential" programs focused on developing skilled workers and future managers. Here, potential managers receive training centered around various modes of behavior and styles of operating in key positions. As part of the "Leadership on the move" program, which was newly conceived in 2015, the Group supported managers over the course of the year with a range of training programs focusing on corporate values and containing important elements such as self-reflection and employment law.

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THE ELRINGKLINGER GROUP – KEY HR INDICATORS

	2015	2014
Absolute number of employees	7,912	7,255
Of which men	71.6%	70.7%
Of which women	28.4%	29.3%
Absolute number of employees	7,912	7,255
Of which domestic	43.5%	46.1%
Of which abroad	56.5%	53.9%
Average number of employees	7,653	7,081
Work-related accidents leading to more than 3 days off work	268	253
Average number of sick days per employee	10	10

Proportion of women in management

In 2015, ElringKlinger set itself a long-term goal of increasing the proportion of women assigned to managerial roles. The Management Board is looking to expand its women's quota at the second managerial level from 10% to 15% by June 30, 2017, and, at the very least, maintain the proportion of female staff members at the first managerial level at close to 7%. The key rationale behind a female quota is to pursue the idea of equal opportunities and foster the development of high-caliber employees.

In 2015, the Supervisory Board also agreed to retain its target for the short-term appointment of women to the Management Board at zero percent. The proportion of women appointed to the Supervisory Board currently stands at 33%.

More extensive health management

The principle of maintaining and steadily developing a working environment that is safe, embraces health issues, and is conducive to performance has been firmly embedded in ElringKlinger's corporate strategy. ElringKlinger is of the fundamental opinion that all work-related accidents and occupational illnesses should be avoidable and has established a clearly defined target of "zero workplace-related accidents." In 2015, the number of work-related accidents leading to more than three days off work rose to 268 (253). However, this increase was much less pronounced relative to the growth in personnel levels. On average, ElringKlinger staff were absent due to illness for a period of 10 (10) working days in 2015.

The Group has put in place a number of specific preventative measures, such as the project implemented in 2015 to improve workplace ergonomics, for the purpose of actively raising awareness among staff of the issue of safe and healthy work practices in all areas of the company.

Social responsibility

Given the global presence of the Group, ElringKlinger is in a position to help shape community structures at the various corporate sites around the world. At a regional level, the Group mainly supports providers of social services and invests in academic and educational projects. In 2015, the Group was involved in social causes through partnerships with non-profit organizations such as BruderhausDiakonie and also the Plant-for-the-Planet foundation. In 2015, ElringKlinger organized its first Plant-for-the-Planet event, which involved training more than fifty children as Ambassadors for greater climate justice.

Procurement

Alongside staff costs, materials constitute the largest expense item at ElringKlinger. Materials accounted for 56.8% of the Group's cost of sales in 2015; the cost-of-materials ratio stood at 42.7%. Annual price increases and reductions have a direct impact on the company's bottom-line performance. It is precisely for this reason that central purchasing activities are accorded particular importance at ElringKlinger.

Over the course of 2015, the centralized purchasing department operating from the Group's headquarters in Dettingen/Erms continued with efforts to organize ElringKlinger's procurement structures within a global network. This approach is in response to the pronounced shift of automotive markets away from Europe towards Asia and North America. The result: an expansion in local production capacity and larger purchasing volumes. ElringKlinger restructured its central purchasing activities back in 2014. Since then, three regionally established purchasing managers have been responsible solely for procurement relating to the Americas, Europe/Africa, and Asia. They work in close coordination with strategic buyers responsible for global activities and support the regional enterprises in procuring materials required for serial production. In addition to facilitating Group-wide market access, they help to establish local suppliers quickly. In taking this approach, ElringKlinger has created a global purchasing network that is being evolved continuously.

The key goal of procurement management is to safeguard continuity of supply for all production plants, while keeping the costs of capital committed as low as possible. Price-related risks are mitigated by means of a consistent policy of procurement controlling. Economies of scale are actively exploited by managing global purchasing volumes as effectively as possible.

The primary raw materials used within the ElringKlinger Group include alloyed high-grade steels (nickel-chromium alloys, in particular), aluminum, carbon steel, polyamide-based plastic granulates, elastomers, and, in the Engineered Plastics segment, polytetrafluoroethylene (PTFE*). As regards the Plastic Housing Modules and Shielding Technology divisions, the procurement of components required in the production of modules is becoming increasingly important.

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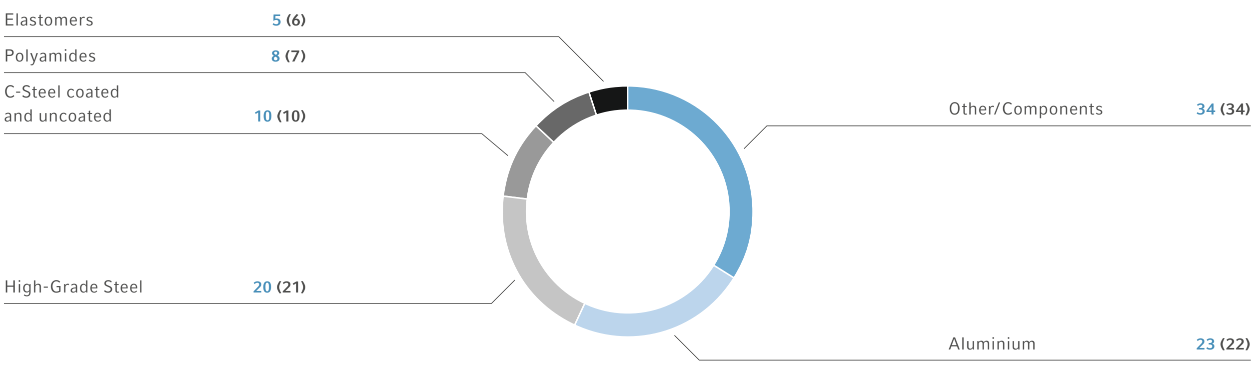
BREAKDOWN OF RAW MATERIALS USED IN 2015
(prior year) in %



* Cf. glossary

Procurement processes and controlling further optimized

Over the course of 2015, the procurement management team pressed ahead with efforts to improve existing purchasing processes and optimize the associated delivery intervals. To an increasing extent, just-in-time deliveries and kanban systems are being introduced at facilities throughout Germany in order to permanently reduce stock levels of parts regularly required by the Group. Other provisions may apply to non-domestic companies, as delivery times to foreign sites tend to vary depending on the country in question. The Group has set itself a target of keeping inventories in all categories of material and at all Group locations as low as possible.

In order to improve procurement controlling, ElringKlinger has established a central approvals body. All price adjustments are analyzed on a monthly basis so that countermeasures can be initiated with immediate effect. Prices are monitored regularly by means of detailed cost break-down analyses. Despite the fact that purchasing requirements are increasingly pooled, dependence on specific suppliers is largely avoided at ElringKlinger. In 2015, the company's top 30 suppliers accounted for 20% (20%) of total volumes purchased.

Specific divisions within the Original Equipment segment recorded a disproportionately large increase in demand during 2015. This led to a short-term increase in quantities relating to aluminum and hot-dip-aluminized sheet steel. ElringKlinger's procurement management was able to meet these more extensive unscheduled requirements without incurring any significant price increases.

Production output prompts higher purchasing volumes

Compared to the previous year, ElringKlinger's purchasing volume rose by 16.6% to EUR 1,029.3 (882.5) million in total. The figure encompasses raw materials, consumables, and supplies, as well as merchandise for the company's independent aftermarket business and investments in land, real estate, and property, plant, and equipment. This year-on-year increase was mainly attributable to the further expansion of production capacity in conjunction with strong revenue growth. Adjusted for ElringKlinger Automotive Manufacturing, Inc., Warren, USA, which was consolidated for the first time in 2015, the overall purchasing volume rose to 12.8%. The cost of materials alone was up 10.8% at EUR 643.2 (580.6) million.

Framework agreements secure Group-wide supply of materials

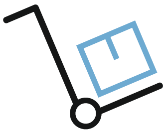
With a view to containing the level of procurement costs, ElringKlinger pools its purchasing requirements at an international level and concludes framework agreements for the key groups of material. In doing so, the Group is able to hedge against volatility with regard to commodity prices, in addition to safeguarding the availability of materials. Ultimately, this also limits its translational exchange rate risks. In the majority of cases, the contracts are valid for one year or more. By contrast, contractual terms are often shorter for C-steel and steel and plastic granulates.

Purchase prices predominantly stable in 2015

Global market prices of many key commodities declined in 2015. This was largely attributable to excess supply. This trend is reflected only in part in ElringKlinger's results for 2015, as blanket supply contracts had already been signed in 2014. What is more, ElringKlinger sources raw materials of the highest possible quality; downstream processing of such materials is very complex. The premiums payable in this area as well as the surcharges for ware-housing increased in the period under review. Therefore, contractual agreements for 2015 included slightly higher prices for aluminum than in the previous year. The price of precision stainless steel, a material used in the production of cylinder-head and specialty gaskets, has also been trending higher at a global level. This is due to market consolidation and the associated reduction in supply. The Group managed to keep its purchase prices at a stable level in 2015, as the mean value of alloy surcharges was slightly lower year on year. Alloy surcharges payable for high-grade steels cannot be agreed beforehand as part of framework contracts.

This does not apply to C-steel, however. Here, the Group achieved a slight reduction in prices in the period under review. In the case of polyamide, an engineering plastic, which ElringKlinger needs in increasing quantities for the production of lightweight plastic modules, lower oil prices failed to impact fully, as oil represents only part of the raw materials mix used in the manufacture of polyamide.

1,015



APPROVED SUPPLIERS WORLDWIDE

ElringKlinger constantly expands its international network of suppliers in order to meet its growing requirements for materials.

With the help of a central waste metal management process, ElringKlinger collects metal-based waste produced as part of its various production processes and sells it. Declining commodity prices in 2015 also had a direct impact on the revenue generated by the company from scrap materials. At EUR 28.8 (24.7) million, it was above on the prior-year figure.

Energy costs rise at a slower rate than revenue

ElringKlinger enters into long-term contracts for the majority of the supplies of gas and electricity it needs. As early as 2015, contracts with existing suppliers were agreed for a term up to and including 2018 (gas) and 2019 (electricity). The Group is in a position to satisfy its energy needs in tranches and flexibly, depending on prevailing market prices.

Although ElringKlinger is not among the most energy-intensive operations, its energy costs for 2015 nevertheless amounted to 1.9% (2.2%) of the cost of sales. ElringKlinger covers a portion of its electricity requirements by operating its own combined heat and power plants. The waste heat produced in this way, for instance, is used for the purpose of process cooling at the sites in Dettingen/Erms and Bietigheim-Bissingen as well as for air-conditioning systems. In 2015, the power plants installed at the facilities in Dettingen/Erms and Bietigheim-Bissingen generated electricity equivalent to 8,838.8 MWh.

Expansion of supply chain in Asia

Operating at an international level, ElringKlinger is committed to steadily extending its global system of suppliers. In 2015, the Group further strengthened is local purchasing unit in China and other emerging markets. The regional purchasing manager pooled the procurement operations of both plants in the period under review. Resources freed up in this way will now be used for market research purposes, the aim being to expand the network of Asian suppliers. This will allow ElringKlinger to leverage cost advantages in Asia and streamline its logistics.

As a matter of principle, new suppliers are selected by the global purchasing team, validated in cooperation with the company's worldwide supply-chain management, and audited on the basis of international ISO standards. At the same time, all suppliers are obliged to comply with company-specific quality and environmental guidelines as well as the ElringKlinger Code of Ethics. The central purchasing and supplier management team conducts regular quality and cost analyses at existing suppliers.

Once a year, ElringKlinger presents a supplier award in recognition of excellence, the aim being to promote collaborative partnerships. Among the key assessment criteria are product quality, on-time delivery, and a spirit of fairness and partnership. In 2015, the ElringKlinger award went to Kraiburg GmbH & Co. KG, Waldkraiburg, Germany, a company specializing in rubber mixtures. Kraiburg excelled in the field of innovation and in developing customized solutions at fair prices.

Outlook: material prices in 2016

ElringKlinger has concluded framework agreements with a stable level of prices for the high-grade steel required in 2016 and 2017. Due to excess market supply and the associated erosion of prices, the company managed to reduce its purchasing prices for aluminum with regard to 2016. As for the engineering plastic polyamide, ElringKlinger anticipates that prices will remain stable in 2016, underpinned by larger quantities procured from China and a persistently low price of oil.

Report on Opportunities and Risks

Risk management system

ElringKlinger has established an extensive risk management system for the purpose of identifying risk at an early stage. By monitoring markets, customers, and suppliers on a continual basis and maintaining detailed internal reporting and controlling processes, the company is able to gauge risk in a timely manner and seize market opportunities as they arise. The efficiency and suitability of the risk management system itself is continually adapted and optimized in accordance with new requirements as they arise. In the 2015 reporting year, this applied in particular to existing instruments relating to risk reporting. In this context, the associated types of risk were reviewed and reclassified in respect of their probability of occurrence and their impact on earnings (cf. page 99 of this chapter).

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 using 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 half-yearly 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. Up until December 31, 2015, the Head of Finance was responsible for coordinating these activities. As of January 1, 2016, this task will fall within the direct remit of the Chief Financial Officer. This approach is designed to provide even greater efficiency when it comes to ensuring that risks are identified at an early stage and measures aimed at avoiding or mitigating such risks can be implemented even faster.

The Management Board assesses the aggregate risk and submits regular and comprehensive reports on its findings to the Supervisory Board and the Audit Committee. 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 allembracing 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. During the 2015 financial year, audits were conducted at eight subsidiaries as well as four 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 displays no specific risk potential. Based on this analysis and other reviews conducted in respect of compliance, together with experience gained in 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 have been appointed for 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 2015, 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 training seminars will be continued in 2016, particularly for personnel at foreign investees. 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 2015. Beyond this, the Management Board is committed to adapting the existing compliance system to changing circumstances and the possibility of evolving risk exposure.

In order to reduce the liability risk from potential damage 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 coverage 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, came under the remit of the Chairman of the Management Board (CEO) in the period up to December 31, 2015. As of January 1, 2016, the Management Board was extended to include a dedicated finance section. This section, which also includes Controlling Affiliates companies, controls accounting within the Group and ElringKlinger AG and compiles the information required for the preparation of the consolidated financial statements and the annual financial statements of ElringKlinger AG. The department Controlling Affiliates companies is responsible, in particular, for monitoring and supporting the accounting processes of the Group companies. In the 2015 financial year, the Group companies reported to the Head of Finance, who in turn reported 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 in 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 predefined schedule for preparation of the Group financial statements. The same applies to the annual financial statements of ElringKlinger AG. Each Group company is responsible for drawing up its separate financial statements in accordance with local accounting rules and the reporting packages pursuant to IFRS, with the exception of the German Group companies, whose financial statements are prepared by the Accounting 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 all the German and the majority 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 were the responsibility of the Head of Finance. From January 1, 2016, on, these decisions will be made by the Chief Financial Officer. 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. In order to be able to identify and manage the respective risks more effectively, the classification relating to probabilities of occurrence were adjusted in the period under review. By contrast, the classifications relating to possible financial impacts were left unchanged compared to the 2014 financial year. A probability of occurrence of 10% (previous year: less than 30%) is now considered "low," one of 40% is classified as "medium," and one of 80% (previous year: more than 60%) is deemed "high." The potential financial impact is categorized on the basis of qualitative criteria, ranging from "insignificant" to "significant." 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%. These factors are identified on the basis of a gross assessment, i.e., prior to possible measures aimed at risk mitigation. 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						
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 risks						
Legal risks/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 risks	x				x	
Use of derivative financial instruments	x			x		
Opportunities						
Climate change/Emission laws			x			x
Technology trends/New emission regulations			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 industry 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 down-turn in the economy represents a risk to demand for new cars and, ultimately, to vehicle production. This, in turn, could result in lower demand for ElringKlinger components.

Based on the latest assessment, risks relating to economic performance lie in the slowdown in growth in China and the recession in Brazil. In terms of risk, the Russian vehicle market is of no particular significance to ElringKlinger.

Overall, the likelihood of the global economy moving in a negative direction, also taking into account the loss of forward momentum in China, the recession in Latin America and Russia, and the economic malaise in Japan, is considered small. The International Monetary Fund has forecast global economic growth of 3.4% in 2016.

As regards the automobile industry, the consistently solid level of consumer demand anticipated in North America, Western Europe, and the Asian markets over the year as a whole should provide a basis for sustained growth in global car production. In the medium term, growth will probably shift away from the three established markets to the emerging and developing countries. Given its global presence with production and sales locations in the growth regions of the future, the Group is well equipped to handle potential stagnation or waning demand in the traditional vehicle markets.

From today's perspective, a severe slump in vehicle production – similar to the crisis seen in 2008/9 – would not appear to be very likely. ElringKlinger anticipates that global vehicle production will expand by 1 to 2% in 2016 (cf. Report on Expected Developments, page 121 et seqq.).

Operating with a broad customer base, ElringKlinger is not dependent on specific markets or individual manufacturers. Therefore, 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. 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 invariably takes a cautious view of the respective macroeconomic scenarios.

Political risks

Fundamentally, there is the potential that political decisions taken by national or European lawmakers will have a significant impact on the future business activities of the ElringKlinger Group, e.g., with regard to technological trends or sales regions.

Due to the prevailing political uncertainties and, to an increasing extent, escalating crises, many sales regions in the Middle East, North Africa, and Russia are associated with risk. As regards the Original Equipment segment, these regions are of no particular direct relevance to business activities. By contrast, the Aftermarket segment is exposed to the risk of a loss in revenue; revenue from sales in the aforementioned regions in 2015 was a figure in the middle of the double-digit million euro range.

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

General internal risks

General internal risks, work-related accidents, fire

Among the significant general risks are primarily workplace-related accidents and the danger of fires.

The Group endeavors to prevent such accidents from occurring to the largest extent possible, not least by means of ElringKlinger standards implemented throughout the Group as well as regular training. Where accidents do occur, however, the reasons and circumstances are investigated in depth and existing standards are adjusted accordingly in order to ensure a consistently high 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 migrating such activities on a temporary basis.

The Group addresses the possible financial impact of fire damage well in advance 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 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. Pressure exerted on prices represents one of the biggest individual risks to the Group. This aspect has become even more significant since September 2015, following news of the diesel-related situation at the Volkswagen Group.

In view of its exceptional abilities as an innovator and its strong position in the market, ElringKlinger is relatively well positioned as a supplier. However, requests for price reductions have become customary within this industry, and ElringKlinger is not completely immune to such demands. In order to counteract the effects of persistent pressure on prices, ElringKlinger focuses on developing products with technological USPs and positioning itself in niche markets. Any remaining pressure on prices has to be offset to the largest extent possible by efficiency gains within the production process.

The competitive forces within the automotive supply industry are extremely strong. However, competitors venturing into the market for the first time are faced with significant barriers to entry, as both the business model and the product portfolio of the ElringKlinger Group are founded, among other strengths, on specialist knowledge and skills in the areas of materials processing, tooling, and process management (cf. Overview of ElringKlinger's Activities and Structure, page 54 et seqq.).

What is more, substantial investments would be needed by potential market entrants to establish the requisite plant technology. The equipment and machinery used by ElringKlinger is often designed according to company specifications, i.e., they are not available on the market as standardized solutions. 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.

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 as well as shorter distances to production sites operated by vehicle and engine manufacturers play a key role. At present, the Group is building up a new production plant in Hungary. Established in 2015, the new subsidiary ElringKlinger Hungary Kft. is headquartered in Kecskemét-Kádafalva. From 2016 onward, it will supply serial components to Hungarian plants operated by German OEMs as well as to other customers in Europe.

Elsewhere in Eastern Europe, ElringKlinger also operates a subsidiary specializing in tool construction – HURO Supermold S.R.L., Timisoara, Romania. Furthermore, through its international manufacturing network, the Group is able to supply from plants with lower proportions of labor cost such as Brazil, India, Mexico, or Turkey at any time to the extent that this is required in view of product composition or is requested by the customer.

Material risks/Supplier risks

Material costs constitute the single biggest expense item 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 polymer granules (cf. Procurement, page 93 et seqq.). Prices relating to alloy surcharges (nickel, chromium, molybdenum) are subject to extreme volatility. They are added to the price of high-grade steel and cannot be fixed through contractual agreements.

Generally, ElringKlinger looks to negotiate agreements with its commodity suppliers that are as long term as possible. Any additional quantities required are 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 and the qualification of new suppliers.

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

In some cases, ElringKlinger agrees on 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 costs cannot be passed on in full or only with some delay.

Metal-based waste produced during die-cutting and stamping processes is handled and sold on by the scrap management unit established for this purpose. Potential cost increases can be offset, at least in part, by the proceeds from waste disposal.

20 %

PROCUREMENT VOLUME OF LARGEST SUPPLIERS

In 2015, the 30 biggest suppliers accounted for around 20% of the Group's purchasing volume.

As part of its risk assessment, ElringKlinger monitors not only trends relating to material prices but also the actual availability of materials. In order to limit risks associated with bottle-necks or non-deliveries to the largest extent possible, ElringKlinger relies on close collaboration with its suppliers over the long term. The Group is committed to a multi-supplier strategy for the purpose of counteracting the risk of production-related interruptions or downtime due to supply chain disruptions. It qualifies and approves at least two suppliers for significant materials and bought-in parts. Medium-sized and smaller suppliers are thoroughly assessed and monitored with regard to their financial strength, liquidity, and insurance coverage; they also have to undergo extensive audits at regular intervals. In 2015, the 30 biggest suppliers accounted for around 20% (around 20%) of the Group purchasing volume.

As regards energy supply, particularly at the German production sites, there is an indirect dependence on natural gas supplies from Russian sources. Having said that, the potential repercussions from this can be considered low. Due to the restricted scope for action within this area, possibilities for the company to implement risk prevention measures are 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.

Due to the emissions testing incident at the Volkswagen Group, the aspect of customer risk rather became more significant. The impact on the automobile industry – both car makers and automotive suppliers – cannot be fully gauged at this moment in time. In view of the fact that the demand for mobility will continue to grow at a global level, however, ElringKlinger is of the opinion that the market will, at the very most, see a shift in demand from one manufacturer to another. Due to the level of diversification in the Group's customer base, this situation is not expected to have a significant impact on ElringKlinger.

ElringKlinger has been steadily broadening its customer base in recent years in order to reduce its dependence on individual customers, also with regard to pricing-related pressure. In 2015, the company's top three customers accounted for around 27% (around 26%) of Group revenue. The customer contributing the single largest share of sales accounted for 11.7% (10.4%) of Group revenue in the 2015 financial year.

Labor cost risks

After cost of materials, labor costs constitute the second-largest expense item for the ElringKlinger Group. They accounted for 25.2% (23.4%) of the cost of sales in the 2015 financial year.

At 43.5% (46.1%), a large proportion of the Group's overall workforce is employed at sites in Germany. However, persistent wage increases at the domestic level could have a visibly negative impact on earnings performance within the Group in the coming years. Therefore, as illustrated by the progression of staff cost ratios at German sites, the competitive position of ElringKlinger AG would deteriorate further in relation to its international peers.

In recent years, the trade union IG Metall has been able to secure relatively substantial wage agreements. These costs represent an increasing burden on Germany as an industrial location. The collective wage increases agreed in Germany over the last three years were 3.4% from July 2013, 2.2% from May 2014, and 3.4% from April 2015. The agreement between employers and the trade union for 2016 was still outstanding when this report went to press. It should also be noted that unresolved collective pay negotiations pose the risk of strikes.

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

Taking all factors into account, the direction taken by labor costs is to be seen as one of the moderate risks to which the ElringKlinger Group is exposed. The Group has to offset higher wage costs by making substantial capital investments and implementing continuous measures aimed at raising efficiency levels in production in order to safeguard its international competitiveness and retain jobs in the domestic market.

In the event of an unexpected decline in customer demand, the staff cost ratio may increase substantially. Capacity constraints caused by possible machine/system outages may also lead to an increase in staff costs (temporary staff, night and weekend shifts). Thanks to the introduction of working time accounts, shift models, and temporary employment contracts, ElringKlinger has sufficient instruments at its disposal to allow it to respond rapidly and flexibly to such scenarios. Within the ElringKlinger Group, the proportion of employees with temporary contracts as of December 31, 2015, was 19.9% (19.6%).

Personnel risks

As a leading technology business, ElringKlinger is particularly reliant on the dedication and experience of its employees. They represent an important source of expertise for the company, and ElringKlinger is committed to limiting the risk of losing know-how through staff exits to the greatest extent possible. What is more, special expertise and skills are spread widely within the respective teams, rather than being concentrated among individual staff members. Staff turnover rates are to be kept at a percentage level in the mid-single digit range by creating a socially balanced and motivating working environment.

The age structure within the workforce reveals a balanced mix, with more than 50% of employees being aged between 30 and 50, while approx. 25% are younger than 30. Therefore, the risk of overaging is small.

Due to demographic changes, it is becoming increasingly difficult for the Group to attract qualified personnel with specialized skills. In order to address this issue in a proactive manner, ElringKlinger attends university/college 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. Additionally, the Group has taken on young people as technical and commercial apprentices. In order to retain skilled personnel and managers within the company in the long term, ElringKlinger offers training courses and programs for personal advancement.

IT risks

In the digital age, companies' IT infrastructures are constantly exposed to potential risks such as cybercrime and hacker attacks. The confidentiality, integrity, and availability of data are considered to be a precious commodity. Protection in this area requires an increasing number of preventative and corrective measures. Any disruption to IT systems and application software can lead to tangible delays to individual processes – from the handling of purchase orders through to ongoing production and 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 is primarily of relevance to operational processes is always stored twice or redundant systems are deployed. By creating additional backup systems or transitional solutions, potential risks that might jeopardize specific projects or processes can be ruled out to the largest extent possible.

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 physically separate locations. This approach offers the best possible protection against system failure and data loss. Furthermore, all data pertaining to the international sites is backed up at a central location.

Staff access to confidential data is managed with the help of scalable access authorizations. State-of-the-art security software solutions help to provide protection against unauthorized access by external sources.

Quality/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. Furthermore, this may damage the company's reputation over the long term. Quality issues currently exist within the Original Equipment segment. These pose individual risks, the possible financial impact of which can be considered moderate. 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 associated with further potential risks.

ElringKlinger uses appropriate quality assurance systems to prevent and mitigate the aforementioned risks. As an element 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. Additionally, where possible, agreements on limitation of liability are concluded between ElringKlinger and the contracting party in question.

Legal risks

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 Group. 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 separate and consolidated financial statements. 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 view of the compliance system instruments put in place and the ElringKlinger culture applied and embraced by the company, the probability of occurrence in respect of significant infringements 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 possible financial impact 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 is committed to developing products that are technologically sophisticated and to manufacturing these items with a high level of productivity, the aim being to achieve growth rates that are above the industry average (cf. Overview of ElringKlinger's Activities and Structure, page 54 et seqq.).

If ElringKlinger failed to identify and pursue fundamental technological changes at an early stage, the Group could lose its role as a pioneer and jeopardize its position as a development partner to the vehicle industry in the medium-term.

This scenario, in turn, would have a detrimental effect on the Group's sales and earnings performance in the medium to long term. With this in mind, ElringKlinger invests in R&D at a level that is well above the industry average – around 5% of revenue is earmarked for such capital expenditure each year. Additionally, substantial investments have been channeled into the expansion of the Group's technology portfolio in the last five years. ElringKlinger protects significant technologies and processes in the form of property rights and patents in order to combat to the largest extent possible the risk of damages caused by metoo products and imitations.

The company focuses its R&D activities firmly on a core area that is of particular importance to the automotive industry: 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. This is complemented by state-of-the-art technology in the field of exhaust gas purification. However, as the revenue contribution made by these new divisions is still relatively insignificant, rapid and extensive technological change within this area poses the risk of a substantial loss of revenue in the classic areas of business; this would exert greater pressure on prices.

Overall, the probability of occurrence is deemed low; the possible financial impact is considered to be moderate.

External growth/Acquisitions

The automotive supply industry is still in a process of consolidation. In the medium term, this presents ElringKlinger with the opportunity to enter regional markets and new fields of technology faster by means of targeted acquisitions.

Acquisitions are associated with the fundamental risk that the acquired entities may fall short of specified targets or fail to meet them in the planned time frame. This could result in expenses for unforeseen restructuring measures, which may – at least temporarily – exert downward pressure on the Group's profit margin. In addition, the level of investment required in this area may be higher than originally planned, which would push up the volume of financing required. Additionally, technology purchases pose the fundamental risk that the performance originally expected by the company may not be fully achievable or that the performance may not be achievable to the degree initially envisaged. Thus, there is a risk that the products may ultimately fail to meet customer expectations.

Prior to an acquisition, ElringKlinger generally conducts extensive due diligence investigations. As a matter of principle, all projects are also reviewed by a company team of experts. Financial plans and technical specifications are checked thoroughly for plausibility, analyzed in detail, and evaluated.

ElringKlinger makes a point of only entering into an acquisition if there is the prospect that the EBIT margin of the Group as a whole can be achieved in the medium term. 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.

As part of the annual impairment tests to be conducted 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.

Financial risks

Bad debt loss

On balance, the risk of customers defaulting on payments is considered relatively low for ElringKlinger, given the solid performance of the industry as a whole in North America, Western Europe, and large parts of Asia. Due to the broadly diversified group of customers, the risk of substantial bad debt loss is limited. In the event of an insolvency of one of the three single biggest customers, which at present is considered unlikely, the default risk in respect of accounts receivable would have amounted to between EUR 14.8 and 28.1 million (between EUR 13.4 and 21.8 million) as of December 31, 2015.

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, corporate expansion and the development of new technologies necessitate sizeable investments, generally leading to more substantial funding requirements. If rating agencies were to downgrade the automotive industry as a whole in response to a less favorable risk profile, credit terms for the sector and ultimately also for ElringKlinger would be affected adversely.

In view of this situation, there is a latent risk associated with financing, despite greatly improved earnings performance in the industry as a whole and extremely low interest rates. The risk of insolvencies, particularly with regard to smaller automotive supply companies that are not operating at an international level, can still not be ruled out entirely.

Thanks to a strong equity ratio of 48.5% (49.7%) and a debt factor (net debt in relation to EBITDA) of 2.2 (1.5), the ability of the ElringKlinger Group to refinance itself is considered to be non-critical. At EUR 123.3 (149.9) million in 2015, 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 101.0 (87.7) million.

As of December 31, 2015, no circumstances were present that would have justified the exercise of unilateral termination rights by banks. Based on the full range of information available at present, it can be assumed that the existing financial covenants will also be met in 2016. 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).

Currency risks also occur when translating revenue, earnings, and expenses 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 2015, the positive effect of foreign currency translation on revenue was equivalent to EUR 69.6 million in total, which contrasted with negative foreign exchange effects in the 2014 financial year. In total, the opportunities for more expansive revenues and earnings as a result of foreign currency translation should outweigh the downside risks in 2016.

Exchange rate movements also have an impact on the net finance result. 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. In the 2015 financial year, the Group recorded a net foreign exchange gain of EUR 3.2 (10.0) million.

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 notes to the consolidated financial statements.

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 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. Currency risk has been further reduced due to the fact that the purchasing volumes of Hug Engineering AG were changed over to euro in the majority of cases.

Interestrate risks

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, 2015, can be found in the notes to the consolidated financial statements.

The current level of interest rates within the market is very 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 financial result of the ElringKlinger Group. To a large extent, however, fixed interest rates have been agreed in respect of the financing liabilities of the ElringKlinger Group (cf. Notes: Non-current and current financial liabilities).

Please also refer to the notes to the consolidated financial statements for a sensitivity analysis; it outlines the impact of a change in market interest rates on the earnings of the ElringKlinger Group.

Use of derivative financial instruments

ElringKlinger only uses 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). 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 2015. As of December 31, 2015, around 20% of required volumes computed by the company were hedged by means of nickel forward contracts.

Consolidated Financial Statements

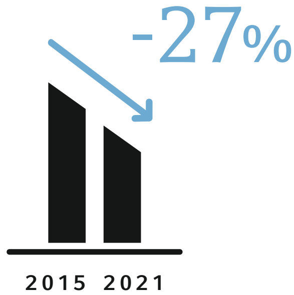
Opportunities

Climate change/Emission laws

The reduction of emissions continues to be a central topic driving today's automobile industry. The European Union is known to have some of the strictest emission standards world-wide. According to legislation passed by the EU Commission, the level of CO_2 pollutants emitted by new vehicles will have to be reduced from the upper limit of 130 g/km applicable in 2015 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. What is more, emission levels are to be scaled back further in the future, with Brussels discussing even lower thresholds of between 75 and 65 g/km for the year 2025. The United States and the People's Republic of China have also seen increasingly ambitious emissions targets. In the United States, the aim is to reduce CO_2 emissions to 132 g/km by 2021. In China, now the world's largest car market, the government has stipulated a reduction in CO_2 emissions to 117 g/km by 2020. Furthermore, emerging countries such as India tend to look at the strict Euro standards as a basis for their own policy making.

For the ElringKlinger Group, this legislative framework offers considerable potential with regard to development and revenue growth over the coming years. The trend towards increasingly fuel-efficient engines places greater demands on gasket technology and shielding systems. For ElringKlinger, this 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 in the area of lightweight construction.

Hybrid vehicles, i.e., the combination of a combustion engine and electric motor, are 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, 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.



CO_2 EMISSIONS DOWN BY ALMOST 30%

Within the European Union, CO_2 emissions of new vehicles have to be reduced to 95 g/km by 2021.

Various financial incentive schemes are currently being discussed in Germany with a view to meeting the federal government's defined goal of one million new electric vehicles on the road by 2020, despite all the obstacles. Among them in particular is the possibility of introducing a statefunded incentive for each electric car purchased. Should such measures be put in place, the financial incentive may very well prompt consumers to rethink their purchasing behavior, which in turn could result in growing sales of electrically powered cars. Supporting measures aimed at expanding the infrastructure required for electric vehicles, together with improved battery technology, would provide a boost to this trend. Irrespective of the direction taken by the incentive schemes being proposed, ElringKlinger would benefit directly from higher sales volumes in the electric vehicle market, as the company's E-Mobility division supplies cell contact systems to various car makers.

Moreover, the issue of emissions reduction is now also of growing importance beyond the automotive industry. As of 2016, stationary and marine engines as well as construction machinery will be subject to stricter emissions regulations. These niche markets hold significant potential for the systems produced by ElringKlinger's Exhaust Gas Purification division.

The revenue potential associated with the issue of greenhouse gas reduction can be categorized as significant as regards the possible financial prospects for the Group. The potential of ElringKlinger exploiting these opportunities with the help of its existing product portfolio and its development expertise is seen as highly probable.

Technology trends/New emissions regulations

The technology trends outlined earlier are being driven, inevitably, by increasingly strict international emissions 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 developing new solutions to tackle these issues and rolling them out onto the market by utilizing its existing expertise relating to materials processing, tooling, and development and production processes, the prospects for revenue and earnings growth of the Group can indeed be categorized as significant.

Extension of product and service portfolio

The majority of the divisions within the Group are in a good position to apply their existing expertise relating to materials and processes in a targeted manner for the purpose of complementing or extending the range of services.

As these aspects have already been discussed extensively in the chapter on Research and Development, it is sufficient at this stage to point to ElringKlinger's expertise centered around new material concepts in the area of lightweighting as well as alternative drive and power supply technologies relating to the areas of battery technology and fuel cells. Emissions standards have also become stricter beyond the automotive industry, which increasingly is opening up interesting niche markets in the area of exhaust gas purification. New opportunities are also presenting themselves continuously 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 of the Group are proactively working on the expansion of their product portfolios with the view to generating forward momentum, the aim being to meet the defined target of 5 to 7% organic revenue growth per annum.

New sales markets

Moving into other regional sales markets with the existing ElringKlinger product portfolio presents opportunities for significant revenue and earnings growth. This applies first and fore-most to the ASEAN region. However, in the BRIC states, too, the Group has the opportunity to expand its sales volumes, as all product groups are manufactured locally and sold within the regional markets.

Widening the product portfolio, introducing new ranges, and tapping new sales regions opens up opportunities for further growth within the Aftermarket business, particularly in North America and Asia. Trading under the "Elring – Das Original" brand, the Aftermarket segment within the ElringKlinger Group pursued a targeted expansion of its activities in Asia over the course of the 2015 financial year. The focus, in particular, was on launching measures to cultivate the Chinese spare parts market, which involves competing against a number of local operators. This campaign is to be propelled forward during 2016.

Industry consolidation/M&A

Car industry growth, measured on the basis of production output, is expected to be driven primarily by Asia and North America in the coming years. For many medium-sized automotive suppliers operating at a domestic level, this trend represents a tremendous challenge, as they still have either an insufficient international presence or none whatsoever. What is more, suppliers are now having to manage an increasingly large proportion of value creation with regard to vehicle production. They are faced with substantial investments in research and development, in addition to being exposed to more extensive financing risks.

The wave of consolidation within the automotive supply industry looks set to persist over the coming years. Against this backdrop, the market continues to face the risk of insolvencies.

For the ElringKlinger Group, this opens up the possibility of extending its technology portfolio through acquisitions or further strengthening its competitive position through consolidation of individual product groups. In some cases, competitors also exit the market without the influence of consolidation processes. ElringKlinger monitors the market systematically in order to identify potential opportunities for acquisition as early as possible and pursue them where appropriate. There is every chance that ElringKlinger will 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 earnings contributions for the Group.

Overall assessment of risks and opportunities

Fundamentally, the risk management system deployed by the ElringKlinger Group has proven to be very effective in recent years. Its effectiveness is illustrated, in particular, by the company's success in handling the severe economic crisis of 2008/9. The company invested early on and consistently 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, largely unchanged from that seen in the previous year. Some of the risks to which the Group is exposed are of a geopolitical or external nature, and ElringKlinger has either no or a very limited capacity to control these risks in an active manner. When weighting the relevance of risk in respect of the possible impact on earnings, a sudden slump in the market, rapid technological change in the field of drive technology, and a surge in commodity prices continue to be seen as the principal risks to which the ElringKlinger Group is exposed.

Macroeconomic conditions continued to improve in Western Europe and North America over the course of 2015. By contrast, the political and economic situation in Russia and the Middle East as well as the economic problems afflicting Brazil continue to be a source of risk. This is compounded by the economic slowdown in China, which would represent a more pronounced risk if the situation were to deteriorate. The strategic risks remain unchanged. The financial opportunities and risks due to foreign exchange fluctuations remain at an elevated level compared to the previous year.

Benefiting from the risk management system outlined above and its flexible cost structure, if necessary the ElringKlinger Group is in a position to respond promptly and assertively to any risks that may arise by implementing the corresponding risk management arrangements. The company makes a point of deliberately not exposing itself to risks that may jeopardize the existence of the ElringKlinger Group or its ability to pay a dividend. The Group's solid financial position as reflected in an equity ratio of 48.5% (49.7%) provides a protective shield in respect of ElringKlinger and its business model even in the unlikely event of a protracted crisis.

The principal opportunities for the company relate to the technological trend towards more fuel-efficient engines, which is inextricably linked to the issue of climate change and a global drive towards stricter emission laws. Benefiting from products targeted at alternative drive systems and power supply 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.

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. Against the background of a manageable risk profile, the Group is well positioned to actively seize any opportunities presented to it in the future and to continue to outpace the automotive market by 3 to 5 percentage points over the coming years, calculated on the basis of global production output.

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 where required. 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 of the 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 2015 financial year is presented in accordance with the provisions set out in two different standards: first, the applicable financial reporting standards (GAS 17) and, secondly, the German Corporate Governance Code in the version of May 5, 2015.

Compensation system up to December 31, 2013

The compensation system applicable up to December 31, 2013, was replaced as of January 1, 2014. Only the stock appreciation rights allocated to members of the Management Board as part of long-term variable compensation remain in place until the end of the vesting or exercise periods. 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 is 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 in shares of ElringKlinger AG of one-tenth of the overall number of stock appreciation rights granted. The vesting period of the stock appreciation rights is 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 ElringKlinger AG 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 is 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 is calculated on the basis of the difference between the redemption price, which is also calculated as an average of the last sixty stock exchange trading days, and the grant price.

A payment is made only when the share price of ElringKlinger AG has increased more than the index in which ElringKlinger is listed (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 of January 1, 2014

The compensation system applicable starting on 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	193,000,000
		Variable compensation	Cap Fixed salary 2015 *3
Dr. Wolf	0.80%	**1,544,000**	**1,521,000**
Becker	0.60%	**1,158,000**	**1,179,000**
Schmauder	0.60%	**1,158,000**	**1,179,000**
Total		**3,860,000**	**3,879,000**

Long-term incentive II (LTI II)

The socalled 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.

ILLUSTRATIVE CALCULATION LTI II

		EVA mean value	79,500,000
		Variable compensation	Cap Fixed salary 2015 *2
Dr. Wolf	1.25%	**993,750**	**1,014,000**
Becker	1.00%	**795,000**	**786,000**
Schmauder	1.00%	**795,000**	**786,000**
Summe		**2,583,750**	**2,586,000**

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. This entitlement also becomes applicable as soon as 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 into 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, 2017.

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 2014 or 2015. Likewise, the company provided no guarantees or similar commitments.

Management Board compensation 2015

Management Board compensation for the 2015 financial year has been presented pursuant to the applicable financial reporting standards (GAS 17) as well as in accordance with the recommendations of the German Corporate Governance Code in the version dated May 5, 2015.

Management Board compensation 2015 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	2014	2015	2014	2015	2014	2015	2014	2015
Short-term compensation								
Fixed compensation	526	556	392	418	390	413	1,308	1,387
Variable performance-related compensation	1,249	1,182	934	888	934	888	3,117	2,958
Total	**1,775**	**1,738**	**1,326**	**1,306**	**1,324**	**1,301**	**4,425**	**4,345**
Long-term compensation								
Long-term performance-related compensation	564	452	451	362	451	362	1,467	1,176
Total	**564**	**452**	**451**	**362**	**451**	**362**	**1,467**	**1,176**
Total compensation	**2,339**	**2,190**	**1,777**	**1,668**	**1,775**	**1,663**	**5,892**	**5,521**

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	2014	2015	2014	2015	2014	2015	2014	2015
Current service cost	236	238	155	153	130	132	521	523
Present value (DBO)	4,091	3,995	3,106	3,025	4,197	4,007	11,394	11,027

Management Board compensation pursuant to the German Corporate Governance Code

The following presentation of compensation granted to and received by the Management Board members in respect of the 2015 financial year is based on the recommendations of the German Corporate Governance Code in the version dated May 5, 2015. 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 2015 financial year, as disclosable under the provisions of the German Corporate Governance Code:

BENEFITS GRANTED (PURSUANT TO GCGC)

	Dr. Stefan Wolf			
in EUR k	2014	2015	Min. 2015	Max. 2015
Non-performance-based compensation				
Fixed annual salary	480	507	507	507
Fringe benefits	46	49	49	49
Total	**526**	**556**	**556**	**556**
Performance-based compensation				
One-year variable compensation	1,249	1,182	0	1,521
Multi-year variable share-based compensation 2013–2017	0	0	0	0
Multi-year variable compensation 2012–2014	565	0	0	0
Multi-year variable compensation 2013–2015	560	0	0	0
Multi-year variable compensation 2014–2016	552	0	0	0
Multi-year variable compensation 2015–2017	0	447	0	1,014
Total	**2,926**	**1,629**	**0**	**2,535**
Service cost	236	238	238	238
Total compensation	**3,688**	**2,423**	**794**	**3,329**

In contrast to GAS 17, the table presents long-term compensation granted in 2015 for LTI II. In 2014, the figure also includes LTI II for 2015 and LTI II for 2016, which were granted 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 benefit expense, which is presented in the form of the current service cost in the above table, has been included in total compensation.

	Theo Becker				Karl Schmauder				Total			
	2014	2015	Min. 2015	Max. 2015	2014	2015	Min. 2015	Max. 2015	2014	2015	Min. 2015	Max. 2015
	372	393	393	393	372	393	393	393	1,224	1,293	1,293	1,293
	20	25	25	25	18	20	20	20	84	94	94	94
	392	**418**	**418**	**418**	**390**	**413**	**413**	**413**	**1,308**	**1,387**	**1,387**	**1,387**
	934	888	0	1,179	934	888	0	1,179	3,117	2,958	0	3,879
	0	0	0	0	0	0	0	0	0	0	0	0
	451	0	0	0	451	0	0	0	1,467	0	0	0
	447	0	0	0	447	0	0	0	1,454	0	0	0
	443	0	0	0	443	0	0	0	1,438	0	0	0
	0	357	0	786	0	357	0	786	0	1,161	0	2,586
	2,275	**1,245**	**0**	**1,965**	**2,275**	**1,245**	**0**	**1,965**	**7,476**	**4,119**	**0**	**6,465**
	155	153	153	153	130	132	132	132	521	523	523	523
	2,822	**1,816**	**571**	**2,536**	**2,795**	**1,790**	**545**	**2,510**	**9,305**	**6,029**	**1,910**	**8,375**

The following table presents the allocation in/for the 2015 financial year. As regards fixed annual salary, fringe benefits, annual management bonus, and LTI II 2015, the table presents the allocation for the 2015 financial year.

ALLOCATION PURSUANT TO GCGC

	Dr. Stefan Wolf	
in EUR k	2014	2015
Non-performance-based compensation		
Fixed annual salary	480	507
Fringe benefits	46	49
Total	**526**	**556**
Performance-based compensation		
One-year variable compensation	1,249	1,182
Multi-year variable compensation 2012–2014	565	0
Multi-year variable compensation 2013–2015	0	452
Total	**1,814**	**1,634**
Service cost	236	238
Total compensation	**2,576**	**2,428**

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 relating to the Supervisory Board was adjusted in the reporting period. The level of compensation is determined by the Annual General Meeting. Within this context, the most recent resolution was passed on May 13, 2015. In accordance with the requirements of the German Corporate Governance Code, compensation is divided into a fixed 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. As of the 2015 financial year, it is limited to EUR 40k per member of the Supervisory Board.

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 position for a full financial year receive a pro rata amount of fixed and variable compensation.

Supervisory Board compensation 2015

In the period under review, total compensation for the Supervisory Board of ElringKlinger AG was EUR 774k (2014: EUR 608k). Additionally, travel expenses totaling EUR 0k (2014: EUR 2k) were reimbursed.

	Theo Becker		Karl Schmauder		Total	
	2014	2015	2014	2015	2014	2015
	372	393	372	393	1,224	1,293
	20	25	18	20	84	94
	392	**418**	**390**	**413**	**1,308**	**1,387**
	934	888	934	888	3,117	2,958
	451	0	451	0	1,467	0
	0	362	0	362	0	1,176
	1,385	**1,250**	**1,385**	**1,250**	**4,584**	**4,134**
	155	153	130	132	521	523
	1,932	**1,821**	**1,905**	**1,795**	**6,413**	**6,044**

Compensation payable to the individual members of the Supervisory Board was as follows:

	Fixed compensation		Variable compensation		Total compensation	
EUR k	2015	2014	2015	2014	2015	2014
Walter Herwarth Lechler	68	48	57	57	125	105
Markus Siegers	41	25	43	43	84	68
Gert Bauer	10	18	10	29	20	47
Ernst Blinzinger	16	0	18	0	34	0
Nadine Boguslawski	16	0	18	0	34	0
Armin Diez	28	18	29	29	57	47
Klaus Eberhardt	32	22	29	29	61	51
Pasquale Formisano	24	14	29	29	53	43
Rita Forst	16	0	18	0	34	0
Dr. Margarete Haase	8	14	10	29	18	43
Paula Monteiro-Munz	28	18	29	29	57	47
Prof. Hans-Ulrich Sachs	24	13	29	29	53	42
Gabriele Sons	32	19	41	11	73	29
Manfred Strauß	24	14	29	29	53	43
Gerhard Wick	8	14	10	29	18	43
Total	**375**	**237**	**399**	**372**	**774**	**608**

The 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, 2015, the nominal capital of ElringKlinger AG was unchanged at EUR 63,359,990, divided into 63,359,990 registered shares, each furnished with one vote. The notional interest in the company's nominal capital is EUR 1.00 per registered share. Profits are distributed in accordance with Section 60 of the German Stock Corporation Act (Aktiengesetz – AktG) in conjunction with Section 23 no. 1 of the Articles of Association.

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

The persons or entities with a direct interest in capital who, according to the details of the Stock Register, held voting rights in excess of 10% as of December 31, 2015, are as follows:

Walter H. Lechler, Stuttgart	Total of 22.059% (of which 10.0127% is attributable to him under Section 22 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG))
Lechler Beteiligungs-GmbH, Stuttgart	10.031%

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 13, 2015). This authorization remains valid until May 21, 2020.

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

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 HGB

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

Economists have taken a cautiously optimistic position when looking ahead to the potential performance of the global economy in 2016. After growth of 3.1% in 2015, the world economy is expected to edge up by 3.4% in 2016 according to data published by the International Monetary Fund (IMF). Global growth is likely to be underpinned by demand-side stimuli from the United States and Europe. By contrast, a loss in forward momentum in China and the protracted recession afflicting emerging markets dependent on commodity exports are less encouraging. Market analysts predict slightly more pronounced growth in the global vehicle market compared to the previous year, when car sales were up by around 2% worldwide.

International economic climate remains challenging

Despite the many imponderables still remaining in connection with the massive influx of refugees, the prospects for a sustained economic upturn in Europe are good. To a large extent, the eurozone should be able to offset patterns of sluggish demand associated with the emerging countries by taking advantage of the low price of oil and a loose monetary policy. Supported by private consumption and the construction industry, the German economy is likely to move in parallel with that of the eurozone as a whole in 2016.

The United States is expected to sustain its trajectory of growth. Having said that, the overall economic outlook was slightly bleaker at the beginning of the year due to the current malaise in the oil industry and a domestic manufacturing sector buffeted by the effects of sluggish global demand and a strong dollar. On a more positive note, solid levels of private consumption – buoyed by favorable employment figures – as well as improved national finances should continue to provide an impetus for growth.

Brazil and Russia, two countries with a strong focus on the commodities sector, can look forward to little more than the prospect of slightly cushioning the blow of their severe economic slump as they move into 2016. The chance of an economic turnaround would appear to be remote in both cases, particularly as their current problems are compounded by political crises and a lack of structural reforms.

Despite the less dynamic performance of China's economy, Asia as a whole is again expected to see the largest expansion in gross domestic product (GDP) in 2016. Impacted, among other things, by the government's efforts to transform the local economy into one fueled to a larger extent by domestic consumption and the services sector, China had lost some of its momentum over the course of 2015. Market experts at the IMF are predicting another slight decline for 2016. In absolute terms, however, the world's second-largest economy will continue to make a major contribution to global growth. India is expected to benefit from further expansion in 2016, thus boasting the highest rate of growth among the major emerging economies.

By contrast, Japan is only likely to see a sluggish improvement in its economic performance. At best, it is expected to record slight growth in 2016.

GDP GROWTH PROJECTIONS

Year-on-year change	2015	Projections 2016	Projections 2017
World	3.1%	3.4%	3.6%
Germany	1.5%	1.7%	1.7%
Eurozone	1.5%	1.7%	1.7%
USA	2.5%	2.6%	2.6%
Brazil	-3.8%	-3.5%	0.0%
China	6.9%	6.3%	6.0%
India	7.3%	7.5%	7.5%
Japan	0.6%	1.0%	0.3%

Source: International Monetary Fund (January 2016)

Vehicle market faces greater challenges in 2016

Against the backdrop of current economic and political uncertainties around the globe, the outlook for the automotive market in 2016 is cautiously optimistic. Based on the assumption that general conditions do not deteriorate, Germany's car industry association VDA has predicted growth of around 2% for the global auto market, while CAR Center Automotive Research at the University of Duisburg-Essen has forecast a slightly more pronounced rate of growth of 2.7% compared with 2015. As was the case last year, growth is likely to be fueled by the three largest markets: China, NAFTA, and Western Europe. ElringKlinger's outlook for 2016 suggests that global vehicle production will expand by around one to two percent.

Western Europe's car market revving lower

Having picked up strongly in 2015, Western Europe's vehicle market is expected to advance at a much slower pace in 2016. Although consumer demand will be propelled by low interest rates and sizeable discounts, the rate of expansion within the five biggest Western European markets is likely to be much less pronounced than in the previous year. The United Kingdom, which has seen a booming car market over the last three years, and Spain are expected to trend sideways in 2016. In France and Italy, meanwhile, recovery will probably continue in less dynamic fashion. As for the German car market, the VDA predicts just a slight increase in the number of new registrations. German car exports and domestic production should expand by 1% respectively in 2016 according to data published by the VDA.

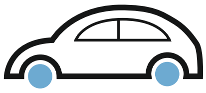
Overall, industry experts anticipate that the number of new registrations in Western Europe will edge up by a percentage figure at the lower end of the single-digit range.

Weaker growth in the United States

The US market is also unlikely to emulate last year's performance as it moves into 2016. The trend toward light trucks, a segment in which German manufacturers expanded their market share in 2015, will remain intact given the low price of fuel. Overall, the VDA sees market growth in the United States at around 1%.

Slim prospects for crisis markets Russia and Brazil

After the dramatic downturn in Russia's and Brazil's vehicle markets over the course of 2015, the forecasts for 2016 are only slightly more encouraging. At best, Russia can look forward to year-on-year stability in 2016, while Brazil is likely to be faced with a single-digit dip.



90%

OF NEW VEHICLES

will still be equipped with conventional petrol or diesel engines in 2021. The others will be fitted with hybrid drives, and only approx. 2% will be all-electric vehicles. (Source: PwC Autofacts, May 2015)

Sustained growth in Chinese car market

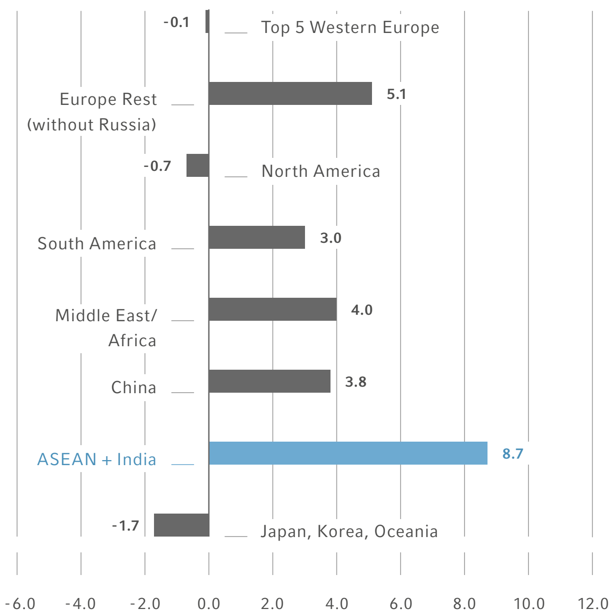
As regards the world's single largest market, China, which was hit by turbulence in 2015 but nevertheless closed the year up 9.1%, independent market analysts have issued inconsistent forecasts for 2016, ranging from 1 to 8%. Tax incentives in place since October 2015 for small-sized vehicles should also provide some support for the market in 2016. Based on the level now reached and the volume of growth in absolute terms, the Chinese market will continue to see substantial unit sales regardless of lower rates of expansion. ElringKlinger anticipates that Chinese car sales will expand at a percentage rate in the low single-digit figures.

India should be able to achieve further growth at a percentage rate in the mid-single digit range in 2016.

Despite the downturn in sales by around 10% in Japan in 2015, there appears to be limited potential for an upturn in 2016.

In the medium term, industry pundits are predicting average growth for the global vehicle market of between 2 and 3% up to 2020. In terms of absolute volumes, Asia, NAFTA, and Western Europe will remain the central pillars of support. However, further expansion within the three key markets encompassing NAFTA, Western Europe, and Japan is considered unlikely. Instead, growth will be concentrated in the remaining Asian markets and other emerging countries. As of 2017, Russia and South America are expected to make substantial gains. With respect to growth based on absolute figures, China is still likely to hold the greatest potential. The number of households in China with an income of more than 10,000 dollars, the threshold beyond which first-time buyers can afford a car, is expected to rise steadily. What is more, the low vehicle density of around 100 cars per 1,000 inhabitants offers considerable potential for growth in the medium term.

MEDIUM-TERM FORECAST: AVERAGE ANNUAL GROWTH RATE (SALES LIGHT VEHICLES) BY REGION 2015 – 2020
(in %)



Source: IHS, HSBC

When it comes to alternative drive systems, ElringKlinger anticipates that the combustion engine will remain the dominant form of propulsion in the medium to long term. Having said that, the trend towards sustainable energy sources and lower emissions in the mobility sector as a whole is likely to become more prominent. Based on current estimates, worldwide sales of vehicles equipped with alternative drive systems (including hybrid drives) reached 2.7 million units in 2015, which corresponds to around 3% of the total volume of sales at a global level. Recent studies suggest that this figure could very well rise to around 9 million by 2020. In this context, the United States, Europe, and Japan are likely to see a dominance of hybrid technology, whereas China is expected to record greater demand for all-electric cars and plug-in hybrids.

Benefiting from its local presence in key vehicle markets around the world, the ElringKlinger Group is able to reap the rewards of growth at a global level. The share of Group revenue generated by ElringKlinger directly in Asia and the NAFTA region rose to 37.6% (33.6%) in 2015. Including exports, these regions thus accounted for around 50% of Original Equipment revenue within the ElringKlinger Group. Around 25% of the Group's Original Equipment revenue was attributable to business with 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. With a steady rise in the number of per-vehicle products, the company has also established a solid foundation for increasingly dynamic growth. As one of the few automotive suppliers worldwide, ElringKlinger develops and produces components for the full range of drive systems.

Weaker commercial vehicle market in 2016

After a solid performance of the North American and Western European commercial vehicle markets in 2015, the outlook for 2016 suggests a loss in forward momentum. According to estimates by the VDA, demand for mid-sized and heavy trucks will rise by around 5% in Europe. Germany's market is expected to edge up by 1%.

However, industry experts are predicting a much more sluggish performance from the North American truck market. Based on current forecasts, this region will fail to match the significant sales volumes recorded last year, when new registrations of Class 8 trucks totaled 248,890 units. In fact, according to estimates sales of heavy trucks could fall by up to 16% year on year.

Against the backdrop of the country's economic woes, the commercial vehicle industry in Brazil will be faced with another lackluster year in 2016. Operating from a low base, however, Brazil's truck market may succeed in matching last year's figures.

ElringKlinger will be able to benefit directly from an increase in truck production output in the industrialized economies. The trend towards replacing metal components with lighter plastic parts has also been gaining momentum in the commercial vehicle sector, particularly with regard to plastic housing modules. Due to the larger proportion of parts per vehicle, the company will derive above-average benefits from market growth in the coming years.

Outlook – Group

Automotive industry in transition

Faced with ever-stricter regulations and a rising global demand for mobility, the automotive industry is undergoing a process of change. Against the backdrop of scarce resources and greater environmental awareness, the emphasis within this sector is on developing new drive technologies. At the same time, however, the new technologies currently available are simply not sufficiently advanced to meet consumers' mobility needs with regard to price, range, and recharging convenience. For this reason, combustion engines are being further optimized so that prescribed emission standards can be met and the use of resources can be scaled back. The focus is on downsizing and lightweighting to reduce CO_2 emissions to an average of 95g/km by the year 2021, down from the EU target of 130 g/km applicable in 2015. In parallel, the industry is pressing ahead with efforts to develop alternative drive technologies.

ElringKlinger offers a product range geared towards meeting specified targets in both areas, be it the optimization of combustion engines or the development of alternative drive systems. Committed to defending its prominent position in niche markets well into the future, the Group plans to maintain its significant investment in research and development, equivalent to around 5% of revenue (accounting for capitalization).

Price-related pressure calls for cost savings

The trend towards modular design has triggered extensive collaborative efforts among manufacturers. This translates into larger quantities of specific components, which in turn will help to strengthen car makers' negotiating position within the automotive industry. The result is likely to be more pronounced competition for automotive suppliers in the form of price-related pressure and demands from manufacturers to raise productivity levels. As a consequence, suppliers will have to rein back costs by improving their production processes and increasing the level of automation. ElringKlinger generally channels around one-third of its annual investments into such measures.

Future revenue growth underpinned by solid order book

The Group's order book continued to develop well over the course of the financial year under review, with order intake improving by EUR 196.7 million or 13.9%. As a result, the order backlog at the end of 2015 reached EUR 796.2 (688.2) million, which represents year-on-year growth of 15.7%. On the back of a robust order book, ElringKlinger is determined to pursue its ambition of annual organic growth – i.e., adjusted for the effects of acquisitions and foreign exchange rates – of 5 to 7% in Group revenue. In achieving this target, the Group would again exceed the growth rate of around 1 to 2% in global automobile production anticipated for 2016.

Given the complexity of influencing factors, the effects associated with foreign exchange rates are always difficult to predict. In 2015, the euro depreciated against many of the currencies considered to be of relevance to ElringKlinger, such as the US dollar, the Chinese yuan, and the Swiss franc. Due to currency translation, this had a positive effect on reportable revenue. Similar effects are possible in 2016. Having said that, the euro is expected to be more stable in the coming months, and therefore cautious estimates would suggest that the overall extent of such positive factors will be less pronounced.

Acquisitions are again a possibility in the current financial year, with management reviewing its options on a continual basis. In keeping with the approach taken in the past, the focus is again likely to be on entities that complement the existing portfolio in a manner that is considered appropriate or on companies that provide the basis for improved market entry. It is unlikely that the scope of such transactions will exceed that of previous activities by a considerable extent.

Commodity prices at a stable level

The cost of sales is driven in particular by expenses relating to materials and personnel. Essentially, the price of raw materials and input products of relevance to ElringKlinger should remain stable due to existing supply contracts, although it should also be noted that the low level of commodity prices currently seen within the market poses the risk of a price hike in the future. With respect to purchasing prices for polyamide-based plastic granulates used in the Plastic Housing Modules division, the Group is currently benefiting from the slump in oil prices and more expansive procurement in China. The situation is similar when it comes to surcharges payable in connection with high-grade steel alloys, which continued to fall over the course of 2015. As of December 31, 2015, they were only marginally higher than the level seen in the crisis year of 2009. Similar to the direction taken by prices for raw materials and input products, prices for waste material from stamping processes, which is sold on by the Group, are expected to remain stable.

Global headcount set to rise

In view of the growth targets it has set for itself, ElringKlinger anticipates that staffing levels will again be expanded during the coming financial year. As the international subsidiaries are among the most prominent growth drivers, it is here that the focus of HR upsizing is expected to be. In this context, the Group is committed to managing growth in such a way as to ensure that costs are streamlined and processes are optimized. Therefore, any increase in the Group's headcount should be less pronounced in relation to revenue growth.

Improvement in earnings expected

In line with expectations, ElringKlinger's growth in revenue will be reflected in higher earnings before interest and taxes (EBIT) in 2016. However, this will be impacted by several factors:

- **Unexpectedly strong demand in the Original Equipment segment** prompted exceptional charges of EUR 34 million during the 2015 financial year. The first quarter of 2016 is expected to produce trailing items estimated at up to EUR 10 million in total. Overall, the higher output volumes within the affected unit also led to an increase in the level of operating costs.

- The **E-Mobility division** has been adversely affected by sluggish demand for vehicles powered by electric engines. Demand may be stimulated by future purchasing incentives. However, other factors will also play a role when it comes to achieving a sustained increase in demand. These include an improved infrastructure with more recharging stations, for example, and an extended range of electric vehicles through enhanced battery technology. What is more, the low price of oil means that vehicles equipped with a combustion engine continue to be an attractive option with regard to operating costs. With this in mind, it would appear likely that the low level of capacity utilization within this division will persist in 2016 regardless of specific structural measures and that losses incurred in this area will reach a low to mid-single-digit figure in the million euro range.

- The revenue and earnings situation of the **Exhaust Gas Purification division,** by its very nature, is characterized by relatively substantial fluctuations. This is due to the fact that it operates almost entirely on a project basis, as opposed to the serial production business traditionally associated with other ElringKlinger divisions. ElringKlinger currently anticipates that the temporary dip in demand for exhaust gas purification systems used in natural gas power plants or for projects centered around inland waterway vessels and construction machinery will remain evident in 2016.

- In the spring of 2016, the German metal-working industry will be faced with the **next round of collective bargaining negotiations.** These negotiations will not have been completed by the time this annual report goes to press. The unions have already stated that they will be targeting a pay increase of 5%. Even if employer federations reject these demands as inappropriate, the anticipated outcome of negotiations is likely to be a collective pay increase of between 0 and 5%, which will have a corresponding effect on ElringKlinger's earnings. This increase will have to be offset to the largest extent possible by cost savings and streamlining measures within the Group. Almost half of the Group's workforce is employed in Germany.

Taking into account the factors outlined above, EBIT adjusted for non-recurring items and before purchase price allocation is expected to range between EUR 160 and 170 million in total. In the medium term, the Group is looking to achieve a clean EBIT margin (adjusted for purchase price allocation) of 13 to 15%.

Investment ratio remains high

The Group's strong growth in recent years calls for significant investment. The latter has risen to over 10% of annual revenue, but is to be scaled back in the medium to long term to a level of 7 to 9% of Group revenue. In order to achieve this goal, measures that have already been planned or are about to be implemented will be reviewed thoroughly as to whether they are actually necessary and, if so, when they should be executed. Capital expenditure in the current financial year will again be at an elevated level similar to that seen in 2015.

ElringKlinger has committed itself to Germany as a business location and will continue to invest in expanding its central site in Dettingen/Erms. A separate logistics building is to be built for the purpose of facilitating future growth. This will allow the Group to expand its production capacity at its existing plants.

In 2015, ElringKlinger began construction work on a new production site in Kecskemét, Hungary, the aim being to meet unexpectedly strong demand for products supplied by one of the divisions in the Original Equipment segment. Production is scheduled to commence by mid-2016.

As planned, a new plot of land – together with a building – was purchased in 2015 for recently acquired ElringKlinger Automotive Manufacturing, Inc., Warren, USA. The site is located in Southfield, USA, and will accommodate the two production plants currently operated by the company. The move is scheduled for 2016.

Buoyant demand for components capable of reducing overall vehicle weight has had a positive impact on ElringKlinger, as evidenced by solid order intake for lightweight acoustic and thermal shielding parts. In response to this trend, the Group will continue to invest in its existing plants in Buford, USA, and Toluca, Mexico, in order to adapt local production capacity to more expansive demand.

Elsewhere, China has seen a return to more normal growth rates. However, output estimates show that this market will continue to lead the world in growth calculated on the basis of absolute quantities. In order to meet these high levels of demand, construction work on a new plant in Suzhou, China, was initiated in 2015, which will also necessitate payments in 2016. Following the successful ramp-up of production for parts supplied to one of Germany's premium car makers, the local facility will also be equipped with a second production line for lightweight hybrid components manufactured by means of hydroforming.

Working capital to be scaled back

ElringKlinger's strategic approach to integrate tooling activities within the Group has also proved successful. This approach allows the company to apply production methods that are efficient in their use of raw materials and offer the benefit of optimized processes. This, in turn, provides a competitive advantage for the Group. Tools that have been produced and phased in without having been billed to the customer as part of series production lead to an increase in inventories and thus working capital. At EUR 609.1 million, it is therefore relatively high when compared to the industry as a whole. In 2015, it rose by EUR 73.9 million or 13.8% year on year. Working capital is to be scaled back by around EUR 20 to 30 million in the coming financial year and consistently improved in subsequent years with the help of a determined approach to receivables and inventory management.

Return to positive operating free cash flow expected

Stronger earnings and improved working capital will have a direct impact on cash flow. Based on the assumption that investment spending remains at a consistent level, the Group anticipates that operating free cash flow generated in 2016 will no longer be negative or will be only slightly in negative territory. If capital expenditure is scaled back as planned to a target range of between 7 and 9% of revenue and earnings expand, operating free cash flow will continue to improve.

Improvement in ROCE

The Group measures its profitability on the basis of return on capital employed (ROCE). Capital employed will increase as a result of growth. At the same time, however, the Group will be targeting slight improvements in working capital. Additionally, earnings are expected to trend higher as a result of the factors discussed earlier. Overall, therefore, this would translate into a slight improvement in the return on capital employed (ROCE). ElringKlinger has its sights set on a level of 15% in the medium to long term.

Net financial liabilities expected at a higher level

As regards its financial liabilities, the Group has been operating with a wide range of maturities, i.e., is in a position to respond flexibly to a potential increase in interest rates. With financial liabilities totaling EUR 535.7 (417.0) million as of December 31, 2015, the Group (before acquisitions) will expand its level of debt in line with growth. In 2016, therefore, net debt is expected to be higher than in the financial year just ended (EUR 486.8 million).

The equity ratio is expected to be just under 50% in 2016, which is well within the target corridor of 40 to 50% of the balance sheet total.

Original Equipment segment: strong growth

By contributing more than 80%, the Original Equipment segment generates by far the largest share of 2015 Group revenue. The trend seen in recent years looks set to continue in the current financial year, with strong demand expected in particular for shielding parts and lightweight components made of high-performance plastics. Measured in relation to sales revenue, therefore, they will become more significant to the Group. Furthermore, efforts to expand the production of lightweight beams in a hybrid design will be reflected in revenue. The Cylinder-head Gaskets, Specialty Gaskets, and Plastic Housing Modules divisions are also attracting strong demand. Solid order intake should translate into higher sales revenue.

On the whole, this segment is expected to generate revenue growth of between 5 and 7% in 2016, i.e., in line with the Group average. Due to the heterogeneous nature of profit margins within the individual divisions, profitability will be slightly below the Group average.

Engineered Plastics segment: profitable growth

The Engineered Plastics segment encompasses sealing rings and guides for diesel injection systems as well as turbocharger gaskets and plastic components for heat exchangers used in large power plants. Output volumes are expected to rise further with regard to business in the North American market, while the expanding markets of China and India will continue to be cultivated.

Overall, this segment is also expected to see revenue grow by 5 to 7% in 2016. Despite a slight decline in the EBIT margin in the financial year just ended, down from 16.6% to 13.4%, profitability will continue to be above the Group average.

Aftermarket segment: international growth

The Aftermarket segment will continue to pursue strategic expansion of its market position. The aim is to make well-judged additions to the product portfolio. In addition, ElringKlinger plans to penetrate new markets and step up its efforts to cultivate existing markets.

In its home market of Germany, the Group will continue to focus on its strategic approach of strengthening the position of its "Elring – Das Original" brand within the wholesale industry.

When it comes to sales activities, one of the focal points will be on Western and Southern European markets such as France, Italy, and Spain. Due in part to prevailing economic conditions, car owners often had to postpone repair jobs and servicing in these countries. The cooling in relations between Russia and Europe, the protracted conflict between Russia and Ukraine, and the thus resulting depreciation of local currencies might exert further pressure on revenue generated in Russia and Ukraine. At the same time, German-made vehicles account for a large proportion of the regional market, which could be conducive to aftermarket sales in other Eastern European countries.

The growing share of German vehicles, particularly in the commercial vehicle market, should also create opportunities in North Africa and the Middle East. Here, however, there is a risk that the low price of oil and the many political hot spots found in these regions will act as a decelerator.

The growing proportion of Original Equipment sales in North America and China also holds more significant opportunities for the Group's Aftermarket business. ElringKlinger plans to unlock this potential, the aim being to gain a stronger foothold in these markets and generate growth.

Overall, this segment is expected to expand revenue by around 5% in 2016. Profitability is again expected to be above the Group average.

Solid order book for parent company ElringKlinger AG

The parent company ElringKlinger AG generated revenue of EUR 592.4 million in 2015. While the international subsidiaries are expected to see stronger growth, ElringKlinger AG is only likely to expand its revenue slightly by 0 to 2%. Its order book remains solid: Compared to the previous year, order intake rose by EUR 5.3 million or 0.9% in 2015, as a result of which order backlog at the end of the year was up by EUR 10.6 million or 3.4% to EUR 318.8 million. The Original Equipment segment will be the main beneficiary of projected growth in car production within the key markets of Europe, NAFTA, and Asia-Pacific.

The level of investment spending in 2016 is likely to be comparable to that seen in 2015. A new logistics building is needed at the main plant in Dettingen/Erms, Germany, in order to free up space for additional production machinery. Additionally, strong demand for ElringKlinger products calls for continuous investment in new machines.

With respect to profitability, the Group anticipates that adverse factors such as the collective pay increase will have an impact on earnings before interest and taxes (EBIT) in 2016, despite higher productivity levels and continuing production ramp-ups. As a result, it is expected to remain stable year on year or be slightly below the prior-year figure.

Based on its current financial performance, financial position, and cash flows, the Group is confident that it can achieve the targets it has set for itself.

COMPANY GUIDANCE SUMMARY:

Guidance 2016	
Revenue	Organic growth of 5 to 7%
EBIT	Adjusted for purchase price allocation EUR 160 to 170 million
Further indicators for FY 2016	
Exceptional charges due to unexpectedly strong demand in Original Equipment segment	EUR 10 million in Q1. Fundamentally, high level of operating costs expected
ROCE	Slight year-on-year improvement
Investments*	High level comparable to prior year, above medium-term target range of 7 to 9% of revenue
Working capital	Improvement of around EUR 20–30 million on figure in 2015
Operating free cash flow	No longer or only slightly negative
R&D cost	Around 5% of revenue when accounting for capitalization
Equity ratio	40 to 50% of total assets
Medium-term targets	
Revenue	Organic growth of 5 to 7% p.a.
EBIT	Margin adjusted before purchase price allocation of 13 to 15% of Group revenue
ROCE	15%
Investments*	7 to 9% of Group revenue
Equity ratio	40 to 50% of total assets

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

Events after the Reporting Period

After the end of the reporting period, ElringKlinger acquired an additional 5.0% of the owner-ship interests in its subsidiary new enerday GmbH, Neubrandenburg, Germany, effective from February 18, 2016. Since then, it holds 80.0% of the interests in the fuel cell system specialist. This is in keeping with ElringKlinger's continued strategy of scaling back non-controlling interests within the Group to the largest extent possible.

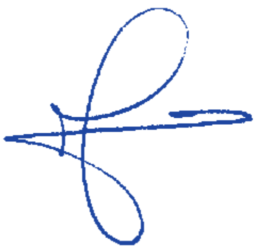
Effective from February 23, 2016, Karl Schmauder, member of the Management Board of ElringKlinger AG, stepped down from his role as a Management Board executive. Mr. Schmauder was appointed to the Management Board of ElringKlinger AG in 2005, from which point on he was responsible for Original Equipment Sales and New Business Areas. Thus, the Management Board of ElringKlinger will again consist of three members in the future: Alongside Dr. Stefan Wolf in the role of CEO, Theo Becker as COO responsible for Production and Technology, and Thomas Jessulat in his capacity as CFO will remain as members of the Group's highest governing body. Dr. Stefan Wolf will take over the area of Original Equipment Sales. In the future, New Business Areas will be overseen by Theo Becker.

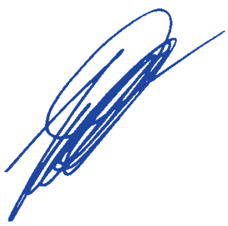
On February 25, 2016, ElringKlinger subsidiary Hug Engineering AG concluded a purchase agreement for a further 80.0% of the ownership interests in Codinox Beheer B.V., based in Enschede, Netherlands. HUG Engineering AG, a specialist in exhaust gas purification systems with its registered office in Elsau, Switzerland, already holds 10.0% of the interests in this entity. The purchase price is at the lower end of the single-digit million range and will be due on closing of the contract. Additionally, agreements were made in respect of an earn-out clause. Closing is dependent on specific conditions, in particular the merger of four subsidiaries of Codinox Beheer B.V. into the parent company. The contract is expected to be closed in April 2016.

At its meeting of March 3, 2016, Deutsche Börse decided on changes to the composition of its stock exchange indices. As a result of this review, ElringKlinger AG will leave the MDAX and be listed in the SDAX effective from March 21, 2016. The composition of indices for the German stock market is dependent on two criteria: free float market capitalization and the stock's average trading volume. ElringKlinger AG is positioned at the lower end of the rankings in respect of both listing criteria, as a result of which it had to leave the MDAX.

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

Dettingen/Erms, March 23, 2016
The Management Board

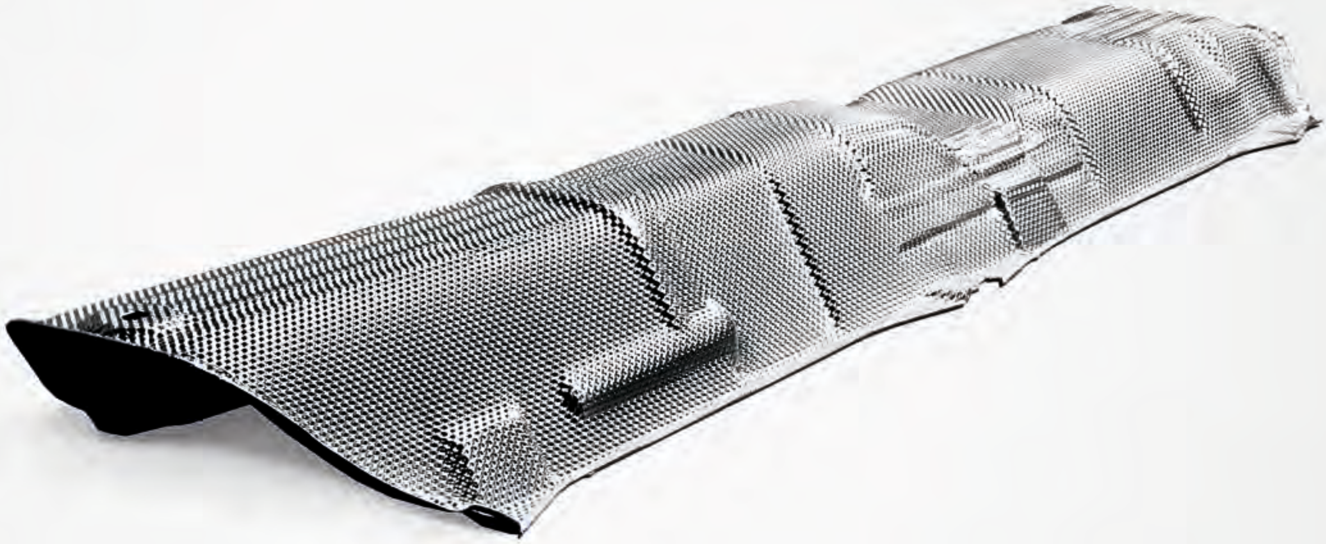




Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat



ElroTherm™ SL underbody shield in lightweight design with optimized material thickness.

03

Consolidated Financial Statements of ElringKlinger AG
for the Financial Year 2015

Group Income Statement

of ElringKlinger AG, January 1 to December 31, 2015

EUR k	Note	2015	2014
Sales revenue	**(1)**	**1,507,253**	**1,325,834**
Cost of sales	(2)	-1,132,973	-967,352
Gross profit		**374,280**	**358,482**
Selling expenses	(3)	-115,992	-93,418
General and administrative expenses	(4)	-69,343	-61,449
Research and development costs	(5)	-61,438	-57,253
Other operating income	(6)	20,132	18,727
Other operating expenses	(7)	-12,391	-11,086
Operating result		**135,248**	**154,003**
Finance income		25,394	18,492
Finance costs		-31,886	-19,401
Net finance costs	**(8)**	**-6,492**	**-909**
Earnings before taxes		**128,756**	**153,094**
Income tax expense	(9)	-32,969	-42,495
Net income		**95,787**	**110,599**
of which: attributable to non-controlling interests	(19)	4,211	4,851
of which: attributable to shareholders of ElringKlinger AG	**(19)**	**91,576**	**105,748**
Basic and diluted earnings per share in EUR	**(10)**	**1.45**	**1.67**

Group Statement of Comprehensive Income

of ElringKlinger AG, January 1 to December 31, 2015

EUR k	2015	2014
Net income	**95,787**	**110,599**
Currency translation difference	20,336	17,916
Gains and losses that can be reclassified to the income statement in future periods	**20,336**	**17,916**
Remeasurement of defined benefit plans, net	4,517	-21,852
Gains and losses that cannot be reclassified to the income statement in future periods	**4,517**	**-21,852**
Other comprehensive income after taxes	**24,853**	**-3,936**
Total comprehensive income	**120,640**	**106,663**
of which: attributable to non-controlling interests	5,633	5,301
of which: attributable to shareholders of ElringKlinger AG	**115,007**	**101,362**

Group Statement of Financial Position

of ElringKlinger AG, as at December 31, 2015

EUR k	Note	Dec. 31, 2015	Dec. 31, 2014
ASSETS			
Intangible assets	(11)	213,542	185,343
Property, plant and equipment	(12)	827,259	707,980
Investment property	(13)	14,242	11,712
Financial assets	(14)	1,255	1,728
Non-current income tax assets	(15)	875	1,553
Other non-current assets	(15)	3,218	6,568
Deferred tax assets	(9)	14,108	8,782
Non-current assets		**1,074,499**	**923,666**
Inventories	(16)	321,902	290,098
Trade receivables	(17)	287,229	245,084
Current income tax assets	(17)	2,507	4,294
Other current assets	(17)	30,731	26,944
Cash and cash equivalents	(18)	48,925	68,733
Current assets		**691,294**	**635,153**
		1,765,793	**1,558,819**

EUR k	Note	Dec. 31, 2015	Dec. 31, 2014
LIABILITIES AND EQUITY			
Share capital		63,360	63,360
Capital reserves		118,238	118,238
Revenue reserves		628,933	572,205
Other reserves		11,098	-10,283
Equity attributable to the shareholders of ElringKlinger AG	**(19)**	**821,629**	**743,520**
Non-controlling interest in equity	(20)	34,102	31,674
Equity		**855,731**	**775,194**
Provisions for pensions	(21)	118,744	124,090
Non-current provisions	(22)	12,340	16,638
Non-current financial liabilities	(23)	326,092	268,508
Deferred tax liabilities	(9)	25,114	23,930
Other non-current liabilities	(24)	3,829	6,219
Non-current liabilities		**486,119**	**439,385**
Current provisions	(22)	16,423	16,469
Trade payables	(24)	85,939	68,753
Current financial liabilities	(23)	209,597	148,532
Tax payable	(9)	18,702	16,773
Other current liabilities	(24)	93,282	93,713
Current liabilities		**423,943**	**344,240**
		1,765,793	**1,558,819**

Group Statement of Changes in Equity

of ElringKlinger AG, January 1 to December 31, 2015

EUR k	Share capital	Capital reserves	Revenue reserves
Balance as of Jan. 1, 2014	**63,360**	**118,238**	**498,137**
Dividend distribution			-31,680
Change in scope of consolidated financial statement			
Total comprehensive income			105,748
Net income			105,748
Other comprehensive income			
Balance as of Dec. 31, 2014/Balance as of Jan. 1, 2015	**63,360**	**118,238**	**572,205**
Dividend distribution			-34,848
Change in scope of consolidated financial statement			
Total comprehensive income			91,576
Net income			91,576
Other comprehensive income			
Balance as of Dec. 31, 2015	**63,360**	**118,238**	**628,933**

Other reserves					
Remeasurement of defined benefit plans	Equity impact of controlling interests	Currency translation differences	Equity attributable to the shareholders of ElringKlinger AG	Non-controlling interests in equity	Group equity
-15,989	**2,033**	**8,059**	**673,838**	**27,507**	**701,345**
			-31,680	-1,088	-32,768
				-46	-46
-21,360		16,974	101,362	5,301	106,663
			105,748	4,851	110,599
-21,360		16,974	-4,386	450	-3,936
-37,349	**2,033**	**25,033**	**743,520**	**31,674**	**775,194**
			-34,848	-1,055	-35,903
	-2,050		-2,050	-2,150	-4,200
4,364		19,067	115,007	5,633	120,640
			91,576	4,211	95,787
4,364		19,067	23,431	1,422	24,853
-32,985	**-17**	**44,100**	**821,629**	**34,102**	**855,731**

Group Statement of Cash Flows

of ElringKlinger AG, January 1 to December 31, 2015

EUR k	Note	2015	2014
Earnings before taxes		128,756	153,094
Depreciation/amortization (less write-ups) of non-current assets	(11) – (14)	87,514	79,227
Net interest	(8)	11,585	10,937
Change in provisions		-7,775	1,290
Gains/losses on disposal of non-current assets		-1	463
Change in inventories, trade receivables and other assets not resulting from financing and investing activities		-51,832	-39,725
Change in trade payables and other liabilities not resulting from financing and investing activities		5,887	8,939
Income taxes paid	(9)	-39,353	-42,508
Interest paid		-9,752	-8,433
Interest received		521	375
Other non-cash expenses and income		-2,220	-13,723
Net cash from operating activities		**123,330**	**149,936**
Proceeds from disposals of property, plant and equipment, intangible assets and investment property		753	543
Proceeds from disposals of financial assets		477	806
Payments for investments in intangible assets	(11)	-13,663	-16,115
Payments for investments in property, plant and equipment and investment property	(12), (13)	-176,073	-147,017
Payments for investments in financial assets	(14)	0	-498
Payments for the acquisition of subsidiaries, less cash		-24,151	-5,708
Net cash from investing activities		**-212,657**	**-167,989**
Payments to non-controlling interests for the purchase of shares		-4,200	0
Dividends paid to shareholders and to non-controlling interests		-35,903	-32,768
Proceeds from the addition of financial liabilities	(23)	162,503	99,783
Payments from the repayment of financial liabilities	(23)	-57,111	-46,934
Net cash from financing activities		**65,289**	**20,081**
Changes in cash		-24,038	2,028
Effects of currency exchange rates on cash		4,230	3,756
Cash at beginning of period	(18)	68,733	62,949
Cash at end of period	**(18)**	**48,925**	**68,733**

Notes to the Consolidated Financial Statements

of ElringKlinger AG for the 2015 Financial Year

General information

As parent company of the Group, ElringKlinger AG is filed in the commercial register at the local court of Stuttgart (Amtsgericht) under the number HRB 361242. The company is domiciled in Dettingen/Erms (Germany). The address is ElringKlinger AG, Max-Eyth-Str. 2, 72581 Dettingen/Erms. The articles of incorporation are dated June 13, 2012. The registered company name is ElringKlinger AG.

The financial year is the calendar year.

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

Accounting principles

The consolidated financial statements of ElringKlinger AG as of December 31, 2015, have been prepared in accordance with the International Financial Reporting Standards (IFRSs) approved by the International Accounting Standards Board (IASB) as adopted by the European Union (EU), the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), the supplementary commercial law regulations pursuant to § 315a (1) HGB and the provisions of German stock corporation law. The Articles of Association contain regulations on profit appropriation. All IASs, IFRSs and IFRICs mandatory for the financial year 2015 have been observed.

On March 23, 2016, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 24, 2016, for approval.

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

The income statement was prepared in accordance with the cost of sales method. In order to enhance the clarity of presentation, various items in the consolidated statement of financial position and in the consolidated income statement have been combined.

The following regulations and amendments to existing regulations were applied for the financial year 2015 for the first time:

IFRIC 21 Levies

IFRIC 21 deals with the issue of accounting for public levies which do not represent income taxes within the meaning of IAS 12 and clarifies in particular when obligations to pay such levies are recognized as liabilities in the financial statements. The adoption of this interpretation did not have any significant effects on the consolidated financial statements of the ElringKlinger Group.

Annual Improvements to IFRSs (2011–2013)

The pronouncement relates to smaller amendments to the standards IFRS 1, IFRS 3, IFRS 13 and IAS 40. These amendments will not have any material impact on the Group's net assets and financial performance.

The following standards, which have already been adopted by the EU, are not yet mandatory for the financial year 2015 and have not yet been applied by the ElringKlinger Group:

Amendments to IAS 19 Employee Benefits: Employee Contributions

The amendments to IAS 19 modify the regulations relating to contributions linked to the period of service made by the employee or a third party to defined benefit plans. These amendments now permit contributions to be recognized, irrespective of the number of years of service, as a reduction in the current service cost of the period in which the work is performed.

If, by contrast, an employee's contribution depends on the number of years of service, the projected unit credit method must be used. The amendment becomes effective for reporting periods beginning on or after February 1, 2015. The amendment is to be applied retrospectively. Early adoption is permitted. The amendment will not have any significant effect on the ElringKlinger Group.

Annual Improvements to IFRSs (2010–2012)

The pronouncement relates to smaller amendments to the standards IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. They are mandatory for the first time in the financial year beginning on or after February 1, 2015. No significant impact is expected on the consolidated financial statements.

Amendments to IAS 16 and IAS 41: Bearer Plants

On account of the amendments to IAS 16 and IAS 41, IAS 16 is now applicable to biological assets that satisfy the criteria of bearer plants instead of IAS 41. Consequently, such plants are measured at amortized cost from first-time recognition to maturity. For measurement after maturity has been reached, there is a choice between the cost model and the revaluation model. The biological assets that satisfy the criteria of bearer assets, in contrast, continue to be carried at fair value less costs to sell pursuant to IAS 41. The amendments are applicable with retroactive effect for financial years beginning on or after January 1, 2016. Early adoption is permitted. This amendment is not relevant for the ElringKlinger Group as it does not have any biological assets.

Amendments to IFRS 11: Joint Arrangements – Acquisition of Shares in a Joint Operation

The amendment to IFRS 11 clarifies that acquisitions of or increases in interests in joint operations in which the activity constitutes a business as defined by IFRS 3, require the acquirer to apply all of the principles on business combinations accounting in IFRS 3 and other applicable IFRSs except for those principles that conflict with the guidance in IFRS 11. The amendments do not apply if the reporting company and the parties to the joint arrangement are under common control of the same ultimate controlling entity. The new regulations apply prospectively to acquisitions of interests performed in reporting periods beginning on or after January 1, 2016. Earlier voluntary adoption is permitted. ElringKlinger currently does not hold any shares in joint ventures which means the amendment to the standard does not have any implications for the ElringKlinger Group.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization

In these amendments, the IASB provides additional guidance on acceptable methods of depreciation and amortization.

According to the amendments, a depreciation method of property, plant and equipment that is based on sales revenue is not appropriate. An amortization method of intangible assets that is based on revenue is only appropriate in limited circumstances. The amendments are effective for financial years beginning on or after January 1, 2016. Earlier voluntary adoption of the amendments is permitted. As the ElringKlinger Group does not perform any depreciation based on sales revenue, no consequences for the Group are expected.

Annual improvements to IFRSs (2012–2014)

The pronouncement relates to smaller amendments to the standards IFRS 5, IFRS 7, IAS 19 and IAS 34. They are mandatory for the first time in the financial year beginning on or after January 1, 2016. The amendment will not have any significant effect on the ElringKlinger Group.

The following standards, which have already been adopted by the EU but are not yet mandatory for the financial year 2015, have not yet been applied by the ElringKlinger Group:

IFRS 9 Financial Instruments

The IASB completed its project to replace IAS 39 Financial Instruments: Recognition and Measurement in July 2014 by publishing the final version of IFRS 9 Financial Instruments. In the final version of IFRS 9, accounting for the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting in particular were revised completely. IFRS 9 is to be applied for the first time for financial years beginning on or after January 1, 2018. The first-time application is to be performed retrospectively, although there are various simplification options available. Earlier voluntary adoption of the standard is permitted. In particular, earlier recognition of expected impairment on the basis of the "expected loss" model as well as cases in which specific financial instruments are no longer recognized at amortized cost may impact the ElringKlinger Group. The full effects of the new standard on the ElringKlinger Group are still currently being analyzed.

IFRS 15 Revenue from Contracts with Customers

The new standard was published by the IASB in May 2014 and aims to bring together the large number of revenue recognition requirements previously contained in a variety of standards and to define uniform basic principles that are applicable to all industries and for all categories of revenue transaction. IFRS 15 specifies when and in what amount revenue is recognized. As a basic principle, revenue is recognized to depict the transfer of goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 includes extended guidelines on multi-element transactions as well as new provisions for the treatment of service contracts and amendments to contracts. In addition, the new standard encourages entities to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 replaces IAS 11 and IAS 18 as well as the associated interpretations. The new regulations are effective for the first time for financial years beginning on or after January 1, 2018. Earlier voluntary adoption is permitted. When transitioning to the new standard, entities can choose between a totally retrospective approach (with optional practical expedients) and a modified retrospective approach. The latter permits initial application of the standard from the current reporting period onward without adjusting the comparative periods but requires additional disclosures. The Group has not yet finalized its review of the impact from the application of this new standard. Changes may arise for ElringKlinger with regard to the timing of revenue recognition from transactions involving more than one progress payment. From today's perspective, the application of IFRS 15 will not have a material impact on the Group's financial performance, net assets and cash flows. According to the standard, the disclosure requirements have been expanded.

IFRS 16 Leases

The standard on lease accounting published in January 2016 primarily affects lessees as it becomes mandatory to recognize the right to use the leased asset and the associated lease liability. Exemptions are granted for low-value leased assets and short-term leases. On the other hand, lessors are impacted only by minor amendments to the recognition of leases in comparison to IAS 17. Furthermore, IFRS 16 expands the disclosure requirements both for lessees and lessors. The revised standard is effective for the first time for financial years beginning on or after January 1, 2019. Early adoption is only permitted in conjunction with IFRS 15 Revenue from Contracts with Customers. The extent of the impact on ElringKlinger Group's accounting is currently still being analyzed.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendment focuses on the discrepancy between the provisions contained in IFRS 10 and IAS 28 with regard to accounting for the sale of an investor's assets to an associate or the contribution of such assets to an associate.

The amendments now make it clear that, to the extent that the transaction relates to a business as defined by IFRS 3, the entire proceeds generated by the sale or the contribution of the assets are to be recognized at the investor. If, on the other hand, the transaction relates to the sale of assets that do not constitute a business pursuant to IFRS 3, the profits or losses are recognized only pro rata up to the amount of the shares of the other unrelated investors. In the meantime, the IASB has decided to postpone the date of first-time application indefinitely.

IFRS 10, IFRS 12 and IAS 28 Investment Entities – Application of the Consolidation Exception

In December 2014, the IASB published an amendment in order to clarify questions in relation to investment entities applying the consolidation exception. The standard is applicable from January 1, 2016; earlier voluntary adoption is permitted. These amendments are not relevant for the Group as ElringKlinger AG does not satisfy the definition criteria of an investment entity pursuant to IFRS 10.

Amendment to IAS 12: Recognition of Deferred Taxes for Unrealized Losses

The amendment to this standard aims to standardize accounting for deferred tax assets from unrealized losses that are related to assets measured at fair value. The amendment is effective for reporting periods beginning on or after January 1, 2017. Early adoption is permitted. The effects of the amendment are currently being analyzed.

Amendments to IAS 7: Statements of Cash Flows

The amendments to IAS 7 were published by the IASB as part of its disclosure initiative and contain requirements for additional disclosures on changes to liabilities from financing activities. The new provisions become effective for financial years beginning on or after January 1, 2017.

Scope of consolidated financial statements

The consolidated financial statements of ElringKlinger AG as of December 31, 2015, include the annual financial statements of eight (2014: 8) domestic and 32 (2014: 30) foreign subsidiaries in which ElringKlinger AG holds, either directly or indirectly, more than 50% of the shares or is able to control the entity's financial and business policy for other reasons. Inclusion begins at the time the control relationship comes into being and ends when control is deemed to no longer exist.

An overview of the 40 entities included is provided on the following page.

Schedule of Shareholdings and Scope of Consolidation

as of December 31, 2015

Name of company	Domicile	Capital share in %
Parent		
ElringKlinger AG[1]	Dettingen/Erms	
Shares in affiliated companies (fully consolidated in the consolidated financial statements)		
Domestic		
Gedächtnisstiftung KARL MÜLLER BELEGSCHAFTSHILFE GmbH	Dettingen/Erms	100.00
Elring Klinger Motortechnik GmbH	Idstein	92.86
ElringKlinger Logistic Service GmbH	Rottenburg /Neckar	96.00
ElringKlinger Kunststofftechnik GmbH	Bietigheim-Bissingen	77.50
Polytetra GmbH/DE[3]	Mönchengladbach	77.50
Hug Engineering GmbH[2]	Magdeburg	93.67
new enerday GmbH/DE	Neubrandenburg	75.00
KOCHWERK Catering GmbH	Dettingen/Erms	100.00
Foreign		
ElringKlinger Abschirmtechnik (Schweiz) AG	Sevelen (Switzerland)	100.00
Hug Engineering AG	Elsau (Switzerland)	93.67
Elring Klinger (Great Britain) Ltd.	Redcar (UK)	100.00
ElringKlinger Italia Srl	Settimo Torinese (Italy)	100.00
Hug Engineering S.p.A.[2]	Milan (Italy)	93.67
Technik-Park Heliport Kft.	Kecskemét-Kádafalva (Hungary)	100.00
ElringKlinger Hungary Kft.	Kecskemét-Kádafalva (Hungary)	100.00
Elring Parts Ltd.	Gateshead (UK)	100.00
Elring Klinger, S.A.U.	Reus (Spain)	100.00
ElringKlinger TR Otomotiv Sanayi ve Ticaret A.Ş.	Bursa (Turkey)	100.00
ElringKlinger Meillor SAS	Nantiat (France)	100.00
HURO Supermold S.R.L.	Timisoara (Romania)	100.00
ElringKlinger Canada, Inc.	Leamington (Canada)	100.00
ElringKlinger North America, Inc.	Plymouth/Michigan (USA)	100.00
ElringKlinger USA, Inc.	Buford (USA)	100.00
ElringKlinger Automotive Manufacturing, Inc.	Warren (USA)	100.00
Hug Engineering Inc.[2]	Austin (USA)	93.67
Elring Klinger México, S.A. de C.V.	Toluca (Mexico)	100.00
EKASER, S.A. de C.V.	Toluca (Mexico)	100.00
Elring Klinger do Brasil Ltda.	Piracicaba (Brazil)	100.00
ElringKlinger South Africa (Pty) Ltd.	Johannesburg (South Africa)	100.00
ElringKlinger Automotive Components (India) Pvt. Ltd.	Ranjangaon (India)	100.00
Changchun ElringKlinger Ltd.	Changchun (China)	88.00
ElringKlinger Korea Co., Ltd.	Changwon (South Korea)	100.00
ElringKlinger China, Ltd.	Suzhou (China)	100.00
ElringKlinger Engineered Plastics North America, Inc.[3]	Buford (USA)	77.50
ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd.[3]	Qingdao (China)	77.50
ElringKlinger Marusan Corporation.[4]	Tokyo (Japan)	50.00
Taiyo Jushi Kakoh Co., Ltd.[5]	Tokyo (Japan)	50.00
Marusan Kogyo Co., Ltd.[6]	Tokyo (Japan)	23.45
PT. ElringKlinger Indonesia[5]	Karawang (Indonesia)	50.00
ElringKlinger (Thailand) Co., Ltd[5]	Bangkok (Thailand)	50.00

[1] ElringKlinger AG prepares the consolidated financial statements for the largest and smallest group of consolidated subsidiaries
[2] Wholly owned subsidiary of HUG Engineering AG
[3] Wholly owned subsidiary of ElringKlinger Kunststofftechnik GmbH
[4] Consolidated due to contractual possibility of exercising control
[5] Wholly owned subsidiary of ElringKlinger Marusan Corporation
[6] 46.9% subsidiary of ElringKlinger Marusan Corporation, consolidated due to majority of voting rights

Notes on non-controlling interests in subsidiaries

ElringKlinger AG holds controlling interests of 77.5% in ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen (Germany), with its 3 subsidiaries (EKT subgroup)

- Polytetra GmbH, Mönchengladbach, Germany
- ElringKlinger Engineered Plastics (Qingdao) Commercial Co., Ltd., China
- ElringKlinger Engineered Plastics North America, Inc., Buford, USA.

The non-controlling interests amount to 22.5%.

The share in the profit of this subgroup attributable to non-controlling interests for the financial year 2015 is EUR 2,585 k (2014: EUR 2,835 k).

A dividend of EUR 255 k was distributed to the non-controlling interests in the financial year 2015. The remaining EUR 745 k was distributed to the parent company ElringKlinger AG.

Cash flow of the subgroup: *in EUR k*	2015
Operating activities	18,063
Investing activities	-15,254
Financing activities	-2,316
Changes in cash	**493**
Effects of currency exchange rates on cash	**192**

Summarized key financial information of the subgroup *in EUR k*	2015	2014
Non-current assets	63,490	53,250
Current assets	37,705	40,488
Non-current liabilities	14,841	16,851
Current liabilities	7,588	8,412
Sales revenue	96,621	93,386
Earnings before taxes (EBT)	14,262	15,308
Net income	**10,227**	**10,965**
Total comprehensive income	**11,290**	**9,682**

Further detailed information *in EUR k*	2015	2014
Cash and cash equivalents	3,998	3,312
Cash in hand	9	11
Bank deposits	3,989	3,301
Non-current financial liabilities	2,520	3,596
to banks	2,020	3,096
to affiliated companies	500	500
Current financial liabilities	1,163	1,190
to banks from loans	1,006	1,125
to banks from current accounts	0	65
from overdraft facilities (only IC)	157	0
Interest income	238	448
Interest expense	195	488
Depreciation and amortization	4,613	4,009

Business combinations in 2015

Effective February 14, 2015, ElringKlinger AG acquired 100% of the shares in the US entity M&W Manufacturing Company, Inc., based in Warren, Michigan, USA (M&W).

M&W Manufacturing Company, Inc. was subsequently renamed ElringKlinger Automotive Manufacturing, Inc. (EKAM).

The latest acquisition will allow the Specialty Gaskets division to underpin 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. In addition to supplying the North American market, EKAM has started to increasingly serve the Chinese market from its US production site.

A purchase price of EUR 24,276 k was agreed for the acquisition of the company. The transaction-related costs of EUR 246 k to date were recognized in general and administrative expenses.

The assets and liabilities of the acquired shares were measured at fair value as of the acquisition date. The difference of EUR 17,122 k remaining after taking into account deferred tax liabilities (EUR 2,757 k) on the hidden reserves identified (EUR 8,016 k) was recognized as goodwill. This was paid primarily for the positive forecasts as well as the expected synergies and allocated to the Original Equipment segment.

Goodwill is not tax deductible.

From the date of acquisition, EKAM has contributed EUR 32,151 k to the Group's sales revenue and EUR 969 k to the Group's earnings before tax. Had the acquisition been completed as of January 1, 2015, ElringKlinger Automotive Manufacturing, Inc. would have contributed EUR 36,294 k to group sales revenue and increased earnings before taxes by EUR 1,859 k.

The following table contains the final allocation of the purchase price to the assets and liabilities:

in EUR k	IFRS carrying amount at the time of acquisition	Purchase price allocation	Acquisition date fair value
Intangible assets	–	8,016	8,016
Property, plant and equipment	3,294	–	3,294
Inventories	4,795	–	4,795
Trade receivables	4,500	–	4,500
Other current assets	259	–	259
Cash and cash equivalents	125	–	125
Total assets	**12,973**	**8,016**	**20,989**
Non-current provisions	104	–	104
Deferred tax liabilities	772	2,757	3,529
Current provisions	229	–	229
Trade payables	4,530	–	4,530
Current financial liabilities	4,715	–	4,715
Tax payable	56	–	56
Other current liabilities	672	–	672
Total liabilities	**11,078**	**2,757**	**13,835**
Net assets	**1,895**	**5,259**	**7,154**
Goodwill			17,122
Purchase price			**24,276**

The intangible assets identified are the customer base (EUR 6,960 k), technologies (EUR 890 k) and order backlog (EUR 166 k).

No contingent liabilities were identified in the course of the acquisition.

Acquisition of non-controlling interests

On July 17, 2015, ElringKlinger acquired the previously non-controlling shares of 3% in the subsidiary ElringKlinger Kunststofftechnik GmbH based in Bietigheim-Bissingen, Germany. The purchase price amounted to EUR 4,200 k, with the resulting difference from the non-controlling interests accounted for recognized directly in equity. ElringKlinger AG now holds a 77.5% interest in the company.

Newly formed company

ElringKlinger Hungary Kft., headquartered in Kecskemét-Kádafalva, Hungary was formed effective December 29, 2015. ElringKlinger AG holds a 100% interest in the company. This company will initially produce shielding products and will supply European customers with series parts as of 2016.

Business combinations in 2014

With effect as of July 1, 2014, ElringKlinger AG acquired a 75% interest in new enerday GmbH, with its registered office in Neubrandenburg, Germany.

With the fuel-cell specialist, ElringKlinger AG has strengthened its activities relating to the SOFC (solid oxide fuel cell) high-temperature fuel cell. A purchase price of EUR 1,962 k was agreed for the acquisition of the company. The transaction-related costs of EUR 15 k to date were recognized in general and administrative expenses.

The assets and liabilities of the acquired shares were measured at fair value as of the acquisition date. The difference of EUR 1,896 k remaining after taking into account deferred tax liabilities (EUR 81 k) on the hidden reserves identified (EUR 286 k) was recognized as goodwill. This was paid primarily for the positive forecasts as well as the expected synergies and allocated to the Original Equipment segment. Goodwill is not tax deductible.

The first-time full consolidation of the company increased the Group's sales revenue by EUR 199 k as of December 31, 2014 and earnings before taxes were reduced by EUR 91 k. Had the acquisition been completed as of January 1, 2014, new enerday GmbH would have contributed EUR 305 k to group sales revenue and burdened earnings before taxes with EUR 458 k.

The following table contains the final allocation of the purchase price to the assets and liabilities:

in EUR k	IFRS carrying amount at the time of acquisition	Purchase price allocation	Acquisition date fair value
Intangible assets	5	286	291
Property, plant and equipment	221	–	221
Inventories	244	–	244
Other current assets	179	–	179
Cash and cash equivalents	4	–	4
Total assets	**653**	**286**	**939**
Deferred tax liabilities	0	81	81
Non-current liabilities	59	–	59
Current trade payables	72	–	72
Tax payable	77	–	77
Other current liabilities	630	–	630
Total liabilities	**838**	**81**	**919**
Net assets	**-185**	**205**	**20**
Non-controlling interests in net assets			46
Goodwill			1,896
Purchase price			**1,962**

No contingent liabilities were identified in the course of the acquisition.

With effect as of October 1, 2014, ElringKlinger Kunststofftechnik GmbH, Bietigheim-Bissingen, a subsidiary in which ElringKlinger AG holds a 74.5% interest, acquired a 100% interest in Polytetra GmbH, with registered office in Mönchengladbach, Germany.

In acquiring the company, ElringKlinger Kunststofftechnik GmbH has further strengthened its position in the industrial plastics technology sector, as well as securing additional growth opportunities in the production of modules and systems.

A purchase price of EUR 4,000 k was agreed for the acquisition of the company. The transaction-related costs of EUR 14 k to date were recognized in administrative costs.

The assets and liabilities of the acquired shares were measured at fair value as of the acquisition date. The difference of EUR 1,496 k remaining after taking into account deferred tax liabilities (EUR 424 k) on the hidden reserves identified (EUR 1,306 k) was recognized as goodwill. This was paid primarily for the positive forecasts as well as the expected synergies and allocated to the Engineered Plastics segment.

Goodwill is not tax deductible.

The first-time full consolidation of the company increased the Group's sales revenue by EUR 1,122 k as of December 31, 2014 and earnings before taxes by EUR 370 k. Had the acquisition been completed as of January 1, 2014, Polytetra GmbH would have contributed EUR 5,073 k to group sales revenue and burdened earnings before taxes by EUR 826 k.

The following table contains the final allocation of the purchase price to the assets and liabilities:

in EUR k	IFRS carrying amount at the time of acquisition	Purchase price allocation	Acquisition date fair value
Intangible assets	16	1,306	1,322
Property, plant and equipment	1,456	–	1,456
Inventories	1,273	–	1,273
Trade receivables	493	–	493
Other current assets	32	–	32
Cash and cash equivalents	250	–	250
Total assets	**3,520**	**1,306**	**4,826**
Provisions for pensions	231	–	231
Non-current provisions	2	–	2
Non-current financial liabilities	127	–	127
Deferred tax liabilities	190	424	614
Current provisions	206	–	206
Trade payables	313	–	313
Current financial liabilities	412	–	412
Tax payable	217	–	217
Other current liabilities	200	–	200
Total liabilities	**1,898**	**424**	**2,322**
Net assets	**1,622**	**882**	**2,504**
Goodwill			1,496
Purchase price			**4,000**

No contingent liabilities were identified in the course of the acquisition.

Summary of the principal accounting and measurement methods

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

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

Consolidation methods

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

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

Any remaining negative difference is recorded in income.

Any hidden reserves and liabilities that have been uncovered are rolled forward, depreciated, or released together with the corresponding assets or liabilities. Goodwill is not amortized, but is subject to annual impairment testing in accordance with IFRS 3.

If additional shares of an already fully consolidated subsidiary are acquired, the difference between the purchase price and carrying amount of non-controlling interests is recognized directly in equity.

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

Net income for the year for subsidiaries acquired or sold in the course of the year are included in the group income statement from the effective time of acquisition or until the effective time of divestment.

The financial year of all consolidated companies, except the Indian subsidiary (March 31), corresponds to the financial year of the parent company. If the reporting dates differ, interim financial statements are prepared as of the reporting date of the parent company.

All receivables, liabilities, sales revenue, other income and expenses within the scope of consolidation are eliminated. Accumulated gains and losses from intercompany supplies are eliminated from inventories or non-current assets.

Currency translation

The reporting currency of the ElringKlinger Group is the euro.

Foreign currency transactions are translated in the annual financial statements of ElringKlinger AG and its consolidated companies at the rates current as of the transaction date. As of the end of the reporting period, assets and liabilities in foreign currency are measured at the closing rate. Differences arising on translation are posted through profit or loss.

Currency translation differences from monetary items that form part of a net investment in a foreign operation are reported in equity under other comprehensive income until the disposal of the net investment.

The financial statements of the foreign companies are translated into euros since this is the functional currency of the parent company. Since the subsidiaries operate their businesses independently in financial, economic and organizational respects, the functional currency is identical to the relevant national currency of the company. The expenses and income from financial statements of entities included in the consolidated financial statements which were originally prepared in foreign currencies are translated at the average rate for the year. The average rate for the year is calculated on the basis of daily rates. Assets and liabilities are translated at the closing rate. Currency differences are reported in other comprehensive income and as a separate item in equity.

In the event of a disposal of a consolidated entity, accumulated currency differences are recorded as part of the gain or loss on sale.

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

Currency	Abbr.	Closing rate Dec. 31, 2015	Closing rate Dec. 31, 2014	Average rate 2015	Average rate 2014
US dollar (USA)	USD	1.08870	1.21410	1.10455	1.32108
Pound sterling (UK)	GBP	0.73395	0.77890	0.72420	0.80310
Franc (Switzerland)	CHF	1.08350	1.20240	1.06458	1.21274
Canadian dollar (Canada)	CAD	1.51160	1.40630	1.42505	1.46358
Real (Brazil)	BRL	4.31170	3.22070	3.74256	3.10933
Peso (Mexico)	MXN	18.91450	17.86790	17.67058	17.64530
RMB (China)	CNY	7.06080	7.53580	6.94708	8.15428
WON (South Korea)	KRW	1,280.78000	1,324.80000	1,254.24583	1,392.14250
Rand (South Africa)	ZAR	16.95300	14.03530	14.28050	14.34063
Yen (Japan)	JPY	131.07000	145.23000	133.63083	140.50250
Forint (Hungary)	HUF	315.98000	315.54000	309.58667	309.98250
Turkish lira (Turkey)	TRY	3.17650	2.83200	3.03973	2.89420
Leu (Romania)	RON	4.52400	4.48280	4.44073	4.43848
Indian rupee (India)	INR	72.02150	76.71900	71.00952	80.70096
Indonesian rupiah (Indonesia)	IDR	15,039.99000	15,076.10000	14,890.80750	15,681.55750
Bath (Thailand)	THB	39.24800	39.91000	38.00325	42.98783

Accounting policies

Goodwill

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

in EUR k	2015	2014
Original Equipment	157,072	134,015
Engineered Plastics	6,313	6,313
Aftermarket	1,658	1,658
Total	**165,043**	**141,986**

Goodwill is capitalized and subjected to impairment testing on an annual basis. If the value is no longer recoverable, impairment is recorded. Otherwise, the valuation of the previous year is retained. Impairment of goodwill is not reversed, even if the impairment has ceased to apply.

ElringKlinger conducts an impairment test of goodwill at least once annually. Annual impairment testing of goodwill is performed as of the closing date on December 31. During impairment tests, the recoverable amount of the cash-generating unit is compared to its carrying amount. Recoverable amount is measured at value in use.

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

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

The plan is based on expected future market developments taking into consideration the business development thus far. The material assumptions relate to the development of sales revenue and earnings after taxes.

Sales revenue planning at the ElringKlinger Group is performed at an individual component level.

With regard to short-term planning, the current order backlog, information on the respective manufacturer and information from independent sources, such as advisory firms or automobile associations, is used. In the medium term, ElringKlinger, in performing its sales revenue planning, expects the global vehicle production to sustain a slight growth of around 1 to 2%.

Costs are also budgeted at an individual component level within the ElringKlinger Group. This takes into account both efficiency gains as well as cost increases. For the raw materials processed in the cash-generating units, group-wide uniform planning assumptions were applied. Excessive price increases are not expected in the prices of materials. For other costs, it is assumed that they will continue to develop in line with regional economic development and dependent on sales revenue.

The discount factor applied as of December 31, 2015 was the weighted average cost of capital (WACC) before taxes of 9.32% (2014: 10.63%). The WACC is determined on the basis of the risk-free rate according to the method of the IDW ["Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf": Institute of Public Auditors in Germany, Düsseldorf], the market risk premium and the beta factor. Beta represents the individual risk of a share as compared to a market index. It is calculated as the average value for the peer group. The credit spread, which expresses the premium over the risk-free rate, was derived from a rating of a peer group.

As in the previous year, the discount rate was used without applying a growth discount to determine the terminal value.

The impairment test performed as of December 31, 2015 did not result in the impairment of goodwill. Even changes in key parameters, which management deemed to be possible would not result in impairment.

Intangible assets

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

Internally generated intangible assets, with the exception of goodwill, are capitalized if it is sufficiently probable that use of the asset is associated with a future economic benefit, the costs of the asset can be determined reliably, and the technical and economic feasibility along with the ability and intent to market it are ensured.

The manufacturing costs of internally generated intangible assets are determined on the basis of directly attributable individual costs as well as their proportion of attributable overheads. The revaluation method, which is also permitted, is not applied.

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

Property, plant and equipment

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

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

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

The useful lives and the depreciation methods and residual carrying amounts are reviewed regularly in order to ensure that the depreciation method and period are consistent with the expected consumption of the economic benefit.

Investment property

Investment property is measured at cost less straight-line depreciation. It is reported separately under non-current assets.

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

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

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

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

Impairments and reversals are recorded through profit and loss.

Financial instruments

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

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

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

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

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

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

Financial assets

Derivatives are recognized on the trade date, all other regular way purchases and sales of financial assets are recognized in the statement of financial position on the settlement date.

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

Financial assets that are not classified as “fair value through profit or loss” are reviewed for impairment at the end of each reporting period. If the fair value of the financial asset is lower than its carrying amount, the carrying amount is written down to its fair value. This reduction represents an impairment loss and is recognized as an expense. Any impairment previously recognized as an expense is reversed and credited to the income statement if warranted by events occurring after the original recognition of the impairment. In the case of equity instruments classified as “available for sale”, later reversals of impairment losses are, however, recognized directly in equity.

Changes to the fair value of financial assets classified as available for sale are recognized in equity under other comprehensive income after taking deferred taxes into account. Any arising foreign exchange gains or losses are recognized through profit or loss.

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

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

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

Financial assets resulting from money transfer, the rendering of services or the procurement of merchandise involving third parties are classified as **loans and receivables.** Current assets classified in this category are measured at acquisition cost, whereas the non-current financial assets are measured at amortized cost in accordance with the effective interest method.

Cash and cash equivalents includes cash in hand, bank deposits and short-term deposits with an original term of less than three months, and are measured at amortized cost.

Impairments on doubtful receivables involve to a considerable extent estimates and judgments of the individual receivables based on the creditworthiness of the customer concerned. If there is objective evidence of impairment of loans and receivables (e.g., major financial difficulties on the part of the debtor or negative changes in the market environment of the debtor), these are recognized in the income statement. Impairments of trade receivables are initially recognized in an adjustments account. The impaired receivable is derecognized when it is considered unrecoverable.

The financial instruments allocated to the category **"held to maturity investments"** are recorded at amortized cost using the effective interest method when the Group has the intent and the legal ability to hold them until maturity.

Assets are allocated to **financial assets classified as available for sale** if they are financial assets for which there is intention to sell and they were not acquired for trading purposes or cannot be allocated to any of the above categories. This category does not contain securities held for trading, for example. They are measured at fair value.

Financial liabilities

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

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

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

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

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

Derivative financial instruments and hedge accounting

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

The derivative financial instruments used in the ElringKlinger Group are price hedges. The purpose of derivative financial instruments is to reduce the negative effects of interest and price risks on the assets, liabilities, financial position and profit or loss of the Group. As of the reporting date, there were two nickel hedges and forward contracts for electricity and gas.

Inventories

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

In the majority of cases, the customers acquire beneficial ownership of tools. The tools are recognized under inventories until the transfer of beneficial ownership.

Cash and cash equivalents

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

Non-current assets held for sale

Non-current assets classified as held for sale are carried at the lower of their carrying amount and fair value less costs to sell.

Provisions for pensions

Provisions for pensions are calculated on the basis of the projected unit credit method in accordance with IAS 19 (revised 2011). Measurement takes into account not only the pensions and vested benefits known at the end of the reporting period, but also expected future increases in pensions and salaries with a prudent estimate of the relevant variables and biometric assumptions.

Actuarial gains and losses resulting from the difference between the expected and actual accounting changes in headcount, as well as differences arising from changes to accounting assumptions, are recognized in full in the period in which they occur. They are recognized outside of the income statement under other comprehensive income.

In determining the discount interest rates, the company is guided by the interest rates observed in capital markets for corporate bonds with first class credit ratings (AA rating or better) which are denominated in the same currency and have similar terms.

Provisions

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

The measurement of these provisions is at the present best estimate of the expenses necessary to fulfill the obligation.

If appropriate, the amount of the provision corresponds to the present value of the expenditures expected to be necessary to meet the obligations.

Refund claims are capitalized separately, if applicable. If the Group expects at least a partial refund for a provision, the refund is recognized under other assets if the return of the refund is virtually certain.

Leases

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

If beneficial ownership under a lease rests with the lessor (operating leases), the lessor recognizes the leased object in its statement of financial position. The lease expenditures incurred are then recorded as expenses over the term of the lease using the straight-line method.

Lease relationships in which the ElringKlinger Group is the lessor, and for which the lessee does not for the most part bear all risks and rewards associated with ownership, are classified as operating leases. Income from operating lease relationships of the industrial park is recognized as sales revenue.

Recognition of income and expense

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

Sales revenue is recorded when the performances due have been rendered and the principal risks and rewards have passed to the purchaser and receipt of the payment can be reliably expected.

Interest income is recognized on an accrual basis using the effective interest method.

Income from services is recognized as soon as the services have been rendered.

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

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

Operating expenses are recorded in the consolidated income statement at the time of performance or at the time of origination.

Research and development costs

Research costs are expensed at the time they are incurred. The costs for development activities are recognized if all the following criteria are satisfied.

- The development costs can be determined reliably.
- The product or the process can be realized technically and commercially.
- Future commercial benefits are likely.
- There is the intent and sufficient resources to complete the development and to use or sell the asset.

Capitalized costs are included under intangible assets. Other development costs are recognized as an expense when incurred. Capitalized development costs are amortized over five years.

Government grants

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

Borrowing costs

Borrowing costs directly associated with the acquisition, construction, or production of qualifying assets are added to the production costs of these assets until the period in which the assets are largely available for their intended use or for their sale. Interest not capitalized pursuant to IAS 23 is recognized on an accrual basis as an expense using the effective interest method. The actual borrowing costs are capitalized if a financing loan can be definitively assigned to a specific investment. Unless a direct relationship can be established, the Group's average interest rate for borrowed capital for the current period is used. The Group's average interest rate for borrowed capital for the financial year 2015 amounted to 2.00% (2014: 2.24%). In the financial year 2015 borrowing costs of EUR 559 k (2014: EUR 340 k) were recognized.

Income taxes and deferred taxes

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

Current tax expense is determined on the basis of the taxable income for the relevant year. Taxable income differs from earnings before taxes as shown in the income statement, since it excludes expenses and income which will be tax deductible in earlier or later years or those which will never become taxable or tax deductible. The liability of the Group for current tax expense is calculated on the basis of applicable tax rates or tax rates established by law as of the end of the reporting period.

Deferred taxes are the expected tax charges and benefits from the differences in the carrying amounts of assets and liabilities in the tax base of the individual companies compared with the valuations in the consolidated financial statements under IFRS. The balance sheet liability method is applied. Such assets and liabilities are not recognized if the temporary difference is the result of (i) the first-time recognition of goodwill or (ii) the first-time recognition of other assets and liabilities resulting from occurrences that do not affect taxable income or earnings before taxes according to the income statement. Deferred taxes are recorded on all taxable temporary differences when it is probable that taxable profits will be available against which the deductible temporary differences can be offset. Otherwise, deferred tax assets are recognized on loss carryforwards to the extent that their future use may be anticipated.

The carrying amount of deferred tax assets is reviewed every reporting date.

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

Changes in deferred tax assets are recognized in the income statement as tax income or expense unless they relate to other comprehensive income or items recognized directly in equity; in these cases, changes in deferred taxes are also reported under other comprehensive income or directly in equity.

Contingent liabilities and contingent receivables

Contingent liabilities are not recognized. They are disclosed in the notes, unless the possibility of an outflow of resources with economic benefit is remote. Contingent receivables are not recognized in the financial statements. If the inflow of economic benefits is probable, they are disclosed in the notes.

Use of estimates

Financial statements are prepared in accordance with the pronouncements of the IASB using estimates which influence valuations of items in the statement of financial position, the nature and the scope of contingent liabilities and contingent receivables as of the end of the reporting period and the amounts of income and expenses in the reporting period. At ElringKlinger, the assumptions and estimates relate mainly to the recognition and measurement or provisions, the measurement of a financial liability from a written put option, the measurement of goodwill and the realization of future tax relief. Actual results may deviate from these estimates. Changes are recognized through profit or loss at the time better insights are available.

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

The use of estimates for other items in the group statement of financial position and the group income statement are described in the accounting principles for the respective items. This pertains in particular to the matters: Impairments of goodwill and the measurement of pension provisions.

Risks and uncertainties

As a rule, the global automotive markets develop similarly to the economy generally. This applies even more to the truck than to the passenger vehicle segment. If economic development cools down considerably, this represents a risk for passenger vehicle demand and ultimately for vehicle production. This could result in lower demand for ElringKlinger components.

According to current assessments, there are risks to economic development from the slow-down in growth in China and the recession in Brazil. The Russian vehicle market is immaterial to ElringKlinger.

All in all, it is currently deemed unlikely that there will be a negative development in the world economy, even taking into account the slowing growth in China, the recession in Latin America and Russia and the weakness of the Japanese economy. The International Monetary Fund anticipates 3.4% growth in the global economy for 2016.

With regard to the automotive industry, the ongoing solid customer demand in North American, western European and Asian markets expected to continue to the end of the year should fuel further growth in global passenger vehicle production. In the medium-term, growth is anticipated to shift from the triad markets to emerging and developing economies. Thanks to its global presence with manufacturing and sales locations in the growth regions of the future, the Group is prepared for potential stagnation or declining demand in the traditional vehicle markets.

The risk of a dramatic collapse in vehicle production – similar to the 2008/2009 crisis – is unlikely from today's perspective. ElringKlinger expects global vehicle production in 2016 to increase by 1 to 2%.

ElringKlinger, with its broad customer structure, is neither dependent on individual markets nor on individual manufacturers. This means that an economic downturn in one region can at least be partially offset. Thanks to its flexible cost structures, ElringKlinger, in the event of greater economic turmoil, would be in the position to react immediately to the market conditions. The instruments available include flextime accounts and flexible shift models as well as the option to apply for government-sponsored schemes for shorter working hours. In addition, it is possible to react to changing market situations by adjusting the headcount to the demand situation and by merging the production quantities of individual plants. Procurement quantities would be reviewed and adjusted at short notice in close cooperation with the central procurement function and suppliers.

ElringKlinger makes adequate provision for economic risks during the planning stage. A policy of using a cautious macro-economic scenario for budgeting purposes is applied.

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

Individual disclosures on the Group Income Statement

1 Sales revenue

Sales revenue increased by EUR 181,419 k in comparison with 2014 to reach EUR 1,507,253 k.

Sales revenue of the Group are made up as follows:

in EUR k	2015	2014
Sale of goods	1,494,658	1,313,314
Proceeds from the rendering of services	8,322	8,069
Income from rental and leasehold	4,273	4,451
Total	**1,507,253**	**1,325,834**

Breakdown by geographical markets:

in EUR k	2015	2014
Domestic	411,491	388,116
Foreign	1,095,762	937,718
Total	**1,507,253**	**1,325,834**

The location of the customer is used to determine allocation of sales revenue. The division of group sales revenue by segment and region is presented in note (30) Segment reporting.

2 Cost of sales

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

Cost of sales includes:

in EUR k	2015	2014
Cost of materials	643,207	580,569
Personnel expenses	286,026	226,247
Depreciation and amortization	76,344	60,668
Other expenses	127,396	99,868
Total	**1,132,973**	**967,352**

3 Selling expenses

Selling expenses increased by EUR 22,574 k compared to 2014 to reach EUR 115,992 k. Selling expenses mainly include personnel expenses, material and marketing costs, as well as depreciation and amortization related to sales activities.

4 General and administrative expenses

General and administrative expenses primarily include personnel expenses and material costs as well as the depreciation and amortization related to the administrative area. General and administrative expenses rose by EUR 7,894 k compared to 2014 to reach EUR 69,343 k.

5 Research and development costs

Research and development costs include the personnel expenses and the cost of experimental materials and tools attributable to these activities, unless these are development costs that are required to be capitalized under the conditions set forth in IAS 38.57. Research and development costs increased by EUR 4,185 k compared to 2014 to reach EUR 61,438 k. Development costs of EUR 9,841 k (2014: EUR 9,179 k) were capitalized in the financial year 2015.

6 Other operating income

in EUR k	2015	2014
Government grants	7,787	7,433
Insurance reimbursements/claims reimbursements	4,488	3,272
Reimbursements from third parties	2,196	1,814
Write-up of impaired receivables	1,361	327
Reversal of provisions/deferred liabilities	387	1,450
Income from disposals of non-current assets	322	320
License fees	52	31
Other	3,539	4,080
Total	**20,132**	**18,727**

7 Other operating expenses

in EUR k	2015	2014
Recognition of provisions/deferred liabilities	2,925	488
Other taxes (excl. income tax)	2,653	2,385
Impairment of receivables	1,732	1,260
Other fees	1,225	593
Defaults on receivables	1,175	3,079
Expenditures for claims	928	802
Losses on disposal of non-current assets	322	779
Selling costs for machinery	111	275
Other	1,320	1,425
Total	**12,391**	**11,086**

8 Net finance costs

in EUR k	2015	2014
Financial income		
Income from currency differences	22,696	17,491
Interest income	782	879
Other	1,916	122
Finance income, total	**25,394**	**18,492**
Finance costs		
Expenses from currency difference	-19,474	-7,541
Interest expense	-12,367	-11,816
– thereof from derivative financial instruments	0	-63
Other	-45	-44
Finance costs, total	**-31,886**	**-19,401**
Net finance costs	**-6,492**	**-909**

Of the interest expenses, an amount of EUR 2,763 k (2014: EUR 3,679 k) relates to interest portions of pension plans and the remainder to bank interest and interest expense from the reversal of discounts on long-term provisions. Borrowing costs for qualifying assets in the amount of EUR 559 k were capitalized in the reporting year (2014: EUR 340 k); this represents a corresponding improvement in the result. Interest expenses for finance leases are immaterial.

9 Income taxes

Income taxes are composed as follows:

in EUR k	2015	2014
Current tax expense	42,919	41,869
Deferred taxes	-9,950	626
Tax expense reported	**32,969**	**42,495**

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

The income tax rate calculated for the German companies is 27.9% (2014: 28.9%). Foreign taxation is calculated at the rates applicable in the countries concerned and lies between 10.0% and 38.9% (2014: between 10.0% and 38.9%). The average foreign tax rate is 28.0% (2014: 27.6%).

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

The following table shows a reconciliation between the income tax expense that might theoretically be expected to arise for the Group under application of the current domestic rate of 28.0% (2014: 27.9%) and the income tax expense actually reported.

in EUR k	2015	2014
Earnings before taxes	128,756	153,094
Expected tax rate	**28.0%**	**27.9%**
Expected tax expenses	**36,016**	**42,719**
Change in the expected tax rate due to:		
– Permanent differences	83	1,170
– Difference in basis of assessment of local taxes	-57	78
– Use or forfeiture of non-capitalized tax loss carryforwards	-374	-1,317
– Write-up/impairment loss of capitalized tax loss carryforwards (from other periods)	-3,495	1,008
– Addition to non-current tax loss carryforwards (relating to the period)	932	1,239
– Taxes relating to other periods	-767	1,320
– Deviations due to changes in tax rate	226	-3,388
– Deviations on account of withholding taxes	518	0
– Other effects	-113	-334
Current tax expense	**32,969**	**42,495**
Actual tax rate	**25.6%**	**27.8%**

Retained earnings of EUR 17,946 k (2014: EUR 19,581 k) at domestic and foreign subsidiaries will be distributed to ElringKlinger AG in the coming years. The tax expense on distributions in Germany amounts to EUR 495 k (2014: EUR 274 k) and was recorded as a deferred tax liability. Further retained earnings of domestic and foreign subsidiaries of EUR 356,158 k (2014: EUR 316,801 k) are intended to be permanently reinvested in those operations on the basis of current planning.

Deferred tax assets on tax loss carryforwards have been recognized in the amount of EUR 7,002 k (2014: EUR 296 k). No deferred tax assets were recognized in respect of tax loss carryforwards amounting to EUR 38,077 k (2014: EUR 37,801 k), since it was not expected that the deferred tax assets would be utilized in the foreseeable future.

Unused income tax loss carryforwards primarily relate to foreign subsidiaries. The expiration of carry forwards not recognized for tax purposes is as follows:

Loss carryforwards are forfeited within *in EUR k*	Dec. 31, 2015	Dec. 31, 2014
One year	0	0
Two years	530	0
Three years	2,189	46
Four years	172	1,170
Five years	982	2,895
More than five years	30,526	21,240
Non-forfeitable	3,678	12,450
Total	**38,077**	**37,801**

Tax deferrals relate to the following line items:

Line items *in EUR k*	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Intangible assets	397	347	10,516	9,370
Property, plant and equipment	3,676	2,686	38,046	31,502
Investment property	26	0	1,845	1,824
Financial assets	2	112	9	20
Other non-current assets	64	0	218	18
Inventories	8,383	2,781	1,915	2,060
Trade receivables	483	510	1,165	548
Other current assets	556	0	765	1,306
Cash and cash equivalents	0	1	0	0
Provisions for pensions	18,378	19,772	0	37
Non-current provisions	1,624	2,673	8	24
Non-current financial liabilities	207	64	0	409
Other non-current liabilities	112	275	0	0
Current provisions	1,843	1,121	31	29
Trade payables	43	41	19	36
Current financial liabilities	47	79	84	2
Other current liabilities	1,809	1,795	542	242
Deferred taxes associated with investments in subsidiaries	0	0	495	274
Tax loss carryforwards	7,002	296	0	0
Total	**44,652**	**32,553**	**55,658**	**47,701**
Offsetting of deferred tax assets against deferred tax liabilities	-30,544	-23,771	-30,544	-23,771
Shown in the statement of financial position	**14,108**	**8,782**	**25,114**	**23,930**

Deferred taxes totaling EUR -1,754 k (2014: EUR 7,952 k) were recognized in other comprehensive income. Of this amount EUR -1,962 k (2014: EUR 7,964 k) relates to pension provisions and EUR 208 k (2014: EUR -12 k) relate to a net investment.

10 Basic and diluted earnings per share

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

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

	2015	2014
Profit/loss attributable to the shareholders of ElringKlinger AG (EUR k)	91,576	105,748
Average number of shares	63,359,990	63,359,990
Earnings per share in EUR	**1.45**	**1.67**

Disclosures on the Group Statement of Financial Position

11 Intangible assets

in EUR k	Development costs (internally generated)	Goodwill (purchased)	Patents, licenses, software and similar rights (purchased)	Intangible assets under construction	Total
Acquisition/production cost as of Jan. 1, 2015	**44,111**	**155,386**	**61,984**	**46**	**261,527**
Currency changes	1,046	6,211	920	0	8,177
Change in consolidated group	0	17,122	8,015	0	25,137
Additions	9,841	0	3,645	177	13,663
Reclassifications	2	0	4	-4	2
Disposals	5,508	0	435	0	5,943
As of Dec. 31, 2015	**49,492**	**178,719**	**74,133**	**219**	**302,563**
Amortization as of Jan. 1, 2015	**25,227**	**13,400**	**37,557**	**0**	**76,184**
Currency changes	712	276	651	0	1,639
Additions	8,215	0	8,897	0	17,112
Reclassifications	0	0	17	0	17
Disposals	5,496	0	435	0	5,931
As of Dec. 31, 2015	**28,658**	**13,676**	**46,687**	**0**	**89,021**
Net carrying amount as of Dec. 31, 2015	**20,834**	**165,043**	**27,446**	**219**	**213,542**
Acquisition/production cost as of Jan. 1, 2014	**37,326**	**150,340**	**52,969**	**85**	**240,720**
Currency changes	302	1,654	415	0	2,371
Change in consolidated group	0	3,392	1,683	0	5,075
Additions	9,179	0	6,905	30	16,114
Reclassifications	406	0	175	-69	512
Disposals	3,102	0	163	0	3,265
As of Dec. 31, 2014	**44,111**	**155,386**	**61,984**	**46**	**261,527**
Amortization as of Jan. 1, 2014	**20,576**	**13,073**	**30,361**	**0**	**64,010**
Currency changes	164	327	294	0	785
Change in consolidated group	0	0	69	0	69
Additions	7,589	0	6,988	0	14,577
Disposals	3,102	0	155	0	3,257
As of Dec. 31, 2014	**25,227**	**13,400**	**37,557**	**0**	**76,184**
Net carrying amount as of Dec. 31, 2014	**18,884**	**141,986**	**24,427**	**46**	**185,343**

Purchase commitments to acquire intangible assets amounted to EUR 524 k as of December 31, 2015 (December 31, 2014: EUR 115 k).

All amortization of intangible assets is contained under the following line items in the income statement:

in EUR k	2015	2014
Cost of sales	11,194	11,528
Selling expenses	3,857	915
General and administrative expenses	1,361	1,415
Research and development costs	700	719
Total	**17,112**	**14,577**

12 Property, plant and equipment

in EUR k	Land and buildings	Plant and machinery	Other equipment, furniture and fixtures	Property, plant and equipment under construction	Total
Acquisition/production cost as of Jan. 1, 2015	**356,387**	**865,017**	**150,734**	**71,014**	**1,443,152**
Currency changes	8,468	8,979	839	1,683	19,969
Change in consolidated group	86	3,206	2	0	3,294
Additions	19,597	48,396	13,561	91,525	173,079
Reclassifications	6,266	35,324	2,725	-44,317	-2
Disposals	536	7,657	3,739	111	12,043
As of Dec. 31, 2015	**390,268**	**953,265**	**164,122**	**119,794**	**1,627,449**
Depreciation as of Jan. 1, 2015	**73,612**	**558,312**	**103,248**	**0**	**735,172**
Currency changes	1,757	4,457	183	0	6,397
Additions	9,004	50,888	10,048	0	69,940
Reclassifications	0	-39	21	0	-18
Disposals	513	7,090	3,698	0	11,301
As of Dec. 31, 2015	**83,860**	**606,528**	**109,802**	**0**	**800,190**
Net carrying amount as of Dec. 31, 2015	**306,408**	**346,737**	**54,320**	**119,794**	**827,259**
Acquisition/production cost as of Jan. 1, 2014	**312,000**	**776,890**	**137,745**	**52,308**	**1,278,943**
Currency changes	4,383	14,938	1,207	2,654	23,182
Change in consolidated group	1,603	1,181	439	0	3,223
Additions	25,795	47,717	11,692	61,776	146,980
Reclassifications	12,689	29,459	3,065	-45,724	-511
Disposals	83	5,168	3,414	0	8,665
As of Dec. 31, 2014	**356,387**	**865,017**	**150,734**	**71,014**	**1,443,152**
Depreciation as of Jan. 1, 2014	**64,113**	**506,087**	**96,635**	**0**	**666,835**
Currency changes	826	8,898	635	0	10,359
Change in consolidated group	773	535	239	0	1,547
Additions	7,966	47,612	8,822	0	64,400
Reclassifications	0	-50	50	0	0
Revaluations	0	208	0	0	208
Disposals	66	4,562	3,133	0	7,761
As of Dec. 31, 2014	**73,612**	**558,312**	**103,248**	**0**	**735,172**
Net carrying amount as of Dec. 31, 2014	**282,775**	**306,705**	**47,486**	**71,014**	**707,980**

Property, plant and equipment contains technical equipment capitalized by the Group as the beneficial owner under lease arrangements in the amount of EUR 880 k (2014: EUR 1,091 k). In the financial year, amortization of leased assets amounted to EUR 189 k (2014: EUR 289 k).

As in the previous year, no extraordinary impairment losses were recognized on property, plant and equipment in the financial year 2015.

Purchase commitments to acquire property, plant and equipment from third parties amounted to EUR 45,786 k as of December 31, 2015 (December 31, 2014: EUR 54,517 k).

13 Investment property

in EUR k	Investment property	Investment property under construction	Total
Acquisition/production cost as of Jan. 1, 2015	**21,347**	**91**	**21,438**
Currency changes	-17	0	-17
Additions	54	2,940	2,994
As of Dec. 31, 2015	**21,384**	**3,031**	**24,415**
Depreciation as of Jan. 1, 2015	**9,726**	**0**	**9,726**
Currency changes	-13	0	-13
Additions	460	0	460
As of Dec. 31, 2015	**10,173**	**0**	**10,173**
Net carrying amount as of Dec. 31, 2015	**11,211**	**3,031**	**14,242**
Acquisition/production cost as of Jan. 1, 2014	**23,512**	**96**	**23,608**
Currency changes	-787	-5	-792
Additions	38	0	38
Disposals	1,416	0	1,416
As of Dec. 31, 2014	**21,347**	**91**	**21,438**
Depreciation as of Jan. 1, 2014	**10,861**	**0**	**10,861**
Currency changes	-272	0	-272
Additions	463	0	463
Disposals	1,326	0	1,326
As of Dec. 31, 2014	**9,726**	**0**	**9,726**
Net carrying amount as of Dec. 31, 2014	**11,621**	**91**	**11,712**

Investment property includes the Idstein and Kecskemét-Kádafalva (Hungary) industrial parks.

Investment property has a fair value of EUR 17,017 k as of the reporting date (2014: EUR 17,695 k). The input data used to determine the fair value correspond to stage 3 of the fair value hierarchy. The fair value is determined using the discounted cash flow method and official valuations. Under the discounted cash flow method, the surplus of expected future rental payments over the expected cash expenses is discounted to the valuation date. The discount rate used in the calculation was 7.88% (2014: 8.58%). Measurement of the fair values was not performed by an independent expert.

All investment property is rented out under operating leases. The resulting rental income came to EUR 4,273 k (2014: EUR 4,451 k). Expenses directly connected with these financial investments amounted to EUR 3,811 k (2014: EUR 4,192 k). Material contractual commitments to acquire or maintain investment property did not exist as of the end of the reporting period. Furthermore, there were no limitations regarding the saleability of investment property.

14 Financial assets

in EUR k	Non-current securities	Other financial assets	Total
Acquisition cost as of Jan. 1, 2015	**1,693**	**90**	**1,783**
Currency changes	13	7	20
Revaluations	- 14	0	- 14
Disposals	400	75	475
As of Dec. 31, 2015	**1,292**	**22**	**1,314**
Write-downs as of Jan. 1, 2015	**55**	**0**	**55**
Currency changes	2	0	2
Additions	2	0	2
As of Dec. 31, 2015	**59**	**0**	**59**
Net carrying amount as of Dec. 31, 2015	**1,233**	**22**	**1,255**
Fair value Dec. 31, 2015	1,233	22	
Acquisition cost as of Jan. 1, 2014	**1,940**	**101**	**2,041**
Currency changes	43	1	44
Additions	497	1	498
Revaluations	16	0	16
Disposals	803	13	816
As of Dec. 31, 2014	**1,693**	**90**	**1,783**
Write-downs as of Jan. 1, 2014	**61**	**0**	**61**
Currency changes	5	0	5
Revaluations	5	0	5
Disposals	6	0	6
As of Dec. 31, 2014	**55**	**0**	**55**
Net carrying amount as of Dec. 31, 2014	**1,638**	**90**	**1,728**
Fair value Dec. 31, 2014	1,646	90	

Of the non-current securities, EUR 1,042 k (2014: EUR 1,365 k) is pledged in full to secure pension claims.

15 Non-current income tax assets and other non-current assets

Non-current income tax assets mainly contain the corporate income tax credits of ElringKlinger AG capitalized at present value in the amount of EUR 684 k (2014: EUR 1,341 k). The corporate income tax credits are being disbursed to ElringKlinger AG in ten equal annual installments from 2008 until 2017.

Other non-current assets include an advance payment on future licensing expenses amounting to EUR 565 k (2014: EUR 585 k).

16 Inventories

in EUR k	Dec. 31, 2015	Dec. 31, 2014
Raw materials, consumables and supplies	94,266	86,208
Work in progress	60,591	54,364
Finished goods and merchandise	159,217	145,568
Advance payments	7,828	3,958
Total	**321,902**	**290,098**

Under inventories, mark-downs of EUR 17,936 k (2014: EUR 17,881 k) have been made to account for marketability risks. No write-ups were performed. Impairments are recognized in cost of sales.

17 Trade receivables, current income tax assets and other current assets

For trade receivables and other current assets, impairments of EUR 6,262 k (2014: EUR 5,690 k) were recognized for specific identifiable risks and likely use of discounts.

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

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

The adjustment account for trade receivables developed as follows:

in EUR k	2015	2014
As of Jan. 1	**5,690**	**4,698**
Additions	1,732	1,649
Reversals/utilizations	-1,026	-537
Exchange rate effects	-134	-120
As of Dec. 31	**6,262**	**5,690**

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

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

in EUR k	Dec. 31, 2015	Dec. 31, 2014
Neither overdue nor impaired	**239,834**	**201,349**
Overdue, not impaired		
– less than 30 days	26,738	22,261
– from 31 to 60 days	7,054	10,119
– from 61 to 90 days	2,900	2,345
– from 91 to 180 days	523	2,665
– more than 180 days	382	3,098
Total	**37,597**	**40,488**
Discounts	**-256**	**-246**
Impaired	**10,054**	**3,493**
Carrying amount	**287,229**	**245,084**

The need to recognize impairment losses is analyzed on every reporting date for major customers on an individual basis. Additionally, a large number of receivables are grouped into homogeneous groups and assessed for impairment collectively.

For the portfolio of receivables neither overdue nor impaired, there are no indications as of the reporting date that would indicate that the debtors will not meet their payment obligations.

Other current assets include tax receivables from VAT and other taxes of EUR 14,628 k (2014: EUR 13,410 k), time deposits and securities of EUR 31 k (2014: EUR 31 k) and other receivables from third parties of EUR 16,073 k (2014: EUR 13,504 k), of which EUR 1,372 k (2014: EUR 914 k) relates to financial assets and EUR 11 k (2014: EUR 29 k) to financial derivatives.

18 Cash and cash equivalents

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

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

19 Equity

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

The share capital of ElringKlinger AG amounted to EUR 63,359,990 as of December 31, 2015 and is divided into 63,359,990 registered shares, each entitled to a single vote. The share capital is paid in full. Each registered share represents a theoretical interest of EUR 1.00 of the share capital. Profit is distributed in accordance with § 60 AktG in conjunction with § 23 no. 1 of the Articles of Association.

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the Company's share capital by issuing new shares for cash and/or in-kind contributions on one or more occasions, however by no more than EUR 31,679,995, by May 17, 2017 (Authorized Capital 2012). As a rule, the shareholders are entitled to subscription rights. The shares may also be acquired by one or more banks subject to the proviso that they offer them to the shareholders for subscription. However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude shareholder subscription rights

- in order to eliminate fractional amounts;
- if the capital increase against in-kind contributions is implemented specifically for the purpose of acquiring companies, parts of companies, equity investments classified as fixed financial assets or other assets in connection with an intended acquisition or within the framework of business combinations;
- if the new shares are issued against cash contributions and if the issue price per new share does not fall significantly below the quoted price of shares already listed, and the shares issued without subscription rights pursuant to § 186 (3) sentence 4 AktG, do not represent more than 10% of the share capital, either on the date on which this authorization takes effect or on the date on which it is exercised. The upper limit of 10% of share capital includes any shares issued or sold during the term of this authorization in exclusion of shareholders' subscription rights in direct or indirect application of § 186 (3) sentence 4 AktG.

The Management Board has not exercised the authorization to date.

The capital reserves were essentially created from the premium from the 2010 capital increase.

The revenue reserves contain the earnings generated by the group companies which have not yet been distributed. There is also an amount of EUR 26,181 k arising from the first application of IFRSs in 2005.

Other reserves contain actuarial gains and losses from pension commitments, equity impact of controlling interests and currency translation differences.

Under the German Stock Corporation Act (AktG), the distributable dividend is measured by the sum of retained earnings and the profit or loss for the year, as shown in the annual financial statements of ElringKlinger AG that have been drawn up according to the provisions of the German Commercial Code (HGB). In the financial year 2015, ElringKlinger AG distributed to its shareholders a dividend of EUR 34,848 k (EUR 0.55 per share) from the distributable dividend for 2014. In the financial year 2014, the distribution was EUR 31,680 k (EUR 0.50 per share) from the distributable dividend for 2013.

The Management Board and the Supervisory Board will propose to the Annual General Meeting held to ratify the 2015 financial statements on May 31, 2016, a distribution from distributable dividend amounting to EUR 34,848 k, a dividend of EUR 0.55 per share carrying dividend rights.

20 Non-controlling interests in equity and net income

ElringKlinger AG holds less than 100% of the shares in some of the companies that have been included in the consolidated financial statements. In accordance with IFRS 10, the relevant non-controlling interests are reported under equity in the group statement of financial position, separately from the equity attributable to the shareholders of the parent company. Similarly, non-controlling interests in the net income and in total comprehensive income are reported separately in the group income statement and in the consolidated statement of comprehensive income.

21 Provisions for pensions

The pension obligations of the Group's foreign companies mainly take the form of defined contribution plans while in the case of domestic companies, pension obligations take the form of defined benefit and defined contribution plans.

Under the **defined contribution plans** the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Once the contributions are paid, the company has no further obligations, such as follow-up contribution payments. Current contribution payments are reported under personnel expenses in the reporting year; in the reporting year, the Group's contribution payments totaled EUR 20,529 k (2014: EUR 19,004 k) and are allocated to the relevant function costs.

The **defined benefit plans** are accounted for in the Group through the recognition of provisions for pensions that are determined by the projected unit credit method in accordance with IAS 19. Under the defined benefit plans, the employees receive life-long pension payments once they have reached a certain age or suffered disability. In addition, surviving dependents also receive benefits. The amount of the benefit is determined by the length of service with the company and the employee's terminal salary. For employees subject to collective bargaining, the eligible service period is limited to 30 years. For executive employees, the benefit is limited to 35% or 45% of the terminal salary, whereby in certain cases the benefits from prior commitments do not count towards this limit.

In 2011, the ElringKlinger AG's pension system was partially modified. In order to secure pension payments going forward, the obligations to certain executive employees were transferred to Allianz Pensionsfonds AG, Stuttgart, and a provident fund covered by plan assets, Allianz Pensions-Management e.V., Stuttgart. This does not affect the amount of benefits. The assets received by the pension fund constitute plan assets within the meaning of IAS 19.8 and are therefore netted against the obligation to the plan beneficiaries.

The pension plans of the Swiss Group companies insure employees against the economic consequences of old age, disability and death. Assets are fully covered by pension insurance policy. No shortfall can arise from an agreement at a fully insured pension fund.

The obligations from the benefits granted are subject to certain risks. The main risks are interest rate risks, where falling market interest rates lead to a higher present value of the obligation in the future, inflation risks, which may lead to higher pension benefits and longevity risks where benefits are paid over a period longer than the one assumed in the mortality tables.

The following assumptions were used as a basis for measuring the Group's obligations.

Measurement as of	Dec. 31, 2015	Dec. 31, 2014
Discount rate (vesting period)	1.94%	1.84%
Discount rate (pension period)	1.67%	1.55%
Expected salary increases (in %)	2.67%	2.53%
Future pension increases	1.75%	1.75%

The changes in the present value of the defined benefit obligation are as follows:

in EUR k	2015	2014
Present value of pension benefits as of Jan. 1	**156,008**	**119,670**
Current service cost	6,364	4,260
Past service cost	-846	-22
Plan participant contributions	3,664	2,817
Interest expense	2,763	3,679
Disbursements/utilization	-8,513	-5,449
Actuarial gains/losses	-6,280	29,658
Currency differences	4,549	777
Other changes	93	47
Change in consolidated group	0	571
Present value of pension benefits as of Dec. 31	**157,802**	**156,008**
of which (partially) covered by plan assets	48,709	40,411
of which not covered	109,093	115,597

The average weighted term of the defined benefit obligation amounts to 17 years (2014: 18 years). Actuarial gains and losses arise from the following effects:

in EUR k	2015	2014
Effects from changes in the interest rate	-5,316	26,499
Effects from changes in demographic assumptions	-43	47
Effects from other experience-based adjustments	-921	3,112
Actuarial gains/losses	**-6,280**	**29,658**

The table below shows the changes to the plan assets over the course of the financial year:

in EUR k	2015	2014
Market value as of Jan. 1	**31,918**	**27,347**
Change in consolidated group	0	346
Interest income	464	654
Employer contributions	4,603	2,460
Plan participant contributions	3,664	2,817
Service costs	-4,951	-2,100
Actuarial gains/losses	199	-166
Currency effects	3,161	560
Market value as of Dec. 31	**39,058**	**31,918**

Plan assets comprise insurance claims. The plan assets and present value of defined benefit obligations are allocated to key countries as follows:

in EUR k	2015	2014
Present value of pension benefits as of Dec. 31		
Germany	104,879	111,608
Switzerland	48,709	40,411
Other	4,214	3,989
Present value of pension benefits as of Dec. 31	**157,802**	**156,008**
Market value of plan assets as of Dec. 31		
Germany	4,874	2,778
Switzerland	34,063	29,083
Other	121	57
Market value of plan assets as of Dec. 31	**39,058**	**31,918**

The actual return on plan assets amounts to EUR 673 k (2014: EUR 799 k).

In 2016, liquidity is likely to be reduced due to contributions to plan assets and the reimbursement rights and by direct Group benefit payouts, which are expected to amount to EUR 3,775 k (2014: EUR 8,548 k). The future payments from pension obligations are as follows:

in EUR k	2015	2014
For the next 12 months	3,775	8,548
Between one and five years	14,693	15,910
More than five years	290,389	220,148

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

in EUR k	2015	2014
Current service cost	6,364	4,260
Net interest expenses	2,299	3,025
Past service cost	-846	-6
Total pension expense	**7,817**	**7,279**

Net interest expenses comprise interest expenses of EUR 2,763 k (2014: EUR 3,679 k) as well as interest income from plan assets of EUR 464 k (2014: EUR 654 k).

The current service cost and past service costs are reported as part of the personnel expenses of the functional areas.

The full amount of actuarial gains and losses during the current year is reported under other comprehensive income. Changes are shown in the table below:

in EUR k	2015	2014
Actuarial gains (-) and (+) losses recognized in other comprehensive income	-6,479	29,816
Deferred taxes on actuarial gains (-) and losses (+) recognized under other comprehensive income	1,962	-7,964

The amount of the Group's obligation as reported on the statement of financial position is derived as follows:

in EUR k	2015	2014
Present value of pension obligation	157,802	156,008
Fair value of plan assets	39,058	31,918
Reported pension provision	118,744	124,090

With regard to sensitivities, the key actuarial assumptions determined were the discount rate, salary increases and future pension developments.

A 1% increase/decrease in the discount rate would lead to a decrease/increase in the DBO of EUR 18,902 k/EUR 23,775 k.

A 0.5% increase/decrease in future salary increases would lead to an increase/decrease in the DBO of EUR 2,110 k/EUR 2,442 k.

A change in future pension developments of +0.25%/-0.25% would lead to an increase/decrease in the DBO of EUR 4,182 k/EUR 4,397 k.

22 Other provisions

Other provisions can be broken down as follows:

in EUR k	Dec. 31, 2015	Dec. 31, 2014
Current provisions	16,423	16,469
Non-current provisions	12,340	16,638
Total	**28,763**	**33,107**

Current provisions:

in EUR k	Personnel obligations	Warranty obligations	Expected losses from customer contracts	Litigation costs	Other risks	Total
As of Dec. 31, 2014	**2,284**	**3,698**	**3,390**	**217**	**6,880**	**16,469**
Currency changes	0	89	63	-36	10	126
Change in consolidated group	0	0	0	0	229	229
Utilization	2,903	1,089	3,347	108	1,464	8,911
Reversal	377	383	80	3	5,235	6,078
Additions	3,239	2,992	4,084	1,696	2,051	14,062
Reclassifications	0	417	-25	78	56	526
As of Dec. 31, 2015	**2,243**	**5,724**	**4,085**	**1,844**	**2,527**	**16,423**

Current provisions for other risks include provisions for financial derivatives of EUR 182 k (2014: EUR 140 k).

Non-current provisions:

in EUR k	Personnel obligations	Warranty obligations	Litigation costs	Other risks	Total
As of Dec. 31, 2014	**10,081**	**5,684**	**325**	**548**	**16,638**
Currency changes	49	151	11	9	220
Change in consolidated group	0	104	0	0	104
Utilization	915	4,453	0	1	5,369
Reversal	112	261	0	0	373
Unwinding of discount/discounting	113	-1	2	2	116
Additions	733	461	31	305	1,530
Reclassifications	0	-389	-81	-56	-526
As of Dec. 31, 2015	**9,949**	**1,296**	**288**	**807**	**12,340**

Personnel provisions are recognized for phased retirement schemes, long-term service benefits and similar obligations.

The provision for warranties represents the best estimate of the management and was recognized on the basis of past experience and the industry average for defective products with regard to the Group's liability for a warranty of twelve months. In addition, specific individual warranties were taken into account. The provisions for warranties are counterbalanced by reimbursement rights against liability insurance providers of EUR 1,612 k which are disclosed under other current assets.

The other risks relate to a variety of identifiable individual risks and uncertain obligations, which have been recognized as they are more likely than not to lead to an outflow of resources.

23 Non-current and current financial liabilities

in EUR k	Domestic	Foreign	Total Dec. 31, 2015	Domestic	Foreign	Total Dec. 31, 2014
Overdrafts	111,697	35,081	146,778	114,213	149	114,362
Financial liabilities with a residual term of less than one year	29,376	33,443	62,819	14,199	19,971	34,170
Current financial liabilities	**141,073**	**68,524**	**209,597**	**128,412**	**20,120**	**148,532**
Financial liabilities with a residual term of between one and five years	207,057	100,822	307,879	161,227	93,643	254,870
Financial liabilities with a residual term of more than five years	9,028	9,185	18,213	13,638	0	13,638
Non-current financial liabilities	**216,085**	**110,007**	**326,092**	**174,865**	**93,643**	**268,508**
Total	**357,158**	**178,531**	**535,689**	**303,277**	**113,763**	**417,040**

This includes liabilities from finance leases of EUR 462 k (2014: EUR 455 k) with a nominal volume of EUR 497 k (2014: EUR 473 k).

The average interest rates were:

in %	Dec. 31, 2015	Dec. 31, 2014
Overdrafts:		
Domestic	0.87	0.88
Foreign	3.31	3.50
Financial liabilities:		
Domestic: less than one year	3.58	2.86
Domestic: between one and five years	1.95	2.30
Domestic: more than five years	1.87	1.84
Foreign: less than one year	2.70	2.28
Foreign: between one and five years	2.43	2.37
Foreign: more than five years	3.26	–

Fixed interest rates have been agreed for financial liabilities amounting to EUR 380,287 k (2014: EUR 287,442 k).

Land charges on company land with a carrying amount of EUR 119,463 k (2014: EUR 117,863 k), collateral on inventory with a carrying amount of EUR 4,866 k (2014: EUR 6,759 k) and collateral on receivables of EUR 11,939 k (2014: EUR 6,017 k) have been pledged as collateral. The secured liabilities amounted to EUR 48,266 k (2014: EUR 47,385 k) as of December 31, 2015.

As of December 31, 2015, the Group had unused lines of credit amounting to EUR 98,935 k (2014: EUR 87,683 k).

24 Trade payables and other current and non-current liabilities

Trade payables and other current and non-current liabilities consist of outstanding obligations from trade and current expenses.

The carrying amounts of trade payables approximate their fair value.

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

Other current and non-current liabilities include accrued liabilities relating to tooling revenue. Other current liabilities from third parties contain financial liabilities of EUR 49,374 k less the liabilities from tooling revenue.

25 Hedging policy and financial instruments

Risks and hedging policy

As a consequence of the international nature of the activities of the ElringKlinger Group, changes in exchange rates, interest rates and prices of raw materials impact the assets, liabilities, financial position and profit or loss of the Group. The risks arise from currency and interest rate fluctuations in connection with business operations and financing. Further risks result from fluctuations in the market prices of raw materials. Additionally, there are liquidity risks which relate to credit and market risks or accompany a deterioration of business operations and financial market turmoil.

By concluding hedges, the Management Board of ElringKlinger AG aims to manage the risk factors that may adversely affect the assets, liabilities, financial position and profit or loss and thus to minimize these influences. Within the ElringKlinger Group, derivative financial instruments may only be entered into with the consent of the Management Board. Hedge accounting in accordance with IAS 39 was not applied.

Currency risk

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

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

Subsidiaries are not permitted to take out financing in foreign currency or to invest it for speculative reasons. Intercompany financing and investment is usually denominated in the relevant functional currency.

Several ElringKlinger AG subsidiaries are domiciled outside the euro area. Since the euro is the reporting currency of the ElringKlinger Group, the income and expenses of these subsidiaries are translated into euros upon consolidation. Changes in the closing rates and changes in the closing rates compared to the average rates and historical rates can give rise to currency translation effects that are reflected in the equity of the Group under other comprehensive income.

Due to the inclusion of subsidiaries, the group also recognizes assets and liabilities relating to these subsidiaries outside of the euro area that are denominated in national currencies. When these assets are translated into euros, exchange rate fluctuations can lead to changes in value. The changes in these net assets are reflected in group equity under other comprehensive income.

A sensitivity analysis has been conducted in order to quantify the potential effects of exchange rate changes on consolidated net income. This analysis illustrates the change in consolidated net income in the event that the relevant functional currency of the Group companies appreciates or depreciates by 10% as compared to the foreign currency.

Dec. 31, 2015 *in EUR k* *Local currency*	EUR	CHF	CAD	USD	CNY	Other	Total
Local currency +10%							
Consolidated net income	-2,257	-1,206	-856	649	564	205	-2,901
Local currency –10%							
Consolidated net income	2,257	1,206	856	-649	-564	-205	2,901

31.12.2014 *in EUR k* *Local currency*	CHF	CNY	EUR	KRW	INR	Other	Total
Local currency +10%							
Consolidated net income	2,259	-2,127	1,527	-1,064	-838	-762	-1,005
Local currency –10%							
Consolidated net income	-2,259	2,127	-1,527	1,064	838	762	1,005

Interest rate risk

Interest rate risk arises primarily from financial assets that are subject to a floating rate of interest. The Group manages interest rate risk with the objective of optimizing its interest income and expense.

Fixed interest rates have been agreed mainly for the financing liabilities of the ElringKlinger Group. As a result, the risk arising from interest rate fluctuations is only slight.

Had market interest rates been 30 basis points higher on December 31, 2015, earnings would have been EUR 105 k (2014: 100 basis points: EUR 205 k greater) lower. Had market interest rates been 30 basis points lower, earnings would have been EUR 11 k (2014: 100 basis points: EUR 24 k greater) lower. On account of the low market interest level, the sensitivity analysis was adjusted to 30 base points.

Risk arising from prices for raw materials

ElringKlinger is exposed to risks from changes in the prices for the raw materials it uses in production. In order to mitigate fluctuations in the purchase prices for raw materials, ElringKlinger has entered into two nickel hedges. Where necessary, it is possible to secure acceptable procurement prices by means of additional derivatives.

ElringKlinger processes a significant volume of high-grade steel. This includes alloy surcharges, in particular for nickel, which is a listed metal subject to market price fluctuations. ElringKlinger uses derivative financial instruments to hedge portions of alloy surcharges assessed in cost calculations. A price corridor surrounding the average calculation cost is hedged. If the quoted exchange price of nickel exceeds the upper range of the corridor, ElringKlinger receives a compensatory payment. If the quoted exchange price of nickel falls below the lower range of the corridor, ElringKlinger has to pay a surcharge. The existing nickel hedges expire in the financial year 2016 and the latest expiration date is on December 30, 2016.

The Group manages the credit risk of derivatives by entering into derivative financial transactions exclusively with major banks of impeccable creditworthiness in accordance with uniform guidelines.

Had the market value of nickel been 10% higher on December 31, 2015, earnings would have been EUR 90 k (2014: EUR 1 k) greater. A 10% reduction would have resulted in EUR 88 k (2014: EUR 282 k) less in earnings.

Credit risk

Credit risk defines the risk of economic loss arising from a counterparty's failure to satisfy contractual payment obligations.

Credit risk encompasses both the direct risk of default, the risk of a ratings downgrade, and concentration risks. The maximum risk exposures of financial assets generally subject to credit risk correspond to their carrying amounts and can be described as follows:

Liquid funds

Liquid funds comprise primarily bank deposits available on demand. The ElringKlinger Group is exposed to losses from credit risks in connection with the investment of liquid funds if financial institutions fail to meet their obligations (counterparty risk). In order to minimize this risk, care is taken in selecting the financial institutions at which deposits are made. The maximum risk exposure corresponds to the carrying amount of the liquid funds at the end of the reporting period.

Trade receivables

Trade receivables relate primarily to the global sales of gaskets, sealing materials, plastic products and modules for the automotive sector and for the manufacturing industry in general. Credit risk resides in the possibility of counterparty default, and is characterized by the Group's customer base, which includes a number of key accounts.

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

In its export business, ElringKlinger also assesses the credit standing of its counterparties by submitting inquiries to credit information services and on the basis of the specific country risk. In addition, credit insurance policies are taken out or letters of credit are required in certain cases. Trade receivables of EUR 12,521 k (2014: EUR 10,490 k) are secured by credit insurance policies.

Allowances are also recognized in respect of identifiable individual risks. The maximum risk exposure from trade receivables corresponds to the carrying amount of these receivables at the end of the reporting period. The carrying amounts of trade receivables, together with a separate breakdown of overdue receivables and receivables for which allowances have been recognized, can be found in note 17.

In 2015, the two largest customers accounted for 11.7% and 8.1% of sales revenue, respectively (2014: 10.4% and 8.1%).

Liquidity risk

The solvency and liquidity of the ElringKlinger Group is constantly monitored by liquidity planning. Furthermore, a cash liquidity reserve and guaranteed credit lines ensure solvency and liquidity. Reference is also made to the financing risks presented in the risk report as part of the group management report of the ElringKlinger Group (Opportunity and risk report – Financial risks– Liquidity and financing risks).

Expected cash outflows

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

in EUR k	Trade payables	Financial liabilities	Finance leases	Derivatives	Total
As of Dec. 31, 2015					
Carrying amount	**85,939**	**535,277**	**462**	**182**	**622,272**
Expected outflows:	**85,939**	**557,802**	**497**	**182**	**644,420**
– less than one month	51,010	57,397	14	15	108,436
– between one and three months	29,810	19,420	30	30	49,290
– between three months and one year	3,952	137,588	114	137	141,791
– between one and five years	1,157	324,931	339	0	326,427
– more than five years	10	18,466	0	0	18,476
As of Dec. 31, 2014					
Carrying amount	**68,753**	**416,585**	**455**	**140**	**485,933**
Expected outflows:	**68,753**	**435,654**	**473**	**140**	**505,020**
– less than one month	41,341	52,573	17	12	93,943
– between one and three months	22,988	7,184	32	23	30,227
– between three months and one year	2,265	95,014	167	105	97,551
– between one and five years	2,078	266,924	257	0	269,259
– more than five years	81	13,959	0	0	14,040

Further disclosures on financial liabilities are provided under note (23).

26 Additional information on financial instruments

This section provides a comprehensive overview of the significance of financial instruments and offers additional information on line items of the statement of financial position containing financial instruments. No recognized financial instruments were offset.

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

	Cash and cash equivalents	Trade receivables	Other current assets
in EUR k	CA	CA	CA
As of Dec. 31, 2015			
Loans and receivables	48,925	287,229	1,403
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	**48,925**	**287,229**	**1,403**
As of Dec. 31, 2014			
Loans and receivables	68,733	245,084	945
Held to maturity	0	0	0
Held for trading	0	0	0
Available for sale	0	0	0
Total	**68,733**	**245,084**	**945**

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

	Other current liabilities	Current financial liabilities	Finance leases	
in EUR k	CA	CA	CA	FV
As of Dec. 31, 2015				
Financial liabilities measured at acquisition cost	49,374	209,445	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	152	158
As of Dec. 31, 2014				
Financial liabilities measured at acquisition cost	47,989	148,322	0	0
Financial liabilities measured at fair value through profit or loss	0	0	0	0
No IAS 39 measurement category	0	0	210	216

	Derivatives	Non-current securities		Other financial assets		Total
	CA	CA	FV	CA	FV	CA
	0	0	0	10	10	337,567
	0	1,042	1,043	0	0	1,042
	11	0	0	0	0	11
	0	191	191	12	12	203
	11	**1,233**	**1,234**	**22**	**22**	**338,823**
	0	0	0	76	76	314,838
	0	1,444	1,448	0	0	1,444
	29	0	0	0	0	29
	0	194	194	14	14	208
	29	**1,638**	**1,642**	**90**	**90**	**316,519**

	Trade payables	Derivatives		Non-current financial liabilities		Finance leases		Total
	CA	CA	FV	CA	FV	CA	FV	CA
	85,939	0	0	325,782	326,768	0	0	670,540
	0	182	182	0	0	0	0	182
	0	0	0	0	0	310	339	462
	68,753	0	0	268,263	266,098	0	0	533,327
	0	140	140	0	0	0	0	140
	0	0	0	0	0	245	257	455

Other current liabilities contain a purchase price liability of EUR 35,153 k (2014: EUR 36,987 k) from a written put option which is measured at amortized cost.

Management determined that the carrying amount of cash, trade receivables, other receivables, trade payables, other current financial liabilities and other current liabilities is virtually the same as their fair value primarily as a result of the short term of these instruments.

The fair value of the other financial instruments held to maturity is based on prices quoted in an active market as of the reporting date.

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

The fair value of the put option of non-controlling interests of ElringKlinger Marusan Corporation on their shares contained in other current liabilities is based on forecasts of it business value. For the measurement of this put option of non-controlling interests, estimates are made when forecasting business development as well as when selecting the interest rate used regarding the liability recognized. A 10% change in the business value causes the put option to increase/decrease by EUR 3,515 k.

Financial assets and liabilities measured at fair value are classified into the following 3-level fair value hierarchy as of the valuation date December 31, 2015:

in EUR k	Level 1	Level 2	Level 3
Dec. 31, 2015			
Financial assets			
Non-current securities	191	0	0
Other financial assets	12	0	0
Derivatives*	0	11	0
Total	**203**	**11**	**0**
Financial liabilities			
Derivatives*	0	182	0
Total	**0**	**182**	**0**
Dec. 31, 2014			
Financial assets			
Non-current securities	194	0	0
Other financial assets	14	0	0
Derivatives*	0	29	0
Total	**208**	**29**	**0**
Financial liabilities			
Derivatives*	0	140	0
Total	**0**	**140**	**0**

* These are derivatives which do not meet the prerequisites for hedge accounting.

The table below shows the allocation of financial assets and liabilities that are not measured at fair value, but for which a fair value is disclosed, at the three levels of the fair value hierarchy as of the valuation date December 31, 2015:

in EUR k	Level 1	Level 2	Level 3
Dec. 31, 2015			
Financial assets			
Non-current securities	1,043	0	0
Other financial assets	0	0	10
Total	**1,043**	**0**	**10**
Financial liabilities			
Non-current liabilities from finance leases	0	0	339
Non-current financial liabilities	0	326,768	0
Purchase price liability from written put option	0	0	35,153
Total	**0**	**326,768**	**35,492**
Dec. 31, 2014			
Financial assets			
Non-current securities	1,448	0	0
Other financial assets	0	0	76
Total	**1,448**	**0**	**76**
Financial liabilities			
Non-current liabilities from finance leases	0	0	257
Non-current financial liabilities	0	266,098	0
Purchase price liability from written put option	0	0	36,987
Total	**0**	**266,098**	**37,244**

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

Level 1: Measurement based on market prices

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

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

An assessment is made at the end of every reporting period as to whether the assets and liabilities accounted for at fair value have been transferred between the levels of the fair value hierarchy. There were no reclassifications in the reporting period.

Net gains/losses on financial instruments

in EUR k	2015	2014
Held-for-trading financial instruments*	-157	114
Available-for-sale assets	0	0
Held-to-maturity investments	0	-4
Loans and receivables	2,913	-2,132
Financial liabilities measured at acquisition cost	614	4,370

* These are derivatives which do not meet the prerequisites for hedge accounting.

Net gains and losses from derivatives include the effects from changes in market values, which were recorded in full in profit or loss for the period.

Net gains on disposal of available-for-sale assets include income from the fair value adjustment of securities recognized in other comprehensive income. There were no net gains that were reclassified from other comprehensive income to the income statement.

Net gains and losses on held-to-maturity investments include impairments and revaluations.

Net gains and losses on loans and receivables primarily consist of currency effects.

Net gains from financial liabilities measured at cost include currency effects.

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

in EUR k	2015	2014
Total interest income	521	431
Total interest expense	-9,663	-8,326

As in the previous year, total interest income did not result in interest income from impaired financial assets.

Derivative financial instruments

As of the end of the reporting period, December 31, 2015, there were the following financial derivatives:

in EUR k	Fairvalue	Carrying amount	Line item
Commodities derivatives			
Nickel hedges	11	11	Other current assets
Nickel hedges	-182	-182	Current provisions
Total	**-171**	**-171**	

The market values of the financial derivatives are computed using recognized mathematical methods and the market data available as of the end of the reporting period (mark-to-market method).

27 Finance leases

Liabilities from finance leases relate to leases of property, plant and equipment which transfer substantially all risks and rewards of beneficial ownership to the Group as lessee. As of December 31, 2015, future minimum lease payments under finance leases amounted to EUR 497 k (2014:

EUR 473 k). The reconciliation of future minimum lease payments from finance lease arrangements to the corresponding liabilities as of December 31, 2015 is as follows:

in EUR k	Minimum lease payments Dec. 31, 2015	Interest included in minimum lease payments Dec. 31, 2015	Liabilities from finance leases Dec. 31, 2015
Term			
Less than one year	158	6	152
Between one and five years	339	29	310
More than five years	0	0	0
Total	**497**	**35**	**462**

28 Capital management

ElringKlinger believes that the Group's sound financial base is a prerequisite for further growth. The Group's solid capital resources render it possible to invest in future organic growth, as well as in external growth.

The Management Board of the parent company has set a target minimum equity ratio of 40% within the Group. ElringKlinger AG's Articles of Association do not define any capital requirements.

The management is authorized to buy back own shares up to a total of 10% of the share capital existing at the time of the resolution (May 13, 2015). The authorization is valid until May 13, 2020. There are no share option programs that impact the capital structure.

The following table presents changes in equity and total assets as of December 31, 2015 as compared to December 31, 2014.

in EUR million	2015	2014
Equity	**855.7**	**775.2**
as % of total capital	48.5%	49.7%
Non-current liabilities	486.1	439.4
Current liabilities	424.0	344.2
Debt	**910.1**	**783.6**
as % of total capital	51.5%	50.3%
Total capital	**1,765.8**	**1,558.8**

The change in equity from December 31, 2014 to December 31, 2015 was due primarily to an increase in revenue reserves and an increase in other reserves. Debt was increased year-on-year by 16.1%.

The equity ratio of the Group (48.5%) exceeded the 40% target equity ratio set by the Supervisory Board and Management Board.

For two loans, financial covenants have been agreed upon, and if these covenants are breached, the terms of the loans change and the loans become immediately callable. These affect the equity ratio, gearing factor and interest coverage ratio.

As of December 31, 2015, there were no issues prevailing that would have justified banks exercising their unilateral right of termination.

29 Notes to the Statement of Cash Flows

The group statement of cash flows shows how the liquidity of the ElringKlinger Group has changed as a result of cash inflows and outflows in the course of the financial year. In accordance with IAS 7, cash flows are categorized as cash flows from operating activities, investing activities or financing activities.

The cash reported in the statement of cash flows comprises liquid funds reported on the statement of financial position, i.e., cash in hand, checks and bank deposits.

Cash flows from investing and financing activities are determined by reference to payments. By contrast, cash flows from operating activities are derived indirectly from earnings before taxes for the year. For the indirect computation, effects from currency translation and changes to the scope of the consolidated financial statements are eliminated from the changes to the items of the statement of financial position arising from operating activities. For this reason, it is not possible to reconcile the changes in the relevant items of the statement of financial position with the corresponding figures in the published group statement of financial position.

30 Segment reporting

The organizational and internal reporting structure of the ElringKlinger Group is centered around its five business divisions: “Original Equipment”, “Aftermarket”, “Engineered Plastics”, “Services” and “Industrial Parks”.

The activities in the “Original Equipment” and “Aftermarket” reporting segments relate to the manufacturing and distribution of parts and components for the engine, transmission and exhaust system and lightweight plastic components in motor vehicles (powertrain), as well as battery and fuel cell components and tools machining.

The “Engineered Plastics” segment manufactures and distributes technical products made of high-performance PTFE plastics for the vehicle and general industrial sectors.

The “Services” reporting segment primarily operates engine test benches and contributes to the development of engines.

The “Industrial Parks” segment is responsible for the administration and leasing of land and buildings.

The “Consolidation” column in the “Segment reporting” table below provides an overview of consolidation entries between the segments. The “Other” column merely contains financial liabilities not directly attributable to the individual segments. Internal control and reporting are based on IFRSs. The Group measures the performance of its segments based on earnings before taxes in accordance with IFRSs. With the exception of the Original Equipment segment’s provision of supplies to the Aftermarket segment, the extent of trade between the individual segments is insignificant. The exchange of goods and/or services between the segments takes place at arm’s-length prices.

The segment results do not contain an impairment loss.

The Original Equipment segment generated more than 11% of the Group’s consolidated sales revenue from one customer (EUR 176.9 k).

Segment reporting

Segment	Original Equipment		Aftermarket		Engineered Plastics		Industrial Parks	
in EUR k	2015	2014	2015	2014	2015	2014	2015	2014
External revenue	**1,255,793**	**1,089,736**	**142,218**	**130,710**	**96,647**	**92,868**	**4,273**	**4,451**
Intersegment revenue	27,606	24,698	0	0	111	542	234	234
Segment revenue	**1,283,399**	**1,114,434**	**142,218**	**130,710**	**96,758**	**93,410**	**4,507**	**4,685**
EBIT[1]	**91,167**	**111,151**	**28,195**	**25,129**	**13,207**	**15,438**	**696**	**408**
+ Interest income	813	851	39	81	240	448	35	19
- Interest expense	-11,312	-10,552	-1,146	-1,230	-221	-485	-37	-53
Earnings before taxes	**85,739**	**111,436**	**27,063**	**23,856**	**13,271**	**15,448**	**696**	**493**
Depreciation and amortization[2]	78,823	71,880	1,972	1,715	5,020	4,230	457	414
Capital expenditures[3]	154,660	145,144	2,036	2,807	17,872	11,522	4,138	85
Segment assets	1,543,379	1,366,294	89,018	75,637	110,548	99,181	18,449	14,663
Segment liabilities	504,489	433,648	22,335	20,884	23,481	25,194	1,192	1,271

Segment	Services		Other		Consolidation		Group	
in EUR k	2015	2014	2015	2014	2015	2014	2015	2014
External revenue	**8,322**	**8,069**	**0**	**0**	**0**	**0**	**1,507,253**	**1,325,834**
Intersegment revenue	6,089	5,238	0	0	-34,040	-30,712	0	0
Segment revenue	**14,411**	**13,307**	**0**	**0**	**-34,040**	**-30,712**	**1,507,253**	**1,325,834**
EBIT[1]	**1,983**	**1,877**	**0**	**0**	**0**	**0**	**135,248**	**154,003**
+ Interest income	41	30	0	0	-386	-550	782	879
- Interest expense	-37	-46	0	0	386	550	-12,367	-11,816
Earnings before taxes	**1,987**	**1,861**	**0**	**0**	**0**	**0**	**128,756**	**153,094**
Depreciation and amortization[2]	1,242	1,202	0	0	0	0	87,514	79,441
Capital expenditures[3]	11,030	3,574	0	0	0	0	189,736	163,132
Segment assets	14,019	13,382	0	0	-9,620	-10,338	1,765,793	1,558,819
Segment liabilities	3,772	4,259	364,412	308,707	-9,620	-10,338	910,061	783,625

[1] Earnings before interest and taxes
[2] Depreciation and amortization including impairments
[3] Investments in intangible assets and property, plant and equipment and investment property

Segment reporting by region

Region *in EUR k*		Sales revenues[1]	Non-current assets	Investments
Germany	2015	411,491	446,458	68,963
	2014	388,116	421,025	72,293
Rest of Europe	2015	470,330	273,600	41,371
	2014	433,815	232,329	29,747
NAFTA	2015	296,390	123,323	30,746
	2014	220,415	73,055	21,544
Asia-Pacific	2015	270,736	193,811	47,722
	2014	225,634	153,613	35,668
South America and rest of the world	2015	58,306	19,105	935
	2014	57,854	26,741	3,880
Group	**2015**	**1,507,253**	**1,056,297**[2]	**189,737**
	2014	**1,325,834**	**906,763**[2]	**163,132**

[1] The location of the customer is used to determine allocation of sales revenues to the regions.
[2] This includes financial assets of EUR 1,255 k (p.y. EUR 1,728 k)

Other disclosures

Contingent liabilities

As in the previous year, the ElringKlinger Group is currently not subject to contingent liabilities from guarantees, performance bonds or bills of exchange issued.

Contingent liabilities

As of the reporting date, there were no contingent liabilities.

For one group company, it was determined last year that formal requirements in approval and information processes for public authorities were not fully complied with. No claims have been asserted.

Operating leases

Expenses include payments from operating leases of EUR 8,650 k (2014: EUR 6,769 k).

At the end of the reporting period, the Group had outstanding obligations arising from binding operating leases that fall due as follows:

in EUR k	Dec. 31, 2015	Dec. 31, 2014
less than one year	4,701	3,548
between one and five years	10,829	8,768
more than five years	2,168	2,535
Total	**17,698**	**14,851**

Of the total, EUR 9,422 k (2014: EUR 8,683 k) is related to outstanding obligations from binding operating leases for commercial premises, EUR 4,251 k (2014: EUR 3,531 k) to office equipment, and EUR 4,025 k (2014: EUR 2,637 k) to other lease arrangements.

Finance leases

Information on the finance lease can be found in note (27).

Other financial commitments

Energy purchase commitments

in EUR k	Dec. 31, 2015	Dec. 31, 2014
less than one year	2,882	3,384
between one and five years	17,379	11,480
Total	**20,261**	**14,864**

Proceeds from lease agreements

The future lease payments due to ElringKlinger in relation to binding operating leases from letting the industrial parks Idstein and Kecskemét-Kádafalva (Hungary) are due as follows:

in EUR k	Dec. 31, 2015	Dec. 31, 2014
less than one year	1,292	1,414
between one and five years	1,732	2,056
more than five years	702	877
Total	**3,726**	**4,347**

Number of employees

The average number of employees during the year (excluding Management Board members) was as follows:

	2015	2014
Employees	7,322	6,793
Trainees	331	288
Total	**7,653**	**7,081**

Personnel expenses

Personnel expenses in the reporting year amounted to EUR 416,652 k (2014: EUR 371,132 k). Personnel expenses include expenses for wages and salaries, social security and other benefit costs, as well as expenses for post-employment benefits.

Events after the end of the reporting period

After the end of the reporting period, ElringKlinger acquired with effect as of February 18, 2016 a further 5.0% of the shares in the subsidiary new enerday GmbH with its registered office in Neubrandenburg, Germany, and since then has held 80.0% of the shares in this specialist for fuel cell systems. The purchase price amounted to EUR 162.5 k. With this transaction, ElringKlinger is continuing its strategy of keeping minority interests within the Group to an absolute minimum.

Effective as of February 23, 2016, Mr. Karl Schmauder, resigned from his post as member of the Management Board of ElringKlinger AG. Mr. Schmauder was responsible for the "Original equipment Sales" and "New business" areas.

The ElringKlinger subsidiary HUG Engineering AG signed a purchase agreement for a further 80.0% of the shares in Codinox Beheer B.V. with its registered office in Enschede, Netherlands on February 25, 2016. HUG Engineering AG, a specialist in the field of emission control systems with its registered office in Elsau, Switzerland, already holds 10.0% of the shares. The purchase price is a low single-digit million figure and falls due upon closing of the agreement. Closing of this agreement is contingent upon certain conditions, specifically the merger of four subsidiaries of Codinox Beheer B.V. into the parent company. Closing is expected to take place in April 2016.

At its meeting held on March 3, 2016, Deutsche Börse decided to make changes to the composition of its share indices. The ElringKlinger AG share is being taken out of the MDAX index, in which it was previously listed, and will become part of the SDAX effective as of March 21, 2016. Two factors are decisive for the composition of the indices on the German share market: the market capitalization of the free float and the average trading volume of a share. ElringKlinger AG ranked near the bottom with regard to both measurement criteria and for this reason its share was removed from the MDAX index.

On March 23, 2016, the Management Board of ElringKlinger AG submitted the consolidated financial statements to the Supervisory Board, which will meet on March 24, 2016, for approval. No other significant events occurred after the reporting date.

Related-party disclosures

Transactions between the parent company, ElringKlinger AG, and its subsidiaries are eliminated in the course of consolidation and are therefore not discussed in this note. In addition, the following business relationships exist between companies of the ElringKlinger Group and related parties and companies controlled by related parties:

Cooperation agreement between ElringKlinger AG and Lechler GmbH, Metzingen, concerning traineeships. Mr. Walter Herwarth Lechler is the Chairman of the Supervisory Board of ElringKlinger AG and holds a significant interest in Lechler GmbH. ElringKlinger AG earned EUR 48 k during the reporting year (p.y. EUR 34 k). As of the end of the reporting period, there was one outstanding receivable of EUR 15 k (previous year: EUR 10 k).

Lease agreement between Technik-Park Heliport Kft., Kecskemét-Kádafalva, Hungary (TPH), and the Lechler GmbH subsidiary, Lechler Kft., Kecskemét-Kádafalva, Hungary. TPH earned EUR 200 k in rental income based on this lease during the reporting year (2014: EUR 200 k). As in the previous year, there were no open receivables as of the end of the reporting period.

Agreement between ElringKlinger Logistic Service GmbH, Rottenburg-Ergenzingen, and Lechler GmbH, Metzingen, regarding assembly activities and the storage of components. This agreement gave rise to EUR 492 k in sales revenue during the reporting year (2014: EUR 532 k). As of the end of the reporting period, December 31, 2015, there was one outstanding receivable of EUR 29 k (2014: EUR 36 k).

Business relations between the ElringKlinger subsidiary, Changchun ElringKlinger Ltd., China, (CEK), and CHYAP, the company controlled by Ms. Liu, who is a joint partner in CEK. CEK procured EUR 183 k worth of services under these business relations in 2015 (2014: EUR 212 k). As of December 31, 2015, there is EUR 17 k in liabilities (2014: EUR 50 k). Furthermore, CEK sold EUR 95 k worth of goods and raw materials to CHYAP (2014: EUR 37 k). As in the previous year, there were no trade receivables at the end of the 2015 reporting period.

Loan agreement between Lechler GmbH and ElringKlinger AG. Lechler GmbH granted ElringKlinger AG loans totaling EUR 12,000 k. A loan of EUR 7,000 k carries an interest rate of 1.08% p.a. and has a term until August 17, 2018. An additional loan of EUR 5,000 k carries an interest rate of 1.52% p.a. and has a term until June 19, 2017.

Supply agreement between Lechler GmbH and KOCHWERK Catering GmbH, a wholly owned subsidiary of ElringKlinger AG. KOCHWERK Catering GmbH supplies Lechler GmbH with canteen food. KOCHWERK Catering GmbH earned EUR 150 k during the reporting year (2014: EUR 153 k). As of the end of the reporting period one outstanding receivable came to EUR 11 k (2014: EUR 11 k).

The salaries of the employee representatives to the Supervisory Board are in line with market conditions.

Corporate bodies

Supervisory board

Walter Herwarth Lechler, Stuttgart Chairman	Managing Partner of Lechler GmbH, Metzingen **Governance roles:** a) n.a. b) Lechler Ltd., Sheffield/United Kingdom
Markus Siegers*, Altbach Deputy Chairman	Chairman of the Works Council of ElringKlinger AG
Gert Bauer*, Reutlingen (until May 13, 2015)	First General Representative and Treasurer of IG Metall trade union, Reutlingen/Tübingen (until January 31, 2015) **Governance roles:** a) Hugo Boss AG, Metzingen (until May 12, 2015) b) BIKOM GmbH, Reutlingen
Ernst Blinzinger*, Reutlingen (from May 13, 2015)	First General Representative of IG Metall trade union, Reutlingen-Tübingen branch (since February 1, 2015)
Nadine Boguslawski*, Stuttgart (from May 13, 2015)	Secretary for the metal and electrical industry of the IG Metall trade union, Baden-Württemberg district administration **Governance roles:** a) Robert Bosch Automotive Steering GmbH b) n/a
Armin Diez*, Lenningen	Divisional Director of the Cylinder-head Gaskets and Battery Technology/E-Mobility at ElringKlinger AG
Klaus Eberhardt, Lindau	Former CEO of Rheinmetall AG, Düsseldorf **Governance roles:** a) MTU Aero Engines AG, Munich Dürr AG, Stuttgart b) n.a.
Pasquale Formisano*, Vaihingen an der Enz	Chairman of the Works Council of ElringKlinger Kunststofftechnik GmbH

Rita Forst, Dörsdorf (from May 13, 2015)	Former member of the Management Board of Adam Opel AG, Rüsselsheim **Governance roles:** a) n/a b) Joh. Winklhofer Beteiligungs GmbH & Co. KG, Munich Metalsa, S.A. de C. V., Monterrey, Mexico
Dr. Margarete Haase, Cologne (until May 13, 2015)	Member of the Board of Management of DEUTZ AG, Cologne **Governance roles:** a) Fraport AG, Frankfurt am Main ZF Friedrichshafen AG, Friedrichshafen b) DEUTZ (Dalian) Engine Co. Ltd., Dalian/China Deutz Engines (Shandong) Co. Ltd., Changlin/China Deutz Engine (China) Ltd. Co, Linyi/China
Paula Monteiro-Munz* Grabenstetten	Deputy chairwoman of the Works Council of ElringKlinger AG
Prof. Hans-Ulrich Sachs, Bremen	Managing shareholder of betec Umformtechnik GmbH, Adelmannsfelden
Gabriele Sons, Ratingen	Member of the Management Board of ThyssenKrupp Elevator AG
Manfred Strauß, Stuttgart	Managing shareholder of M&S messebau und service GmbH, Neuhausen a. d. F. **Governance roles:** a) n.a. b) Pro Stuttgart Verwaltungs GmbH, Stuttgart Pro Stuttgart Verkehrsverein, Stuttgart Eroca AG, Basel
Gerhard Wick*, Geislingen a. d. Steige (until May 13, 2015)	First General Representative of IG Metall, Administration Office, Esslingen **Governance roles:** a) Stihl AG, Waiblingen WMF AG, Geislingen an der Steige WRS – Wirtschaftsförderung Region Stuttgart GmbH b) n/a

* Employee representative
a) Membership in statutory Supervisory Boards as defined by § 125 AktG
b) Membership in comparable domestic and foreign control bodies as defined by § 125 AktG

Remuneration of the Supervisory Board

Total remuneration of the Supervisory Board of ElringKlinger AG amounted to EUR 774 k (2014: EUR 608 k) in the reporting period. In addition, travel expenses in the amount of EUR 0 k (2014: EUR 2 k) were reimbursed. The remuneration of the employee representatives in the Supervisory Board amounted to EUR 643 k in 2015 (2014: EUR 528 k) for their activities as employees.

Management Board

Dr. Stefan Wolf, Sindelfingen, Chairman	Responsible for all Group companies and the corporate functions of Legal Affairs, Personnel, Investor Relations, Corporate Communications and the Aftermarket division as well as the corporate functions of Finance, Controlling, IT and the Industrial Parks division until December 31, 2015 as well as Original Equipment Sales since February 23, 2016
Theo Becker, Metzingen	Responsible for the Cylinder-head Gaskets, Specialty Gaskets, Housing Modules/Elastomer Technology, Shielding Technology, E-Mobility, Exhaust Gas Purification Technology and Tooling Technology divisions, as well as the corporate functions Quality and Environment, Materials Management and ElringKlinger AG Plants as well as New Business Areas since February 23, 2016
Karl Schmauder, Hülben	Responsible for Original Equipment Sales and New Business Areas until February 23, 2016
Thomas Jessulat, Stuttgart	Responsible for the corporate functions of Finance, Controlling, IT and the Industrial Parks division since January 1, 2016

Governance roles in Supervisory Boards and other supervisory bodies

Dr. Stefan Wolf, Sindelfingen, Chairman	Chairman of the Supervisory Board of Norma Group AG, Maintal, member of the Supervisory Board of ALLGAIER Werke GmbH, Uhingen, member of the Supervisory Board of Fielmann AG, Hamburg, until July 9, 2015, member of the Board of Directors of Micronas Semiconductor Holding AG, Zurich, until March 27, 2015
Theo Becker, Metzingen	Member of the Supervisory Board of E.G.O. Blanc und Fischer & Co. GmbH, Oberderdingen
Karl Schmauder, Hülben	Chairman of the Advisory Board of e-mobil BW GmbH, Stuttgart, and Advisory Board member of Steiff Beteiligungs-GmbH, Giengen

Remuneration of the Management Board

The remuneration of the Management Board amounted to:

in EUR k	2015	2014
Short-term fixed remuneration	1,387	1,308
Short-term variable performance-based remuneration	2,958	3,117
Long-term variable performance-based remuneration	697	2,916
Long-term variable share-based remuneration	-100	61
Expenses from post-employment benefits	523	521
Total	**5,465**	**7,923**

In the financial year, total Management Board remuneration pursuant to § 314 (1) no. 6a sentence 1 to 4 HGB came to EUR 5,521 k (2014: EUR 5,892 k). The present value (DBO) of the pension provisions amounted to EUR 11,027 k (2014: EUR 11,394 k). The following stock appreciation rights stem from long-term performance-related remuneration:

As part of the long-term variable remuneration, the members of the Management Board were granted stock appreciation rights until the financial year 2013. Stock appreciation rights refer to a right to a cash settlement, not, however, for shares of ElringKlinger AG. It was planned that 30,000 stock appreciation rights would be granted to each member of the Management Board on February 1 of each year beginning in 2013. The strike price is calculated using the arithmetic mean of the market price of ElringKlinger 's shares on the last 60 trading days prior to the grant date. The grant of the stock appreciation rights is subject to an investment by the Management Board members of one-tenth of the number of granted stock appreciation rights in shares of ElringKlinger AG. The holding period of the stock appreciation rights is four years. Within a period of two additional years after the holding period expires, a Management Board member may demand redemption of the stock appreciation rights. The redemption price is calculated using the average market price of ElringKlinger 's shares of the last 60 trading days prior to redemption. Redemption of the stock appreciation rights may be demanded only if the redemption price exceeds the strike price by 25%. The total redemption price per tranche is limited to two fixed annual salaries at the time of redemption. Provisions are recognized in order to cover the estimated future obligation.

Prior to February 1, 2013, the stock appreciation rights were planned to be granted in five/four tranches. Two members of the Management Board were granted rights for the period from February 1, 2008 to February 1, 2012 and one member of the Management Board for the period from January 1, 2009 to January 1, 2012. The strike price is calculated using the arithmetic mean of the market price of ElringKlinger 's shares on the last 60 trading days prior to the grant date. The number of stock appreciation rights was calculated based on the fixed remuneration of the respective board member and the strike price (fixed remuneration in relation to strike price = number of shares granted). The cash payment to be granted is calculated based on the difference between the redemption price, which is also calculated as an average of the stock price over the last 60 trading days, and the strike price. A payment is made only in the event that the share price of ElringKlinger AG increases more than the index in which ElringKlinger is listed (MDAX), but at least by 25%. The payment per tranche is limited to the fixed salary amount for the year. The waiting period is four years.

Provisions are recognized in order to cover the estimated future payments. The fair value of the obligation is determined based on the Cox-Ross-Rubinstein model and the Black-Scholes model using current market parameters. A risk-free interest rate ranging between 0.06% and 0.29% was used depending on the term.

The volatility of the share price (33.39%), the MDAX index (15.15%), and a correlation of 20.71% were determined over a four-year period. The expected dividend was EUR 0.55 per share.

The previous model was terminated with the introduction of the new remuneration system for members of the Management Board. Tranches that are not yet exercisable remain unchanged.

For the financial year 2015, the figures are as follows:

Date tranche was issued	2012	2013
Number of stock appreciation rights exercised		
Value of stock appreciation rights exercised (EUR k)		
Number of stock appreciation rights (not yet exercisable)	42,406	90,000
Average strike price (EUR)	19.43	24.54
Average remaining term to maturity in years	0.04	1.08
Value of stock appreciation rights held by members of the Management Board		
December 31, 2015 (EUR k)	0	184
December 31, 2014 (EUR k)	48	236
December 31, 2013 (EUR k)	69	129
December 31, 2012 (EUR k)	44	0

Provisions for pensions and remuneration for former members of the Management Board

Provisions of EUR 11,962 k (2014: EUR 12,939 k) were recognized for pension obligations to former members of the Management Board, the management of merged companies, and their surviving dependents. The total remuneration of former members of the Management Board – including remuneration of former members of corporate bodies of merged companies – came to EUR 837 k (2014: EUR 826 k) during the financial year 2014.

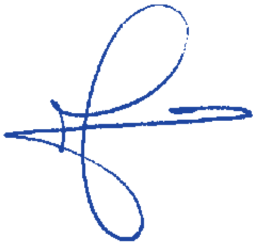
The **auditor fees** amounted to:

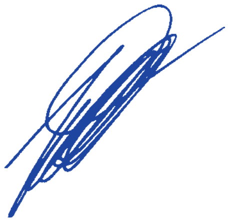
in EUR k	2015	2014
Audit of the annual financial statements	540	404
Other assurance services	17	22
Tax advisory	2	0
Other services	289	15
Total	**848**	**441**

Declaration of compliance with the German Corporate Governance Code

The Management Board and Supervisory Board issued a declaration of compliance pursuant to § 161 AktG on the German Corporate Governance Code in the version dated May 5, 2015 and published it on the ElringKlinger AG website on December 4, 2015. This declaration of compliance will be published on the ElringKlinger AG website where it will be made permanently available to shareholders.

Dettingen/Erms, 23 March 2016
Management Board





Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat

Audit Opinion

We have issued the following opinion on the consolidated financial statements and the group management report, which has been combined with the management report of ElringKlinger AG:

"We have audited the consolidated financial statements prepared by ElringKlinger AG, Dettingen/Erms, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the consolidated financial statements, together with the group management report, which has been combined with the management report of ElringKlinger AG for the fiscal year from January 1 to December 31, 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of [German] commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Stuttgart, March 23, 2016
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

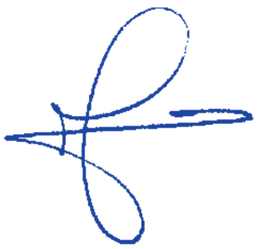
Marbler	Göhner
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

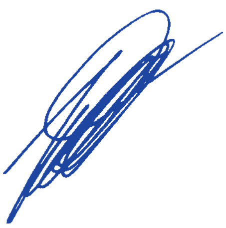
Responsibility Statement

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

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

Dettingen/Erms, March 23, 2016
Management Board





Dr. Stefan Wolf
Chairman/CEO

Theo Becker

Thomas Jessulat

Glossary

Financials

C Cash flow
Figure used to determine a company's financial strength. It measures the extent to which cash received as a result of the company's operating activities exceeds its cash outflows and shows the amount of cash generated by the company itself. For the purpose of determining cash flow, an entity's profit for the annual period is adjusted for items that do not produce an inflow or outflow of cash, such as depreciation or changes in provisions. Net cash from operating activities is the surplus of cash generated by operating activities.

Corporate Governance
Stands for corporate management and supervision that should be as responsible as possible and focused on sustainability and value generation over the long term.

E EBITDA
EBITDA stands for earnings before interest, taxes, depreciation and amortization. EBITDA is a financial indicator used for the purpose of measuring the profitability of a company at the operating level, as the indicator does not include any elements influencing profit in terms of the financing structure, national jurisdiction or reporting standards applicable to the entity.

EBIT/Operating result
EBIT stands for earnings before interest and taxes. It corresponds to the operating result before taking into account net finance costs. At an international level, this figure is commonly used to compare companies' earnings power.

EBIT margin
EBIT expressed as a percentage of total Group sales revenue. The EBIT margin shows the profitability of a company's operating business over a specific period of time.

Earnings per share
Earnings per share (EPS) is calculated by dividing the profit attributable to shareholders of a stock corporation by the number of shares outstanding. It is used for the purpose of analyzing profitability and – at a cross-sector level – for evaluating a company.

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

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

I IFRS
Abbreviation for International Financial Reporting Standards. They contain accounting provisions for exchange-listed entities. The application of IFRS has been mandatory in the EU since January 2005. ElringKlinger has been reporting in accordance with IFRS since 2004.

M MDAX
The Mid Cap Dax (MDAX) is a German stock market index introduced in 1996. It encompasses the stocks of 50 corporations (mostly small and medium-sized enterprises) that rank directly below the companies listed in Germany's main DAX index in terms of market capitalization and trading volume.

N Net finance income/cost
Profit or loss arising from financial transactions, e.g. interest income and expenses, income and expenses attributable to investments or income and expenses attributable to exchange rate differences. Net finance income or cost is a component of pre-tax earnings presented in the income statement.

Net debt
Figure that describes the level of indebtedness of a company if all liabilities were repaid by means of current assets. Net debt is calculated on the basis of interest-bearing liabilities (primarily bank borrowings) less cash and cash equivalents. Alternatively, it can be calculated on the basis of the entire liabilities recognized less cash and cash equivalents less pension provisions.

O Operating free cash flow
Operating free cash flow represents the funds freely available to the company for distribution. It is calculated by subtracting capital expenditure payments from net cash from operating activities. Payments made in respect of acquisitions are not included in operating free cash flow.

P Purchase price allocation
Purchase price allocation (PPA) refers to the allocation of the price paid in the purchase of a company or an interest in a company to the individual identifiable assets acquired as part of this transaction. These also include intangible assets such as an existing customer base or order backlog.

R ROCE
Return on capital employed (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.

S SDAX
The Small Cap Index (SDAX) is a stock index that was introduced by Deutsche Börse in 1999. It measures the performance of the fifty biggest Prime Standard companies ranked directly below the MDAX in terms of trading volume and market capitalization.

Statement of cash flows
The statement of cash flows shows the calculations for the flow of funds generated by a company from operating, investing and financing activities during the financial year. The statement of cash flows helps determine the company's ability to generate cash and cash equivalents.

W WpHG
Abbreviation for Wertpapierhandelsgesetz (Securities Trading Act).

Technology

B Bipolar plates
Bipolar plates are the key mechanical components in fuel cell stacks (cf. Stack). Their function is to create an electrical interconnection between two cells. In other words, they transmit the electricity generated, supply the cells with hydrogen and oxygen, and distribute the coolant. ElringKlinger develops and manufactures metal bipolar plates. Among the technical requirements for these components are high-precision metal-forming within the contact area (in the micrometer range); accurate, low-distortion laser welding of the cathode and anode plates; and suitable conductive and anti-corrosion coatings.

C CAFE regulations
The CAFE (Corporate Average Fuel Economy) regulations are the US equivalent of European CO_2 legislation. They impose average permitted fleet consumption limits on US manufacturers. Failure to comply with the strict CAFE regulations can result in substantial fines.

Catalytic oxidation of carbon monoxide (CO) and hydrocarbon (HC)
Method used for the purpose of reducing carbon monoxide and hydrocarbons in the exhaust gas. Carbon monoxide is mainly produced by the incomplete burning of fossil fuels. It is a colorless, odorless and poisonous gas. When the hazardous exhaust gases pass through a catalytic converter (usually made of a ceramic material) and come into contact with its active surface usually featuring a precious-metal coating, a chemical reaction takes place and the gases are converted into non-toxic components (carbon dioxide and water).

Cell connector/Cell contact system
The cell contact systems developed by ElringKlinger for lithium-ion batteries consist of cell connectors and a cell carrier in which the connectors are integrated as a robust laser-welded construction. Via the cell connectors, the individual battery cells are connected both in a row and parallel to one another. They act as conductors, absorb cell energy and contain sensors. The system consists of a control interface with thermal and electric monitoring.

CleanCoat™
See DPF coating

Combined heat/power generation (CHP)

This concept involves actively reusing the waste heat created as a by-product of electricity generation in order to heat domestic or industrial premises. This leads to a particularly high degree of overall efficiency. High-temperature fuel cells can be used in various fields, e.g. in single-family residences, trucks or recreational vehicles, as these areas of application call for high electrical efficiency combined with low noise emissions. In addition, the high temperatures can be used to produce warm water.

D

Downsizing

In the automotive industry, downsizing is a concept that refers to a reduction in engine capacity while improving the engine's efficiency. One of the most common ways of achieving this is to feed in air under increased pressure (compressor/turbocharger). A reduction in engine size means lower fuel consumption and therefore lower emissions. At the same time, higher injection pressures generate greater thermal and mechanical stress in the engine compartment. In turn, this makes greater demands in terms of gasket design and thermal management.

DPF (Diesel Particulate Filter)

The job of a diesel particulate filter is to filter out the harmful particulates (soot) from diesel engine exhaust gases. One of the most common designs involves a wall flow filter made of ceramic (e.g. silicon carbide). The porous filter walls extract over 99% of the particulates contained in the exhaust gases. Stricter Euro exhaust standards for both passenger cars and trucks prescribe specific limits on particulates. In response, virtually all new cars and commercial vehicles in the EU are now fitted with a DPF. Increasingly, filter systems are also being fitted to ships' diesel engines, which are often powered by heavy fuel oil, and to locomotives and stationary diesel and gas engines. ElringKlinger's subsidiary Hug develops filter technologies for numerous niche applications such as the shipping industry and for stationary plant and equipment in power stations and greenhouses.

DPF coating

The soot particles deposited in the diesel particulate filter (DPF) must be burned off in order to regenerate the filter. Most filters have a catalytic coating to accelerate the reaction. The catalytic effect lowers the temperature required to burn off the soot particles and oxidize any remaining hydrocarbons or carbon monoxide into CO_2 and water. In most cases, the catalytic coating material is based on precious metals (platinum, rhodium and palladium). However, ElringKlinger uses its own coating material known as CleanCoat™, which is based on an alkali silicate substance. CleanCoat™ is free of precious and heavy metals and is highly active even at low temperatures. It is used at series production level in the mobiclean™ R diesel particulate filter systems made by ElringKlinger subsidiary Hug.

E

EGR

Exhaust gas recirculation (EGR) refers to the reduction of nitrogen oxide (NOx) emissions produced when fuel is burnt in a combustion engine. Where exhaust gas recirculation is deployed, some of the fresh air taken in is replaced by exhaust gases. This reduces the excess oxygen in the cylinders. Due to the higher thermal capacity of the exhaust gases relative to the fresh air, the combustion temperature is lowered. As a result, production of nitrogen oxide is reduced.

Elastomer

Plastics/polymers can be divided into three main categories depending on their processing properties: thermoplasts, duroplasts and elastomers. The distinctive feature of elastomers is that their shape can be changed temporarily through the application of pressure or stretching before they return to their original form ("rubber"). The final material varies according to the raw materials, manufacturing process and additives used. In the field of sealing technology, ElringKlinger utilizes its own elastomers that have been specially developed and optimized to meet individual customer requirements. ElringKlinger has developed more than 5,000 different formulas in this area.

European emission standards

The emission standards prescribed by the European Parliament specify emission limits for HC (hydrocarbons), CO (carbon monoxide), NOx (nitrogen oxides) and particulates with regard to all newly registered vehicles in Europe. Different limits apply to diesel and petrol engines. The Euro 6 standard, which introduces much stricter limits on nitrogen oxides in diesel-powered vehicles, came into force for passenger cars in 2014. Effective from 2014, Euro VI also imposed drastic reductions on heavy truck emissions of NOx, in particular, but also HC and CO.

F

Fuel cell

Fuel cells are a highly effective method of converting chemical fuel energy into electrical energy. In order to perform this reaction, the cell requires oxygen and hydrogen. The hydrogen can be obtained from a hydrocarbon-based fuel. This involves a reformer providing the cell with hydrogen gas derived from diesel or natural gas, for example. Unlike batteries, fuel cells do not store energy, but rather convert it. There are different types of fuel cell technologies that offer specific advantages depending on their application. ElringKlinger develops and manufactures components for the SOFC high-temperature fuel cell (cf. SOFC fuel cell) as well as the PEM low-temperature fuel cell (cf. PEM fuel cell).

H

Hybrid drive

In the automotive industry, the term refers to the use of two different energy sources to drive a vehicle. This usually involves combining a combustion engine with an electric motor.

Hydroforming

Hydroforming is a method that involves forming a metal tube in a forming tool with the help of a fluid that is injected under pressure of up to 1,000 bar. As part of this process, the tube expands by up to 5% and the geometry of the tool is shaped as required. See also PMH (Polymer Metal Hybrids).

I

IMO Tier III

IMO stands for International Maritime Organization. Based in London, IMO is a specialized agency within the United Nations (UN). Among its other tasks, it determines upper emission levels aimed at preventing and combating marine pollution. Since January 1, 2016, newly built ships have been subject to stricter standards governing nitrogen oxide emissions. The upper limits specified in Tier III apply solely to specially designated areas defined by the IMO.

L

Lithium-ion battery

Lithium-based batteries are rechargeable, durable, high-energy batteries with high energy density. They are primarily used in electric and hybrid vehicles. ElringKlinger develops and produces, among other products, modular cell contact systems for such batteries.

M

Metal-elastomer gaskets

Gaskets made from a metal core with vulcanized elastomer profiles for sealing power-transmitting connections, for example oil pump gaskets and timing case gaskets.

N

Nitrogen oxides (NOx)

The internationally recognized abbreviation NOx is used for compounds of nitrogen and oxygen. These gases, which form in the exhausts of combustion engines, are harmful to humans and the environment. Emissions standards are becoming increasingly stringent worldwide and now prescribe strict limits for NOx levels. SCR technology can be used to neutralize nitrogen oxides (cf. "SCR").

O

Organo sheet

Innovative method of lightweight construction as part of which so-called organo sheets – particularly light yet extremely sturdy thermoplastic structural components with embedded fiber-reinforced composites – are processed and plastic elements for additional component functions are injection-molded in the tool itself.

P

PEM fuel cell

PEM stands for "Proton Exchange Membrane". PEM fuel cells work at low temperatures of around 90 °C and have a polymer membrane as their central element. In the synthetic reaction known as cold combustion, oxygen and hydrogen react with one another, aided by a catalyst, releasing electricity and causing water to form. For PEM fuel cells used in passenger cars, ElringKlinger has developed metal bipolar plates. Several hundred such plates are incorporated within a single cell stack.

PMH

PMH stands for polymer-metal hybrids. These are structural components made of polymers and metal that are manufactured in a single tool using a combination of hydroforming (glossary) and plastic injection molding techniques. The process involves a single step and, besides combining the strengths of both materials, allows the manufacture of very light components with complex geometries. At ElringKlinger, this new technique is used, for example, to make cockpit and front-end carriers.

Plug-in hybrid
This is a specific form of hybrid technology. The on-board energy storage unit is recharged not only from a combustion engine but, alternatively, also from an external electric power source. This technology, however, is associated with relatively high production costs.

Polyamide
Polyamides are polymers (plastics) and usually refer to synthetic thermoplastics. ElringKlinger uses polyamides in the production of lightweight plastic housing modules.

PTFE
The thermoplastic high-performance plastic PTFE (abbreviation for "polytetrafluoroethylene") – commonly known by the trade name Teflon – has a very low coefficient of friction and is particularly resistant to most aggressive chemicals and external influences such as moisture and UV radiation. PTFE is resistant to temperatures as low as -200 °C and only melts at over 320 °C. With its modified material Moldflon™, which is registered as a trademark, ElringKlinger Kunststofftechnik has an injection-moldable PTFE high-performance material with a wide range of potential applications, for instance in the field of medical technology.

S

SCR
Selective catalytic reduction (SCR) is a technology used to reduce toxic nitrogen oxides (NOx). This technique involves adding a urea solution to the exhaust gas mixture. When this mixture passes through the catalyst, the nitrogen oxides react with the urea solution and are converted into harmless nitrogen and water. Incorporating SCR modules, the exhaust gas purification systems developed by ElringKlinger subsidiary Hug are able to reduce NOx levels by up to 99%.

SOFC (Solid Oxide Fuel Cell)
Solid oxide fuel cells are also known as "high-temperature fuel cells" owing to their high operating temperatures (approx. 800 °C). This type of fuel cell can be operated with a wide range of fossil fuels, from which hydrogen gas is obtained using a reformer.

Stack
In a fuel cell context, the term "stack" refers to a complete stack of individual fuel cells, including bipolar plates and retaining and connecting devices. To boost performance, the individual fuel cells are connected in series.

Stopper geometries
Stoppers are structural features contained in the spring steel layers of cylinder-head gaskets that help to seal engine combustion chambers. Coined meander, honeycomb and segment stopper geometries have taken over from folded and laser-welded stoppers as the state of the art when it comes to making optimum use of the geometric space available. New embossing/coining and stamping technologies provide engineers with a variety of possibilities for influencing the distribution of pressure in the sealing gap.

T

Tier 1/Tier 2
Automotive companies that supply vehicle manufacturers (OEMs) directly are known as Tier 1 suppliers. These generally source some of their products from their own suppliers, which are then referred to as Tier 2, Tier 3 suppliers and so on, reflecting their position in the supply chain. Most of ElringKlinger's products go directly to vehicle manufacturers, making it a Tier 1 supplier. With regard to exhaust technology and transmission components, ElringKlinger mostly acts as a Tier 2 supplier.

Turbocharger
Turbochargers increase the air flow rate in engines by compressing the air that is necessary for combustion. The turbocharger is one of the key factors in engine downsizing, as it allows for equivalent or even better performance with a reduced engine capacity. In turn, this creates significant potential for reducing fuel consumption.

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ElringKlinger AG
Max-Eyth-Straße 2
D-72581 Dettingen/Erms
Phone +49 (0) 71 23/724-0
Fax +49 (0) 71 23/724-90 06
www.elringklinger.com

IR Contact
Dr. Jens Winter
Phone +49 (0) 71 23/724-88 335
Fax +49 (0) 71 23/724-85 8335
jens.winter@elringklinger.com

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

This report was published on March 30, 2016, and is available in German and English. Only the German version shall be legally binding.

Financial *Calendar 2016*

MARCH	MAY	MAY
30	**04**	**31**
Annual Press Conference, Stuttgart **Analysts' Meeting,** Frankfurt/Main	**Interim Report** on the 1st Quarter of 2016	**111th Annual General Shareholders' Meeting,** Stuttgart, Cultural and Congress Center Liederhalle, 10:00 a.m. CEST

AUGUST	NOVEMBER	MAY 2017
04	**08**	**16**
Interim Report on the 2nd Quarter and 1st Half of 2016	**Interim Report** on the 3rd Quarter and First Nine Months of 2016	**112th Annual General Shareholders' Meeting,** Stuttgart, Cultural and Congress Center Liederhalle, 10:00 a.m. CEST

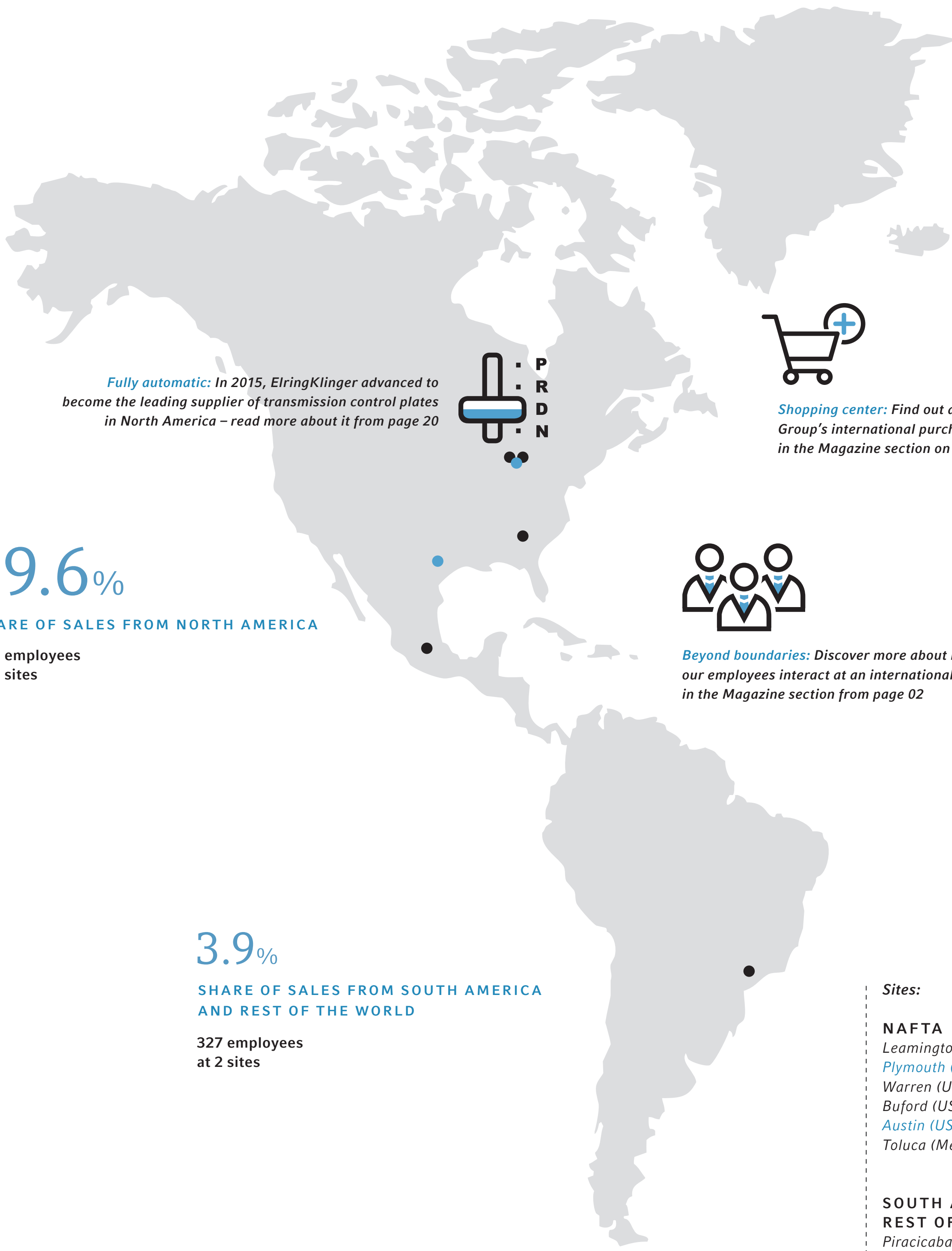
Calendar *Trade Fairs 2016*

JUNE	**21–22**	International VDI Congress "Drivetrain for Vehicles", Friedrichshafen, Germany
	21–23	POWER-GEN Europe, Milan, Italy
	28–30	Shanghai International Auto Parts Exhibition 2016, Shanghai, China
AUG./SEP.	**29–01**	ONS 2016, Stavanger, Norway
SEPTEMBER	**06–09**	SMM, Hamburg, Germany
	13–17	Automechanika, Frankfurt/Main, Germany
	20–23	InnoTrans, Berlin, Germany
OCTOBER	**10–12**	The Aachen Colloquium Automobile and Engine Technology, Aachen, Germany
	19–26	K-The World's No.1 Trade Fair for Plastics and Rubber, Düsseldorf, Germany
NOVEMBER	**09–11**	The Aachen Colloquium China Automobile and Engine Technology, Beijing, China
	14–17	COMPAMED, Düsseldorf, Germany
NOV./DEC.	**29–01**	Valve World Expo, Düsseldorf, Germany
	30–02	Automechanika, Shanghai, China
DECEMBER	**06–07**	International CTI Symposium, Berlin, Germany
	13–15	POWER-GEN USA, Las Vegas, USA

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

45 sites *worldwide*

Currently operating with 33 production sites as well as 12 sales and service offices in 21 countries, the ElringKlinger Group is committed to maintaining its proximity to customers and ensuring maximum availability of its product portfolio around the globe. The Group's customer base includes nearly all of the world's vehicle and engine manufacturers. More than 7,900 employees are dedicated to this cause worldwide.



Fully automatic: ***In 2015, ElringKlinger advanced to become the leading supplier of transmission control plates in North America – read more about it from page 20***

Shopping center: ***Find out about the Group's international purchasing network, in the Magazine section on pages 30/31***

Beyond boundaries: ***Discover more about how our employees interact at an international level, in the Magazine section from page 02***

19.6%

SHARE OF SALES FROM NORTH AMERICA

**897 employees
at 6 sites**

3.9%

SHARE OF SALES FROM SOUTH AMERICA AND REST OF THE WORLD

**327 employees
at 2 sites**

Sites:

NAFTA
Leamington (Canada)
Plymouth (USA)
Warren (USA)
Buford (USA)
Austin (USA)
Toluca (Mexico)

SOUTH AMERICA AND REST OF THE WORLD
Piracicaba (Brazil)
Johannesburg (South Africa)

As at December 31, 2015

31.2%

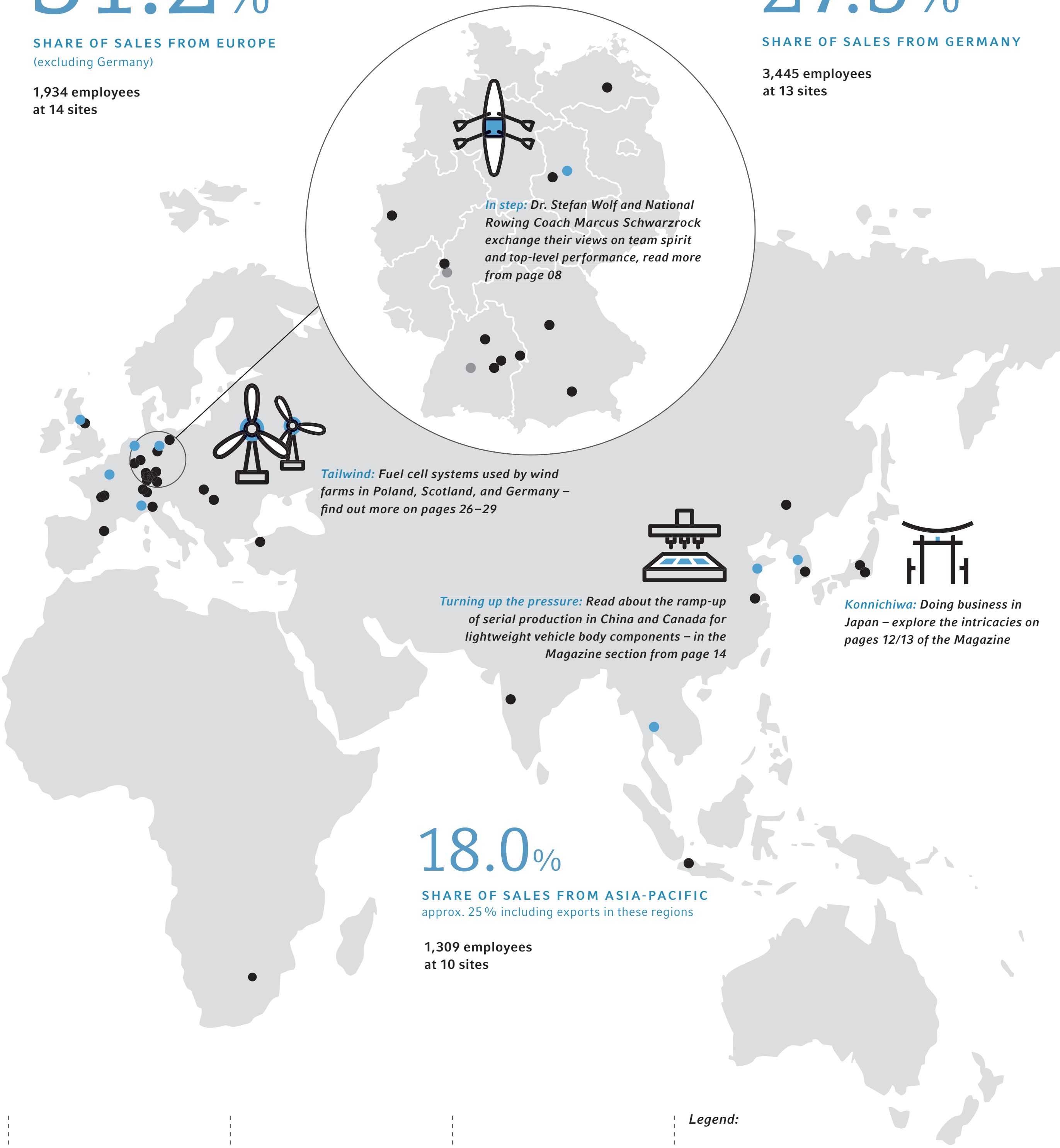
SHARE OF SALES FROM EUROPE
(excluding Germany)

1,934 employees
at 14 sites

27.3%

SHARE OF SALES FROM GERMANY

3,445 employees
at 13 sites



In step: Dr. Stefan Wolf and National Rowing Coach Marcus Schwarzrock exchange their views on team spirit and top-level performance, read more from page 08

Tailwind: Fuel cell systems used by wind farms in Poland, Scotland, and Germany – find out more on pages 26–29

Turning up the pressure: Read about the ramp-up of serial production in China and Canada for lightweight vehicle body components – in the Magazine section from page 14

Konnichiwa: Doing business in Japan – explore the intricacies on pages 12/13 of the Magazine

18.0%

SHARE OF SALES FROM ASIA-PACIFIC
approx. 25 % including exports in these regions

1,309 employees
at 10 sites

GERMANY
Dettingen/Erms
Thale
Langenzenn
Runkel
Geretsried-Gelting
Lenningen
Bietigheim-Bissingen
Heidenheim
Mönchengladbach
Idstein
Rottenburg/Neckar
Neubrandenburg
Magdeburg

EUROPE (excluding Germany)
Sevelen (Switzerland)
Elsau (Switzerland)
Reus (Spain)
Redcar (Great Britain)
Gateshead (Great Britain)
Nantiat (France)
Chamborêt (France)
Poissy (France)
Kecskemét-K.(Hungary)
Mailand (Italy)
Torino (Italy)
Enschede (Netherlands)
Timisoara (Romania)
Bursa (Turkey)

ASIA-PACIFIC
Changchun (China)
Suzhou (China)
Qingdao (China)
Ranjangaon (India)
Tokio (Japan)
Saitama (Japan)
Gumi (South Korea)
Gwangmyeong (South Korea)
Karawang (Indonesia)
Bangkok (Thailand)

Legend:
- *Production site*
- *Sales office*
- *Services*

ElringKlinger AG
Max-Eyth-Straße 2
72581 Dettingen/Erms
(Germany)